Bank of Commerce Holdings
Form 10-Q
August 07, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from ___________________to________________________

Commission file number 0-25135

Bank of Commerce Holdings

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

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

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

Yes No

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

Yes No

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

(Check One)

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

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

Yes No

Outstanding shares of Common Stock, no par value, as of July 23, 2015: 13,338,978

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets (Unaudited)

June 30, 2015 and December 31, 2014

(Amounts in thousands)	**June 30, 2015**	**December 31, 2014**
Assets:		
Cash and due from banks	$25,343	$43,949
Interest-bearing due from banks	7,453	14,473
Total cash and cash equivalents	32,796	58,422
Securities available-for-sale, at fair value	160,763	186,986
Securities held-to-maturity, at amortized cost	36,655	36,806
Loans, net of deferred fees and costs	700,177	661,055
Allowance for loan and lease losses	(11,402)	(10,820)
Net loans	688,775	650,235
Premises and equipment, net	11,342	12,295
Other real estate owned	1,405	502
Life insurance	22,168	21,844
Deferred tax asset	10,648	10,231
Other assets	18,503	19,871
Total assets	$983,055	$997,192
Liabilities and shareholders' equity:		
Liabilities:		
Demand - noninterest bearing	$151,640	$157,557
Demand - interest bearing	276,103	298,160
Savings deposits	93,500	88,569
Certificates of deposit	238,796	244,749
Total deposits	760,039	789,035

Federal Home Loan Bank of San Francisco borrowings	90,000	75,000
Junior subordinated debentures	10,310	10,310
Other liabilities	16,156	19,245
Total liabilities	876,505	893,590
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Preferred stock, no par value, 2,000,000 shares authorized: Series B (liquidation preference $1,000 per share) issued and outstanding: 20,000 as of June 30, 2015 and December 31, 2014	19,931	19,931
Common stock, no par value, 50,000,000 shares authorized:17,091,780 issued;13,338,978 outstanding as of June 30, 2015 and 13,294,777 outstanding as of December 31, 2014	24,144	23,891
Retained earnings	63,158	59,867
Accumulated other comprehensive loss	(683)	(87)
Total shareholders' equity	106,550	103,602
Total liabilities and shareholders' equity	$983,055	$997,192

See accompanying notes to consolidated financial statements.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

For the three and six months ended June 30, 2015 and 2014

(Amounts in thousands, except per share information)	**For the Three Months Ended June 30, 2015**	**2014**	**For the Six Months Ended June 30, 2015**	**2014**
Interest income:				
Interest and fees on loans	$8,304	$7,188	$16,215	$14,282
Interest on taxable securities	801	1,112	1,746	2,229
Interest on tax-exempt securities	602	635	1,201	1,287
Interest on interest-bearing due from banks	56	127	127	264
Total interest income	9,763	9,062	19,289	18,062
Interest expense:				
Interest on demand deposits	107	118	223	239
Interest on savings deposits	55	57	109	114
Interest on certificates of deposit	594	673	1,185	1,335
Interest on Federal Home Loan Bank of San Francisco borrowings	363	(69)	712	(176)
Interest on junior subordinated debentures	49	93	96	187
Total interest expense	1,168	872	2,325	1,699
Net interest income	8,595	8,190	16,964	16,363
Provision for loan and lease losses	—	1,450	—	1,450
Net interest income after provision for loan and lease losses	8,595	6,740	16,964	14,913
Noninterest income:				
Service charges on deposit accounts	52	41	101	85
Payroll and benefit processing fees	130	109	278	244
Earnings on cash surrender value - life insurance	159	162	324	288
Gain (loss) on investment securities, net	61	(39)	276	(284)
Other income	479	1,863	756	2,167
Total noninterest income	881	2,136	1,735	2,500
Noninterest expense:				
Salaries and related benefits	3,575	3,464	7,485	7,144
Premises and equipment	709	678	1,443	1,320
Write down of other real estate owned	—	—	—	290
Federal Deposit Insurance Corporation insurance premium	178	189	385	380
Data processing fees	251	227	493	430
Professional service fees	442	304	830	534
Deferred compensation	71	68	142	125
Other expenses	896	921	1,937	3,268
Total noninterest expense	6,122	5,851	12,715	13,491
Income before provision for income taxes	3,354	3,025	5,984	3,922

Provision for income taxes	964	819	1,793	1,151
Net income	$2,390	$2,206	$4,191	$2,771
Less: Preferred stock dividends	50	50	100	100
Income available to common shareholders	$2,340	$2,156	$4,091	$2,671
Earnings per share - basic	$0.18	$0.16	$0.31	$0.20
Weighted average shares - basic	13,338	13,378	13,320	13,658
Earnings per share - diluted	$0.18	$0.16	$0.31	$0.19
Weighted average shares - diluted	13,370	13,426	13,353	13,705

See accompanying notes to consolidated financial statements.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

For the three and six months ended June 30, 2015 and 2014

	For the Three Months Ended June 30,		**For the Six Months Ended June 30,**	
(Amounts in thousands)	**2015**	**2014**	**2015**	**2014**
Net income	$2,390	$2,206	$4,191	$2,771
Available-for-sale securities:				
Unrealized (losses) gains arising during the period	(1,544)	1,895	(797)	4,725
Reclassification adjustments for net (loss) gain realized in earnings (net of tax (benefit) expense of $(26) and $16 for the three months ended June 30, 2015 and 2014, respectively, and net of tax (benefit) expense of $(116) and $117 for the six months ended June 30, 2015 and 2014, respectively)	(35)	23	(160)	167
Income tax benefit (expense) related to unrealized (losses) gains	635	(780)	328	(1,945)
Net change in unrealized gains	(944)	1,138	(629)	2,947
Held-to-maturity securities:				
Accretion of held-to-maturity other comprehensive income to municipal yield	(23)	(23)	(46)	(46)
Net change in unrealized losses	(23)	(23)	(46)	(46)
Derivatives:				
Unrealized losses arising during the period	(130)	(474)	(460)	(529)
Reclassification adjustments for net loss (gain) realized in earnings (net of tax benefit (expense) of $124 and $(711) for the three months ended June 30, 2015 and 2014, respectively and net of tax benefit (expense) of $245 and $(775) for the six months ended June 30, 2015 and 2014, respectively)	177	(1,017)	350	(1,105)
Income tax benefit related to unrealized losses	53	195	189	218
Net change in unrealized losses	100	(1,296)	79	(1,416)
Other comprehensive (loss) income	(867)	(181)	(596)	1,485
Comprehensive income – Bank of Commerce Holdings	$1,523	$2,025	$3,595	$4,256

See accompanying notes to consolidated financial statements.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

For the twelve months ended December 31, 2014 and six months ended June 30, 2015 (Unaudited)

(Amounts in thousands except per share information)	**Preferred Amount**	**Common Shares**	**Common Stock Amount**	**Retained Earnings**	**Accumulated Other Comp-Loss Net of Tax**	**Total**
Balance at January 1, 2014	$ 19,931	13,977	$ 28,304	$ 55,944	$ (2,392)	$ 101,787
Net Income	—	—	—	5,727	—	5,727
Other comprehensive income, net of tax	—	—	—	—	2,305	2,305
Comprehensive income	—	—	—	—	—	8,032
Dividend on preferred stock	—	—	—	(200)	—	(200)
Repurchase of common stock	—	(700)	(4,562)	—	—	(4,562)
Dividend on common stock ($0.12 per share)	—	—	—	(1,604)	—	(1,604)
Common stock issued under employee plans and related tax benefit	—	14	66	—	—	66
Stock options exercised	—	3	23	—	—	23
Compensation expense associated with stock options	—	—	60	—	—	60
Balance at December 31, 2014	$ 19,931	13,294	$ 23,891	$ 59,867	$ (87)	$ 103,602

(Amounts in thousands except per share information)	**Preferred Amount**	**Common Shares**	**Common Stock Amount**	**Retained Earnings**	**Accumulated Other Comp-Loss Net of Tax**	**Total**
Balance at January 1, 2015	$ 19,931	13,294	$ 23,891	$ 59,867	$ (87)	$ 103,602
Net income	—	—	—	4,191	—	4,191
Other comprehensive loss, net of tax	—	—	—	—	(596)	(596)
Comprehensive income	—	—	—	—	—	3,595
Dividend on preferred stock	—	—	—	(100)	—	(100)
Dividend on common stock ($0.06 per share)	—	—	—	(800)	—	(800)
Common stock issued under employee plans and related tax benefit	—	9	36	—	—	36
Stock options exercised	—	36	146	—	—	146

Compensation expense associated with stock options	—	—	24	—	—	24
Compensation expense associated with restricted stock	—	—	47	—	—	47
Balance at June 30, 2015	$ 19,931	13,339	$ 24,144	$ 63,158	$ (683)	$ 106,550

See accompanying notes to consolidated financial statements.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

For the six months ended June 30, 2015 and June 30, 2014

(Amounts in thousands)	**For the Six Months Ended June 30, 2015**	**2014**
Cash flows from operating activities:		
Net income	$4,191	$2,771
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	—	1,450
Provision for depreciation and amortization	743	611
Compensation expense associated with stock options	24	27
Compensation expense associated with restricted stock	47	—
Net (gain) loss on sale of securities available-for-sale	(276)	284
Amortization of investment premiums and accretion of discounts, net	947	810
Amortization of held-to-maturity fair value adjustment	(77)	(77)
(Gain) loss on sale of fixed assets	(4)	4
Write down of fixed assets	237	—
Write down of other real estate owned	—	290
(Gain) loss on sale of other real estate owned	(5)	15
Increase in cash surrender value of life insurance	(324)	(288)
Increase in deferred compensation	143	188
(Increase) decrease in deferred loan fees and costs	(246)	99
Decrease in other assets	186	1,541
Decrease in other liabilities	(2,311)	(336)
Net cash provided by operating activities	3,275	7,389
Cash flows from investing activities:		
Proceeds from maturities and payments of available-for-sale securities	12,184	9,078
Proceeds from sale of available-for-sale securities	35,912	68,785
Purchases of available-for-sale securities	(23,706)	(46,084)
Proceeds from maturities and payments of held-to-maturity securities	240	—
Purchases of held-to-maturity securities	—	(244)
Investment in qualified affordable housing projects	(830)	(693)
Net redemption of Federal Home Loan Bank of San Francisco stock	1,263	509
Loan originations, net of principal repayments	(14,245)	(21,694)
Purchase of loan pools	(27,221)	(5,737)
Purchase of life insurance	—	(5,000)
Purchase of premises and equipment	(193)	(2,137)
Proceeds from the sale of other real estate owned	2,444	50

Proceeds from settlement of note to former mortgage subsidiary	—	686
Net cash (used) provided by investing activities	(14,152)	(2,481)

See accompanying notes to consolidated financial statements.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited) (Continued)

(Amounts in thousands)	**For the Six Months Ended June 30, 2015**	**2014**
Cash flows from financing activities:		
Net decrease in demand deposits and savings deposits	$(23,043)	$(2,929)
Net (decrease) increase in certificates of deposit	(5,953)	11,652
Advances on term debt	130,000	—
Repayment of term debt	(115,000)	—
Proceeds from stock options exercised	146	23
Stock issued under employee plans	—	66
Repurchase of common stock	—	(4,562)
Cash dividends paid on preferred stock	(100)	(100)
Cash dividends paid on common stock	(799)	(828)
Net cash (used) provided by financing activities	(14,749)	3,322
Net (decrease) increase in cash and cash equivalents	(25,626)	8,230
Cash and cash equivalents at beginning of year	58,422	58,515
Cash and cash equivalents at end of period	$32,796	$66,745

See accompanying notes to consolidated financial statements.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited) (Continued)

For the six months ended June 30, 2015 and June 30, 2014

	For the Six Months Ended June 30,	
(Amounts in thousands)	**2015**	**2014**
Supplemental disclosures of cash flow activity:		
Cash paid during the period for:		
Income taxes	$3,426	$—
Interest	$2,229	$1,932
Supplemental disclosures of non cash investing activities:		
Transfer of loans to other real estate owned	$3,172	$268
Transfer of fixed asset to other real estate owned	$170	$—
Changes in unrealized gain on investment securities available-for-sale	$(1,070)	$5,008
Changes in net deferred tax asset related to changes in unrealized gain on investment securities available-for-sale	441	(2,061)
Changes in accumulated other comprehensive income due to changes in unrealized gain on investment securities available-for-sale	$(629)	$2,947
Changes in unrealized (loss) on derivatives	$(460)	$(529)
Changes in net deferred tax asset related to changes in unrealized loss on derivatives	189	218
Changes in accumulated other comprehensive income due to changes in unrealized loss on derivatives	$(271)	$(311)
Reclassification of expense (earnings) from loss (gains) on derivatives	$594	$(1,880)
Changes in net deferred tax asset related to reclassification of (loss) earnings from gains on derivatives	(244)	775
Changes in accumulated other comprehensive income due to reclassification of expense (earnings) from loss (gain) on derivatives	$350	$(1,105)
Accretion of held-to-maturity from other comprehensive income to interest income	(77)	(77)
Changes in deferred tax related to accretion of held-to-maturity investment securities	31	31
Changes in accumulated other comprehensive income due to accretion of held-to-maturity investment securities	$(46)	$(46)
Supplemental disclosures of non cash financing activities:		
Vested restricted stock issued under employee plans	36	—
Cash dividend declared on common shares and payable after period-end	$400	$399
Cash dividend declared on preferred shares and payable after period-end	$50	$50

See accompanying notes to consolidated financial statements.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Bank of Commerce Holdings (the “Holding Company”), is a bank holding company (“BHC”) with its principal offices in Redding, California. The Holding Company’s principal business is to serve as a holding company for Redding Bank of Commerce (the “Bank” and together with the Holding Company, the “Company”) which operates under two separate names (Redding Bank of Commerce and Sacramento Bank of Commerce, a division of Redding Bank of Commerce). The Company has an unconsolidated subsidiary in Bank of Commerce Holdings Trust II. The balance sheet as of June 30, 2015 and December 31, 2014, which has been derived from the unaudited interim consolidated financial statements and audited consolidated financial statements, has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and note disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that all adjustments (all of which are normal and recurring in nature) considered necessary for a fair presentation have been included and the disclosures made are adequate to make the information not misleading.

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

Principles of Consolidation

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

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In April 2015, the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected. ASU No 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. ASU No. 2015-03 should be applied on a retrospective basis. The Company is currently evaluating the impacts of this ASU on the Company's consolidated financial statements.

In February 2015, the FASB issued Accounting Standards Update (“ASU”) No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, which is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). The ASU focuses on simplifying the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities by reducing the number of consolidation model from four to two, among other changes. The ASU will be effective for periods beginning after December 31, 2015, while early adoption is permitted. The Company does not expect this ASU to have a material impact on the Company's consolidated financial statements.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

In November 2014, the FASB issued ASU No. 2014-16*, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity*. The ASU clarifies how current guidance should be interpreted in evaluating the characteristics and risks of a host contract in a hybrid financial instrument issued in the form of a share. One criterion requires evaluating whether the nature of the host contract is more akin to debt or to equity and whether the economic characteristics and risks of the embedded derivative feature are "clearly and closely related" to the host contract. In making that evaluation, an issuer or investor must consider all terms and features in a hybrid financial instrument including the embedded derivative feature that is being evaluated for separate accounting or may consider all terms and features in the hybrid financial instrument except for the embedded derivative feature that is being evaluated for separate accounting. This ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015 with early adoption permitted. The Company does not expect the ASU to have a material impact on the Company’s Consolidated Financial Statements.

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

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which creates Topic 606 and supersedes Topic 605, Revenue Recognition. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In general, the new guidance requires companies to use more judgment and make more estimates than under current guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard is effective for public entities for interim and annual periods beginning after December 15, 2017; early adoption is not permitted. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company is currently evaluating the provisions of the ASU to determine the potential impact the new standard will have on the Company's consolidated financial statements.

NOTE 3. NOTE RECEIVABLE

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

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

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

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

The table below presents the details of the closing transaction:

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

NOTE 4. EARNINGS PER SHARE

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

The following is a computation of basic and diluted EPS for the three and six months ended June 30, 2015 and 2014.

(Amounts in thousands, except per share information)	**For the Three Months Ended June 30,**		**For the Six Months Ended June 30,**	
Earnings Per Share	**2015**	**2014**	**2015**	**2014**
Numerators:				
Net income	$2,390	$2,206	$4,191	$2,771
Less:				
Preferred cash dividends	50	50	100	100

Net income available to common shareholders	$2,340	$2,156	$4,091	$2,671
Denominators:				
Weighted average number of common shares outstanding - basic	13,338	13,378	13,320	13,658
Effect of potentially dilutive common shares (1)	32	48	33	47
Weighted average number of common shares outstanding - diluted	13,370	13,426	13,353	13,705
Earnings per common share:				
Basic	$0.18	$0.16	$0.31	$0.20
Diluted	$0.18	$0.16	$0.31	$0.19
Anti-dilutive options not included in earnings per share calculation	129	82	151	82

(1) Represents the effects of the assumed exercise of options

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

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NOTE 5. SECURITIES

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

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

Transfers of securities from available-for-sale to held-to-maturity are accounted for at fair value as of the date of the transfer. The difference between the fair value and the amortized cost at the date of transfer is considered a premium or discount and is accounted for accordingly. Any unrealized gain or loss at the date of the transfer is reported in other accumulated comprehensive income (loss), and is amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount, and will offset or mitigate the effect on interest income of the amortization of the premium or discount for that held-to-maturity security. The Company did not have any transfers in or out of the various securities classifications for the six months ended June 30, 2015 and twelve months ended December 31, 2014.

The following table presents the amortized costs, unrealized gains, unrealized losses and approximate fair values of investment securities as of June 30, 2015, and December 31, 2014:

	As of June 30, 2015			
(Amounts in thousands)	**Amortized Costs**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Available-for-sale securities:				
U.S. government & agencies	$5,229	$ 88	$ (3)	$5,314
Obligations of state and political subdivisions	49,883	1,541	(100)	51,324
Residential mortgage backed securities and collateralized mortgage obligations	37,745	285	(254)	37,776
Corporate securities	33,380	309	(188)	33,501
Commercial mortgage backed securities	9,558	34	(125)	9,467
Other asset backed securities	23,448	139	(206)	23,381
Total	$159,243	$ 2,396	$ (876)	$160,763
Held-to-maturity securities:				
Obligations of state and political subdivisions	$36,655	$ 538	$ (763)	$36,430

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(Amounts in thousands)	**As of December 31, 2014** Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
U.S. government & agencies	$6,351	$ 58	$ (16)	$6,393
Obligations of state and political subdivisions	52,629	1,788	(54)	54,363
Residential mortgage backed securities and collateralized mortgage obligations	46,727	457	(169)	47,015
Corporate securities	37,392	475	(133)	37,734
Commercial mortgage backed securities	10,402	60	(73)	10,389
Other asset backed securities	30,896	393	(197)	31,092
Total	$184,397	$ 3,231	$ (642)	$186,986
Held-to-maturity securities:				
Obligations of state and political subdivisions	$36,806	$ 712	$ (400)	$37,118

The following table presents the maturities of investment securities at June 30, 2015:

(Amounts in thousands)	**Available-For-Sale** Amortized Cost	Fair Value	**Held-To-Maturity** Amortized Cost	Fair Value
Amounts maturing in:				
One year or less	$3,689	$3,695	$—	$—
One year through five years	57,535	57,927	1,494	1,505
Five years through ten years	35,058	35,447	16,065	16,134
After ten years	62,961	63,694	19,096	18,791
Total	$159,243	$160,763	$36,655	$36,430

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

The following table presents the fair value of the securities held for pledging, segregated by purpose, as of June 30, 2015:

(Amounts in thousands)	**Pledged**	**Available To Be Pledged**	**Total Held For Pledging Purposes**
Public funds collateral	$ 15,577	$ 8,750	$ 24,327
Federal Home Loan Bank of San Francisco borrowings	—	20,209	20,209
Interest rate swap contracts	3,731	320	4,051
Total	$ 19,308	$ 29,279	$ 48,587

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The following table presents the cash proceeds from sales of securities and their associated gross realized gains and gross realized losses that have been included in earnings for the three and six months ended June 30, 2015 and 2014.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in thousands)	**2015**	**2014**	**2015**	**2014**
Proceeds from sales of securities	$10,697	$32,099	$35,912	$68,785
Gross realized gains on sales of securities:				
Obligations of state and political subdivisions	$37	$14	$70	$171
Residential mortgage backed securities and collateralized mortgage obligations	49	63	62	68
Corporate securities	—	85	82	227
Commercial mortgage backed securities	—	5	4	5
Other asset backed securities	—	40	93	63
Total gross realized gains on sales of securities	86	207	311	534
Gross realized losses on sales of securities:				
U.S. government & agencies	(1)	(115)	(1)	(114)
Obligations of state and political subdivisions	—	(69)	—	(159)
Residential mortgage backed securities and collateralized mortgage obligations	—	(13)	(9)	(482)
Corporate securities	—	(8)	—	(8)
Commercial mortgage backed securities		(31)	—	(32)
Other asset backed securities	(24)	(10)	(25)	(23)
Total gross realized losses on sales of securities	(25)	(246)	(35)	(818)
Gain (loss) on investment securities, net	$61	$(39)	$276	$(284)

Investment securities that were in an unrealized loss position as of June 30, 2015 and December 31, 2014 are presented in the following tables, based on the length of time individual securities have been in an unrealized loss position. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or underlying collateral.

	As of June 30, 2015					
	Less Than 12 Months		12 Months or More		Total	
(Amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale securities:						
U.S. government & agencies	$1,250	$ (3)	$—	$ —	$1,250	$ (3)
Obligations of states and political subdivisions	5,431	(100)	—	—	5,431	(100)
Residential mortgage backed securities and collateralized mortgage obligations	10,113	(175)	3,993	(79)	14,106	(254)
Corporate securities	14,652	(135)	3,475	(53)	18,127	(188)
Commercial mortgage backed securities	5,273	(76)	1,546	(49)	6,819	(125)
Other asset backed securities	4,675	(27)	5,689	(179)	10,364	(206)
Total temporarily impaired securities	$41,394	$ (516)	$14,703	$ (360)	$56,097	$ (876)
Held-to-maturity securities:						
Obligations of states and political subdivisions	$11,680	$ (329)	$5,130	$ (434)	$16,810	$ (763)

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	As of December 31, 2014					
	Less Than 12 Months		12 Months or More		Total	
(Amounts in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale securities:						
U.S. government & agencies	$—	$ —	$1,269	$ (16)	$1,269	$ (16)
Obligations of states and political subdivisions	3,952	(34)	2,078	(20)	6,030	(54)
Residential mortgage backed securities and collateralized mortgage obligations	10,193	(66)	5,365	(103)	15,558	(169)
Corporate securities	7,058	(36)	6,542	(97)	13,600	(133)
Commercial mortgage backed securities	4,912	(14)	1,542	(59)	6,454	(73)
Other asset backed securities	4,891	(16)	6,088	(181)	10,979	(197)
Total temporarily impaired securities	$31,006	$ (166)	$22,884	$ (476)	$53,890	$ (642)
Held-to-maturity securities:						
Obligations of states and political subdivisions	$1,556	$ (14)	$12,726	$ (386)	$14,282	$ (400)

At June 30, 2015, 78 securities were in unrealized loss positions and at December 31, 2014, 73 securities were in unrealized loss positions. For the six months ended June 30, 2015, the Company did not recognize impairment losses. For the year ended December 31, 2014, the Company recognized an other-than-temporary impairment of $22 thousand for securities that were in a loss position at December 31, 2014 and sold in January of 2015.

NOTE 6. LOANS

Outstanding loan balances consist of the following at June 30, 2015, and December 31, 2014:

(Amounts in thousands)	June 30, 2015	December 31, 2014
Commercial	$143,088	$150,253
Real estate – construction loans	27,858	30,099
Real estate – commercial (investor)	237,375	215,114
Real estate – commercial (owner occupied)	136,981	119,093
Real estate – ITIN loans	51,249	52,830

Real estate – mortgage	12,209	13,156
Real estate – equity lines	46,463	44,981
Consumer	44,482	35,210
Other	69	162
Gross loans	699,774	660,898
Deferred fees and costs, net	403	157
Loans, net of deferred fees and costs	700,177	661,055
Allowance for loan and lease losses	(11,402)	(10,820)
Net loans	$688,775	$650,235

Gross loan balances in the table above include net purchase discounts of $2.3 million and $998 thousand as of June 30, 2015, and December 31, 2014, respectively.

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

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Age analysis of gross loan balances for past due loans, segregated by class of loans, as of June 30, 2015, and December 31, 2014, was as follows:

(Amounts in thousands) **June 30, 2015**	**30-59 Days Past Due**	**60-89 Days Past Due**	**Greater Than 90 Days Past Due**	**Total Past Due**	**Current**	**Total**	**Recorded Investment > 90 Days and Accruing**
Commercial	$936	$—	$ 808	$1,744	$141,344	$143,088	$ —
Commercial real estate:							
Construction	—	—	—	—	27,858	27,858	—
Other	874	—	6,453	7,327	367,029	374,356	—
Residential:							
1-4 family	564	266	2,011	2,841	60,617	63,458	—
Home equities	183	42	—	225	46,238	46,463	—
Consumer	95	90	54	239	44,312	44,551	54
Total	$2,652	$398	$ 9,326	$12,376	$687,398	$699,774	$ 54

(Amounts in thousands) **December 31, 2014**	**30-59 Days Past Due**	**60-89 Days Past Due**	**Greater Than 90 Days Past Due**	**Total Past Due**	**Current**	**Total**	**Recorded Investment > 90 Days and Accruing**
Commercial	$2,421	$301	$2,161	$4,883	$145,370	$150,253	$ —
Commercial real estate:							
Construction	—	—	—	—	30,099	30,099	—
Other	—	—	8,464	8,464	325,743	334,207	—
Residential:							
1-4 family	1,080	122	3,597	4,799	61,187	65,986	—
Home equities	145	99	24	268	44,713	44,981	—
Consumer	158	57	23	238	35,134	35,372	23
Total	$3,804	$579	$14,269	$18,652	$642,246	$660,898	$ 23

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

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

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

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

The following tables summarize impaired loans by loan class as of June 30, 2015, and December 31, 2014:

	As of June 30, 2015		
(Amounts in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance recorded:			
Commercial	$2,410	$ 2,944	$ —
Commercial real estate:			
Other	7,126	8,855	—
Residential:			
1-4 family	9,400	12,052	—
Home equities	200	201	—
Total with no related allowance recorded	$19,136	$ 24,052	$ —
With an allowance recorded:			
Commercial	$771	$ 809	$ 149
Commercial real estate:			
Other	2,519	3,202	526
Residential:			
1-4 family	1,971	2,077	302
Home equities	569	569	284
Consumer	34	34	14
Total with an allowance recorded	$5,864	$ 6,691	$ 1,275
Subtotal:			
Commercial	$3,181	$ 3,753	$ 149
Commercial real estate	9,645	12,057	526
Residential	12,140	14,899	586
Consumer	34	34	14
Total impaired loans	$25,000	$ 30,743	$ 1,275

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

Had nonaccrual loans performed in accordance with their contractual terms, the Company would have recognized additional interest income, net of tax, of approximately $95 thousand and $160 thousand for the three months ended June 30, 2015 and June 30, 2014, respectively. The Company would have recognized additional interest income, net of tax, of approximately $209 thousand and $328 thousand for the six months ended June 30, 2015 and June 30, 2014, respectively.

Nonaccrual loans, segregated by loan class, were as follows:

(Amounts in thousands)	**June 30, 2015**	**December 31, 2014**
Commercial	$3,170	$ 5,112
Commercial real estate:		
Other	7,611	9,696
Residential:		
1-4 family	6,068	6,782
Home equities	24	24
Consumer	34	35
Total	$16,907	$ 21,649

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The following table summarizes average recorded investment and interest income recognized on impaired loans by loan class for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30, 2015		**Three Months Ended June 30, 2014**	
(Amounts in thousands)	**Average Recorded Investment**	**Interest Income Recognized**	**Average Recorded Investment**	**Interest Income Recognized**
Commercial	$3,509	$ 8	$4,295	$ —
Commercial real estate:				
Other	10,006	31	18,402	77
Residential:				
1-4 family	11,501	34	12,136	28
Home equities	771	7	1,310	8
Consumer	34	—	29	—
Total	$25,821	$ 80	$36,172	$ 113

	Six Months Ended June 30, 2015		**Six Months Ended June 30, 2014**	
(Amounts in thousands)	**Average Recorded Investment**	**Interest Income Recognized**	**Average Recorded Investment**	**Interest Income Recognized**
Commercial	$4,436	$ 21	$6,114	$ 1
Commercial real estate:				
Other	10,502	63	19,806	184
Residential:				
1-4 family	11,767	66	12,214	52
Home equities	773	14	1,268	17
Consumer	34	—	—	—
Total	$27,512	$ 164	$39,402	$ 254

The impaired loans for which these interest income amounts were recognized primarily relate to accruing restructured loans. Loans are reported as troubled debt restructurings when the Bank grants a concession(s) to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include a reduction in the loan rate, forgiveness of principal or accrued interest, extending the maturity date(s) significantly, or providing a lower interest rate than would be normally available for a transaction of similar risk. As a result of these concessions, restructured loans are impaired as the Bank will not collect all amounts due, either principal or interest, in accordance with the terms of the original loan agreement.

At June 30, 2015 and December 31, 2014, impaired loans of $7.6 million and $9.2 million were classified as performing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms.

In order for a restructured loan to be on accrual status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must demonstrate the ability to make payments from a verified source of cash flow. The Company had no obligations to lend additional funds on the restructured loans as of June 30, 2015 or December 31, 2014.

As of June 30, 2015, the Company had $19.9 million in troubled debt restructurings compared to $23.5 million as of December 31, 2014. As of June 30, 2015, the Company had 121 loans that qualified as troubled debt restructurings, of which 103 loans were performing according to their restructured terms. Troubled debt restructurings represented 2.85% of gross loans as of June 30, 2015, compared with 3.55% at December 31, 2014.

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

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

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

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

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The following tables present the period ended balances of newly restructured loans and the types of modifications that occurred during the three and six months ended June 30, 2015 and 2014, respectively:

	For the Three Months Ended June 30, 2015				**For the Three Months Ended June 30, 2014**		
(Amounts in thousands)	**Rate**	**Rate & Payment Deferral**	**Payment Deferral**	**Total**	**Maturity**	**Rate**	**Total**
Residential:							
1-4 family	$—	$ 209	$ —	$209	$—	$153	$153
Total	$—	$ 209	$ —	$209	$—	$153	$153

	For the Six Months Ended June 30, 2015				**For the Six Months Ended June 30, 2014**		
(Amounts in thousands)	**Rate**	**Rate & Payment Deferral**	**Payment Deferral**	**Total**	**Maturity**	**Rate**	**Total**
Commercial	$—	$ —	$ 761	$761	$692	$—	$692
Residential:							
1-4 family	112	262	104	478	—	153	153
Total	$112	$ 262	$ 865	$1,239	$692	$153	$845

The tables below provide information regarding the number of loans where the contractual terms have been restructured in a manner which grants a concession to a borrower experiencing financial difficulties for the three and six months ended June 30, 2015 and 2014.

	For the Three Months Ended June 30, 2015			**For the Three Months Ended June 30, 2014**		
		Pre-Modification Outstanding	**Post-Modification Outstanding**		**Pre-Modification Outstanding**	**Post-Modification Outstanding**

(Amounts in thousands) **Troubled Debt Restructurings**	**Number of Contracts**	**Recorded Investment**	**Recorded Investment**	**Number of Contracts**	**Recorded Investment**	**Recorded Investment**
Residential:						
1-4 family	3	$ 263	$ 209	2	$ 150	$ 154
Total	3	$ 263	$ 209	2	$ 150	$ 154

	For the Six Months Ended June 30, 2015			**For the Six Months Ended June 30, 2014**		
(Amounts in thousands) **Troubled Debt Restructurings**	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Commercial	1	$ 823	$ 823	1	$ 700	$ 700
Residential:						
1-4 family	6	522	485	2	150	154
Total	7	$ 1,345	$ 1,308	3	$ 850	$ 854

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The following tables present loans modified as troubled debt restructurings within the previous 12 months for which there was a payment default during the three and six months ended June 30, 2015 and 2014:

(Amounts in thousands)	**For the Three Months Ended June 30, 2015**			**For the Three Months Ended June 30, 2014**		
Troubled Debt Restructurings That Subsequently Defaulted	**Number of Contracts**	**Recorded Investment**		**Number of Contracts**	**Recorded Investment**	
Commercial	1	$	695	2	$	3,007
Commercial real estate:						
Other	—		—	1		391
Total	1	$	695	3	$	3,398

(Amounts in thousands)	**For the Six Months Ended June 30, 2015**			**For the Six Months Ended June 30, 2014**		
Troubled Debt Restructurings That Subsequently Defaulted	**Number of Contracts**	**Recorded Investment**		**Number of Contracts**	**Recorded Investment**	
Commercial	1	$	695	2	$	3,007
Commercial real estate:						
Other	—		—	1		391
Residential:						
1-4 family	—		—	1		86
Total	1	$	695	4	$	3,484

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

Performing and nonperforming loans, segregated by class of loans, are as follows at June 30, 2015 and December 31, 2014:

	June 30, 2015		
(Amounts in thousands)	**Performing**	**Nonperforming**	**Total**
Commercial	$139,918	$ 3,170	$143,088
Commercial real estate:			
Construction	27,858	—	27,858
Other	366,745	7,611	374,356
Residential:			
1-4 family	57,390	6,068	63,458
Home equities	46,439	24	46,463
Consumer	44,463	88	44,551
Total	$682,813	$ 16,961	$699,774

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	December 31, 2014		
(Amounts in thousands)	**Performing**	**Nonperforming**	**Total**
Commercial	$145,141	$ 5,112	$150,253
Commercial real estate:			
Construction	30,099	—	30,099
Other	324,511	9,696	334,207
Residential:			
1-4 family	59,204	6,782	65,986
Home equities	44,957	24	44,981
Consumer	35,314	58	35,372
Total	$639,226	$ 21,672	$660,898

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

Pass Grade - Borrowers classified as Pass Grades specifically demonstrate:

Strong Cash Flows – borrower’s cash flows must meet or exceed the Company’s minimum debt service coverage ratio.
Collateral Margin – generally, the borrower must have pledged an acceptable collateral class with an adequate collateral margin.
Qualitative Factors – in addition to meeting the Company’s minimum cash flow and collateral requirements, a number of other qualitative factors are also factored into assigning a pass grade including the borrower’s level of leverage (debt to equity), prospects, history and experience in their industry, credit history, and any other relevant factors including a borrower’s character.

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

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

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

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

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

Adequate Cash Flows – borrowers in this category demonstrate adequate cash flows and debt service coverage ratios, but also reflect adverse trends in operations or continuing financial deterioration that, if it does not stabilize and reverse in a reasonable timeframe, retirement of the debt may be jeopardized.
Adequate Collateral Margin – the collateral securing the debt remains adequate but also exhibits a continuing declining trend in value or volatility due to macro or industry specific conditions. The current collateral value, less selling costs, remains adequate, but should the negative collateral trend continue, the full recovery of the outstanding debt under a liquidation scenario could be jeopardized.

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Qualitative Factors – while the borrower's cash flow and/or collateral margin continue to deteriorate but generally remain adequate, one or more quantitative and qualitative factors may also be factoring into assigning a Special Mention Grade including inadequate or incomplete loan documentation, perfection of collateral, inadequate credit structure, borrower unable or unwilling to produce current and adequate financial information, and any other relevant factors.

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

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

Sustained or substantial deteriorating financial trends,
Unresolved management problems,
Collateral is insufficient to repay debt; collateral is not sufficiently supported by independent sources, such as asset-based financial audits, appraisals, or equipment evaluations,
Improper perfection of lien position, which is not readily correctable,
Unanticipated and severe decline in market values,
High reliance on secondary source of repayment,
Legal proceedings, such as bankruptcy or a divorce, which has substantially decreased the borrower's capacity to repay the debt,
Fraud committed by the borrower,
IRS liens that take precedence,
Forfeiture statutes for assets involved in criminal activities,
Protracted repayment terms outside of policy that are for longer than the same type of credit in the Company portfolio,
Any other relevant quantitative or qualitative factor that negatively affects the current net worth and paying capacity of the borrower or of the collateral pledged, if any.

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

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

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

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Credit grade definitions, including qualitative factors, for all credit grades are reviewed and approved annually by the Company's Loan Committee. During the current year, the Company determined that certain amounts in the "pass" and "watch" classifications disclosed in the internal risk ratings table included in the Company's 2014 Form 10-K were incorrect. Accordingly, $46.9 million have been reclassified from "watch" to "pass" in the December 31, 2014 table below. The following table summarizes internal risk rating by loan class as of June 30, 2015, and December 31, 2014:

	As of June 30, 2015					
(Amounts in thousands)	**Pass**	**Watch**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Commercial	$117,745	$12,606	$4,601	$ 8,136	$ —	$143,088
Commercial real estate:						
Construction	27,822	36	—	—	—	27,858
Other	355,529	3,673	5,317	9,837	—	374,356
Residential:						
1-4 family	52,728	—	579	10,151	—	63,458
Home equities	42,071	1,745	1,683	964	—	46,463
Consumer	44,197	3	282	69	—	44,551
Total gross loans	$640,092	$18,063	$12,462	$ 29,157	$ —	$699,774

	As of December 31, 2014					
(Amounts in thousands)	**Pass (Restated)**	**Watch (Restated)**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Commercial	$121,282	$ 14,116	$ 4,018	$ 10,837	$ —	$150,253
Commercial real estate:						
Construction	30,056	43	—	—	—	30,099
Other	312,844	7,817	869	12,677	—	334,207
Residential:						
1-4 family	53,490	—	—	12,496	—	65,986
Home equities	41,624	2,380	—	977	—	44,981
Consumer	35,279	3	18	72	—	35,372
Total gross loans	$594,575	$ 24,359	$ 4,905	$ 37,059	$ —	$660,898

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The following tables summarize the ALLL by portfolio for the three and six months ended June 30, 2015 and 2014:

	For the Three Months Ended June 30, 2015					
(Amounts in thousands)	**Commercial**	**Commercial Real Estate**	**Residential**	**Consumer**	**Unallocated**	**Total**
ALLL:						
Beginning balance	$3,245	$ 5,314	$ 1,719	$ 572	$ 446	$11,296
Charge offs	(354)	(140)	(126)	(91)	—	(711)
Recoveries	722	74	7	14	—	817
Provision	(224)	199	(120)	88	57	—
Ending balance	$3,389	$ 5,447	$ 1,480	$ 583	$ 503	$11,402

	For the Three Months Ended June 30, 2014					
(Amounts in thousands)	**Commercial**	**Commercial Real Estate**	**Residential**	**Consumer**	**Unallocated**	**Total**
ALLL:						
Beginning balance	$3,636	$ 3,490	$ 2,251	$ 214	$ 157	$9,748
Charge offs	(247)	(1,031)	(178)	—	—	(1,456)
Recoveries	54	—	86	—	—	140
Provision	(109)	1,408	174	24	(47)	1,450
Ending balance	$3,334	$ 3,867	$ 2,333	$ 238	$ 110	$9,882

	For the Six Months Ended June 30, 2015					
(Amounts in thousands)	**Commercial**	**Commercial Real Estate**	**Residential**	**Consumer**	**Unallocated**	**Total**
ALLL:						
Beginning balance	$3,503	$ 4,875	$ 1,670	$ 450	$ 322	$10,820

Charge offs	(406)	(139)	(141)	(204)	—	(890)
Recoveries	748	668	56	—	—	1,472
Provision	(456)	43	(105)	337	181	—
Ending balance	$3,389	$ 5,447	$ 1,480	$ 583	$ 503	$11,402

For the Six Months Ended June 30, 2014

(Amounts in thousands)	**Commercial**	**Commercial Real Estate**	**Residential**	**Consumer**	**Unallocated**	**Total**
ALLL:						
Beginning balance	$7,057	$ 2,784	$ 2,493	$ 35	$ 1,803	$14,172
Charge offs	(3,685)	(2,406)	(268)	—	—	(6,359)
Recoveries	455	—	164	—	—	619
Provision	(493)	3,489	(56)	203	(1,693)	1,450
Ending balance	$3,334	$ 3,867	$ 2,333	$ 238	$ 110	$9,882

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The following tables summarize the ALLL and the recorded investment in loans and leases as of June 30, 2015 and December 31, 2014.

	As of June 30, 2015					
(Amounts in thousands)	**Commercial**	**Commercial Real Estate**	**Residential**	**Consumer**	**Unallocated**	**Total**
ALLL:						
Individually evaluated for impairment	$149	$ 526	$ 586	$ 14	$ —	$1,275
Collectively evaluated for impairment	3,240	4,921	894	569	503	10,127
Total	$3,389	$ 5,447	$ 1,480	$ 583	$ 503	$11,402
Gross loans:						
Individually evaluated for impairment	$3,181	$ 9,645	$ 12,140	$ 34	$ —	$25,000
Collectively evaluated for impairment	139,907	392,569	97,781	44,517	—	674,774
Total	$143,088	$ 402,214	$ 109,921	$ 44,551	$ —	$699,774

	As of December 31, 2014					
(Amounts in thousands)	**Commercial**	**Commercial Real Estate**	**Residential**	**Consumer**	**Unallocated**	**Total**
ALLL:						
Individually evaluated for impairment	$314	$ 432	$ 795	$ 15	$ —	$1,556
Collectively evaluated for impairment	3,189	4,443	875	435	322	9,264
Total	$3,503	$ 4,875	$ 1,670	$ 450	$ 322	$10,820
Gross loans:						
Individually evaluated for impairment	$6,597	$ 11,753	$ 13,023	$ 35	$ —	$31,408
Collectively evaluated for impairment	143,656	352,553	97,944	35,337	—	629,490
Total	$150,253	$ 364,306	$ 110,967	$ 35,372	$ —	$660,898

The ALLL totaled $11.4 million or 1.63% of total gross loans at June 30, 2015 and $10.8 million or 1.64% at December 31, 2014. In addition, as of June 30, 2015, the Company had $199.7 million in commitments to extend credit, and recorded a reserve for unfunded commitments of $695 thousand in *other liabilities* in the *Consolidated Balance Sheets*.

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

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

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

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

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Management believes that the ALLL was adequate as of June 30, 2015. There is, however, no assurance that future loan and lease losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review.

As of June 30, 2015, approximately 74% of our gross loan portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the ALLL. The U.S. recession, the housing market downturn, and low real estate values in our markets have negatively impacted aspects of our residential development, commercial real estate, commercial construction and commercial loan portfolios. Deterioration in our markets may adversely affect our loan portfolio and may lead to additional charges to the provision for loan and lease losses.

All impaired loans are individually evaluated for impairment. If the measurement of each impaired loans' value is less than the recorded investment in the loan, we recognize this impairment and adjust the carrying value of the loan to fair value through the ALLL. For collateral dependent loans, this can be accomplished by charging off the impaired portion of the loan based on the underlying value of the collateral. For non collateral dependent loans the Company establishes a specific component within the ALLL based on the present value of the future cash flows. If the Bank determines the sources of repayment will not result in a reasonable probability that the carrying value of a loan can be recovered, the amount of a loan's specific impairment is charged off against the ALLL. Impairment reserves on non-collateral dependent restructured loans are measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value. These impairment reserves are recognized as a specific component to be provided for in the ALLL.

The unallocated portion of ALLL provides for coverage of credit losses inherent in the loan portfolio but not captured in the credit loss factors that are utilized in the risk rating-based component, or in the specific impairment reserve component of the ALLL, and acknowledges the inherent imprecision of all loss prediction models. As of June 30, 2015, the unallocated allowance amount represented 4% of the ALLL, compared to 3% at December 31, 2014. The ALLL composition should not be interpreted as an indication of specific amounts or loan categories in which future charge offs may occur.

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

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

Commercial Loans – Commercial loans are underwritten after evaluating the borrower's financial ability to maintain profitability including future expansion objectives. In addition, the borrower's qualitative qualities are evaluated, such as management skills and experience, ethical traits, and overall business acumen. Commercial loans are primarily extended based on the cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The borrower's cash flow may deviate from initial projections, and the value of collateral securing these loans may vary.

Most commercial loans are generally secured by the assets being financed and other business assets such as accounts receivable or inventory. Management may also incorporate a personal guarantee; however, some short term loans may be extended on an unsecured basis. Repayment of commercial loans secured by accounts receivable may be substantially dependent on the ability of the borrower to collect amounts due from its customers. In addition, the Company maintains a commercial loan with its former mortgage subsidiary in which mortgage loans are pledged as collateral.

Commercial Real Estate ("CRE") Loans – CRE loans are subject to similar underwriting standards and processes as commercial loans. CRE loans are viewed predominantly as cash flow loans and secondarily as loans collateralized by real estate. Generally, CRE lending involves larger principal amounts with repayment largely dependent on the successful operation of the property securing the loan or the business conducted on the collateralized property. CRE loans tend to be more adversely affected by conditions in the real estate markets or by general economic conditions.

The properties securing the Company's CRE portfolio are diverse in terms of type and primary source of repayment. This diversity helps reduce the Company's exposure to adverse economic events that affect any single industry. Management monitors and evaluates CRE loans based on occupancy status (investor versus owner occupied), collateral, geography, and risk grade criteria.

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

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

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

Management's continuing evaluation of all known relevant quantitative and qualitative internal and external risk factors provide the foundation for the three major components of the Company's ALLL: (1) historical valuation allowances established in accordance with ASC 450, Contingencies ("ASC 450") for groups of similarly situated loan pools; (2) general valuation allowances established in accordance with ASC 450 and based on qualitative credit risk factors; and (3) specific valuation allowances established in accordance with ASC 310, Receivables ("ASC 310") and based on estimated probable losses on specific impaired loans. All three components are aggregated and constitute the Company's ALLL; while portions of the allowance may be allocated to specific credits, the allowance net of specific reserves is available for the remaining credits that management deems as "loss." It is the Company's policy to classify a credit as loss with a concurrent charge off when management considers the credit uncollectible and of such little value that its continuance as a bankable asset is not warranted. A loss classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer recognizing the likely credit loss of a valueless asset even though partial recovery may occur in the future.

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

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

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

NOTE 7. OTHER REAL ESTATE OWNED

OREO represents real estate which to the Bank has taken control in partial or full satisfaction of loans and properties originally acquired for branch expansion but no longer intended to be used for that purpose. OREO is recorded at fair value less costs to sell, which becomes the property's new cost basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the ALLL. Any write-up in the fair value of the asset at the date of acquisition is reported as noninterest income unless there has been a prior charge off, in which case a recovery is credited to the ALLL. Thereafter, management periodically performs valuations and the property is carried at the lower of the cost or fair value less expected selling costs. Subsequent valuation adjustments are recognized under the line item *Write down of other real estate owned* in the *Consolidated Statements of Operations*. Net expenses incurred from OREO property are recorded in *noninterest expense*, in the *Consolidated Statements of Operations*.

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At June 30, 2015, and December 31, 2014, the recorded investment in OREO was $1.4 million and $502 thousand, respectively. For the six months ended June 30, 2015, the Company transferred eleven foreclosed properties in the amount of $3.2 million to OREO. During the six months ended June 30, 2015 the Company sold nine properties with a balance of $2.4 million for a net gain of $5 thousand. During June of 2015, the bank transferred land with a carrying value of $261 thousand previously held for construction of a new branch to OREO for disposition. The property was transferred to OREO at its fair value less expected selling costs resulting in a write down of $91 thousand recorded in noninterest expense. The June 30, 2015 OREO balance consists of four 1-4 family residential real estate properties in the amount of $283 thousand, three nonfarm nonresidential properties in the amount of $952 thousand and one undeveloped commercial property in the amount of $170 thousand. The recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure is $1.6 million.

NOTE 8. ACCOUNTING FOR INCOME TAXES AND UNCERTAINTIES

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

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

The Company applies the provisions of FASB ASC 740, *Income Taxes*, relating to the accounting for uncertainty in income taxes. The Company periodically reviews its income tax positions based on tax laws and regulations, and financial reporting considerations, and records adjustments as appropriate. This review takes into consideration the status of current taxing authorities’ examinations of the Company’s tax returns, recent positions taken by the taxing authorities on similar transactions, if any, and the overall tax environment. The Company’s uncertain tax positions were nominal in amount as of June 30, 2015.

The Company’s effective income tax rate was 30% for the six months ended June 30, 2015, compared with 29% for the same period a year ago.

NOTE 9. QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS

At June 30, 2015 the Company’s investments in Qualified Affordable Housing Projects that generate Low Income Housing Tax Credits (“LIHTC”) were $5.2 million. These investments are recorded in other assets with a corresponding funding obligation of $1.5 million recorded in other liabilities. The Company has invested in four separate LIHTC projects which provide the Company with CRA credit. Additionally, the investments in LIHTC projects provide the Company with tax credits and with operating loss tax benefits over an approximately 16 year period. None of the original investments will be repaid. The tax credits and the operating loss tax benefits that are generated by each of the properties are expected to exceed the total value of the investments made by the Company and provide returns on the investments of between 4.36% and 7.14%. The investments in LIHTC projects are being accounted for using the proportional amortization method, under which the Company amortizes the initial cost of an investment in proportion to the amount of the tax credits and other tax benefits received, and recognizes the net investment performance in the *Consolidated Statements of Operations* as a component of income tax expense.

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The following table presents the Company's original investment in LIHTC projects, the current recorded investment balance, and the unfunded liability balance of each investment at June 30, 2015 and December 31, 2014. In addition, the table reflects the tax credits and tax benefits, amortization of the investment and the net impact to the Company's income tax provision for the six months ended June 30, 2015 and the year ended December 31, 2014:

(Amounts in thousands) **Qualified Affordable Housing Projects at June 30, 2015**	**Original Investment Value**	**Current Recorded Investment**	**Unfunded Liability Obligation**	**Tax Credits and Benefits** (1)	**Amortization of Investments** (2)	**Net Income Tax Benefit**
Raymond James California Housing Opportunities Fund II	$ 2,000	$ 1,645	$ 628	$ 113	$ 91	$ 22
WNC Institutional Tax Credit Fund 38, L.P.	1,000	836	248	69	51	18
Merritt Community Capital Corporation Fund XV, L.P.	2,500	1,935	610	139	115	24
California Affordable Housing Fund	2,454	748	—	104	104	—
Total	$ 7,954	$ 5,164	$ 1,486	$ 425	$ 361	$ 64

(Amounts in thousands) **Qualified Affordable Housing Projects at December 31, 2014**	**Original Investment Value**	**Current Recorded Investment**	**Unfunded Liability Obligation**	**Tax Credits and Benefits** (1)	**Amortization of Investments** (2)	**Net Income Tax Benefit**
Raymond James California Housing Opportunities Fund II	$ 2,000	$ 1,846	$ 736	$ 160	$ 154	$ 31
WNC Institutional Tax Credit Fund 38, L.P.	1,000	888	314	105	112	26
Merritt Community Capital Corporation Fund XV, L.P.	2,500	2,050	1,374	340	450	58
California Affordable Housing Fund	2,454	852	—	209	187	22
Total	$ 7,954	$ 5,636	$ 2,424	$ 814	$ 903	$ 137

(1) The amounts

reflected in this column represent both the tax credits, as well as the tax benefits generated by the Qualified Affordable Housing Projects operating loss. Tax benefits are calculated using a 34% tax rate.

(2) This amount reduces the tax credits and benefits generated by the Qualified Affordable Housing Projects.

The following table presents the Company’s generated tax credits and tax benefits from investments in qualified affordable housing projects for the three and six month periods ended June 30, 2015 and 2014.

(Amounts in thousands)	**For the Three Months Ended**			
	June 30, 2015		**June 30, 2014**	
Qualified Affordable Housing Projects	**Generated Tax Credits**	**Tax Benefits From Taxable Losses**	**Generated Tax Credits**	**Tax Benefits from Taxable Losses**
Raymond James California Housing Opportunities Fund II	$43	$ 13	$29	$ 11
WNC Institutional Tax Credit Fund 38, L.P.	27	8	25	8
Merritt Community Capital Corporation Fund XV, L.P.	54	15	66	19
California Affordable Housing Fund	40	12	40	13
Total	$164	$ 48	$160	$ 51

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Notes to Consolidated Financial Statements (Unaudited)

(Amounts in thousands)	For the Six Months Ended			
	June 30, 2015		June 30, 2014	
Qualified Affordable Housing Projects	Generated Tax Credits	Tax Benefits From Taxable Losses	Generated Tax Credits	Tax Benefits from Taxable Losses
Raymond James California Housing Opportunities Fund II	$87	$ 26	$57	$ 23
WNC Institutional Tax Credit Fund 38, L.P.	54	15	49	16
Merritt Community Capital Corporation Fund XV, L.P.	109	30	133	38
California Affordable Housing Fund	79	25	79	25
Total	$329	$ 96	$318	$ 102

The tax credits and benefits were partially offset by the amortization of the principal investment balances of $180 thousand and $361 thousand for the three and six months ended June 30, 2015 respectively, compared to $232 thousand and $405 thousand for the comparable periods of 2014.

The following table reflects the anticipated net income tax benefit at June 30, 2015 that is expected to be recognized by the Company over the remaining life of the investments:

(Amounts in thousands) **Qualified Affordable Housing Projects**	**Raymond James California Housing Opportunities Fund II**	**WNC Institutional Tax Credit Fund 38, L.P.**	**Merritt Community Capital Corporation Fund XV, L.P**	**California Affordable Housing Fund**	**Total Net Income Tax Benefit**
Anticipated net income tax benefit less amortization of investments:					
2015	$ 24	$ 17	$ 23	$ 1	$ 65
2016	46	37	47	1	131
2017	46	36	45	—	127
2018	45	35	45	—	125
2019 and thereafter	263	155	238	1	657
Total	$ 424	$ 280	$ 398	$ 3	$ 1,105

NOTE 10. FEDERAL FUNDS PURCHASED AND LINES OF CREDIT

At June 30, 2015 and December 31, 2014, the Company had no outstanding federal funds purchased balances. At June 30, 2015 the Bank had available lines of credit with the Federal Home Loan Bank of San Francisco totaling $193.9 million and the Bank had available lines of credit with the Federal Reserve totaling $28.4 million subject to certain collateral requirements, namely the amount of certain pledged loans.

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

NOTE 11. TERM DEBT

The Bank had outstanding secured advances from the Federal Home Loan Bank of San Francisco at June 30, 2015 and December 31, 2014 of $90.0 million and $75.0 million, respectively.

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Future contractual maturities of Federal Home Loan Bank of San Francisco term advances at June 30, 2015 are as follows:

(Amounts in thousands)

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

The maximum amount outstanding from the Federal Home Loan Bank of San Francisco under term advances at any month end during the six months ended June 30, 2015, and the year ended December 31, 2014 was $120.0 million and $75.0 million, respectively. The average balance outstanding on Federal Home Loan Bank of San Francisco term advances during the six months ended June 30, 2015 and year ended December 31, 2014 was $94.7 million and $77.5 million, respectively. The weighted average interest rate on the borrowings at June 30, 2015 and December 31, 2014 was 0.23% and 0.24%, respectively.

The Federal Home Loan Bank of San Francisco borrowings are secured by an investment in Federal Home Loan Bank of San Francisco stock, certain real estate mortgage loans which have been specifically pledged to the Federal Home Loan Bank of San Francisco pursuant to their collateral requirements, and certain securities held in the Bank's investment securities portfolio. As of June 30, 2015, based upon the level of Federal Home Loan Bank of San Francisco advances, the Company was required to hold an investment in Federal Home Loan Bank of San Francisco stock of $4.5 million. Furthermore, the Company has pledged $331.4 million of its commercial and real estate mortgage loans, and has borrowed $90.0 million against the pledged loans. As of June 30, 2015, the Company held $19.2 million (amortized cost) in securities with the Federal Home Loan Bank of San Francisco for pledging purposes. All of the securities pledged to the Federal Home Loan Bank of San Francisco were unused as collateral as of June 30, 2015.

NOTE 12. COMMITMENTS AND CONTINGENCIES

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

The following table sets forth rent expense and rent income for the three and six months ended June 30, 2015 and 2014.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(Amounts in thousands)	**2015**	**2014**	**2015**	**2014**
Rent income	$2	$4	$6	$8
Rent expense	142	142	284	282
Net	$140	$138	$278	$274

The following table sets forth, as of June 30, 2015, the future minimum lease payments under non-cancelable operating leases:

(Amounts in thousands)	
Amounts due in:	
2015	$297
2016	608
2017	549
2018	431
2019	402
Thereafter	1,296
Total	$3,583

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

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The following table presents a summary of the Bank’s commitments and contingent liabilities at June 30, 2015 and December 31, 2014:

(Amounts in thousands)	**June 30, 2015**	**December 31, 2014**
Commitments to extend credit	$193,571	$200,991
Standby letters of credit	2,766	2,731
Guaranteed commitments outstanding	3,358	1,864
Total commitments	$199,695	$205,586

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

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

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

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

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

The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary. The Bank was not required to perform on any financial guarantees for the six months ended June 30, 2015, and the year ended December 31, 2014. At June 30, 2015 approximately $133 thousand of standby letters of credit expire within one year, and $2.6 million expire thereafter.

The reserve for unfunded commitments, which is included in other liabilities on the *Consolidated Balance Sheets*, was $695 thousand at June 30, 2015 and December 31, 2014. The adequacy of the reserve for unfunded commitments is reviewed on a quarterly basis, based upon changes in the amount of commitments, loss experience, and economic conditions. During the six months ended June 30, 2015 the Company made no additional provision to the reserve for unfunded commitments. When a provision is necessary, the expense is recorded in other noninterest expense in the *Consolidated Statements of Operations.*

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

Concentrations of Credit Risk –The Company grants real estate construction, commercial, and installment loans to customers throughout northern California. In management’s judgment, a concentration exists in real estate-related loans, which represented approximately 74% and 71% of the Company’s gross loan portfolio at June 30, 2015 and December 31, 2014, respectively.

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

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

NOTE 13. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents activity in accumulated other comprehensive income for the six months ended June 30, 2015:

(Amounts in thousands)	**Unrealized Gains (Losses) on Securities**	**Unrealized (Losses) Gains on Derivatives**	**Accumulated Other Comprehensive (Loss) Income**
Accumulated other comprehensive loss as of December 31, 2014	$ 1,810	$ (1,897)	$ (87)
Comprehensive income three months ended March 31, 2015	292	(21)	271
Comprehensive loss three months ended June 30, 2015	(967)	100	(867)
Accumulated other comprehensive loss as of June 30, 2015	$ 1,135	$ (1,818)	$ (683)

The following table presents activity in accumulated other comprehensive income for the six months ended June 30, 2014:

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

Comprehensive income three months ended June 30, 2014	1,115	(1,296)	(181)
Accumulated other comprehensive loss as of June 30, 2014	$ 1,092	$ (1,999)	$ (907)

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

NOTE 14. DERIVATIVES

The Company uses derivatives to hedge the risk of changes in market interest rates to limit the impact on earnings and cash flows relating to specific groups of assets and liabilities. Presently, the Company utilizes interest rate swaps (the "hedging instrument") with other major financial institutions (counterparties) to hedge interest expenses associated with certain Federal Home Loan Bank of San Francisco borrowings (the "hedged instrument"). The Company does not use derivative instruments for trading or speculative purposes.

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

ASC 815-10, *Derivatives and Hedging* ("ASC 815") requires companies to recognize all derivative instruments as assets or liabilities at fair value in the *Consolidated Balance Sheets*. In accordance with ASC 815, the Company designated its interest rate swaps as cash flow hedges of certain active and forecasted variable rate Federal Home Loan Bank of San Francisco advances. Changes in the fair value of the hedging instrument, except any ineffective portion, are recorded in accumulated other comprehensive income until earnings are impacted by the hedged instrument. No components of the Company's hedging instruments are excluded from the assessment of hedge effectiveness in hedging exposure to variability in cash flows.

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Classification of the gain or loss in the *Consolidated Statements of Operations* upon release from accumulated other comprehensive income is the same as that of the underlying exposure. The Company discontinues the use of hedge accounting prospectively when (1) the derivative instrument is no longer effective in offsetting changes in fair value or cash flows of the underlying hedged item; (2) the derivative instrument expires, is sold, terminated, or exercised; or (3) designating the derivative instrument as a hedge is no longer appropriate. When the Company discontinues hedge accounting because it is no longer probable that an anticipated transaction will occur in the originally expected period, or within an additional two-month period thereafter, changes to fair value that were in accumulated other comprehensive income are recognized immediately in earnings.

During June 2014, the Company concluded that certain forecasted Federal Home Loan Bank of San Francisco advances were no longer probable. The forward starting interest rate swaps that were related to these forecasted advances were terminated and gains of $952 thousand in accumulated other comprehensive income were immediately recognized in earnings.

At June 30, 2015 the Company has one active interest rate swap, and two forward starting interest rate swaps to hedge interest rate risk associated with current and forecasted variable rate Federal Home Loan Bank of San Francisco advances. The hedge strategy converts LIBOR based variable rate of interest on active and forecasted Federal Home Loan Bank of San Francisco advances to fixed interest rates.

The following table summarizes the Company’s interest rate swap contracts with counterparties outstanding at June 30, 2015. The interest rate swap contracts are made with a single issuer and include the right of offset.

(Amounts in thousands)

Description	**We Pay Fixed**	**We Receive Variable** (1)	**Notional Amount**	**Effective Date**	**Maturity Date**
Interest rate swap - active	1.84 %	0.278 %	$ 75,000	August 1, 2014	August 3, 2015
Forward starting interest rate swap #1	2.64 %	Variable	$ 75,000	August 3, 2015	August 1, 2016
Forward starting interest rate swap #2	3.22 %	Variable	$ 75,000	August 1, 2016	August 1, 2017

[1] Rate floats to 3 month LIBOR payable quarterly on February 1, May 1, August 1, and November 1.

The following table lists the active and forward starting interest rate swap derivatives separately by asset (gains) and liabilities (losses), and the fair value of such derivatives at June 30, 2015, and December 31, 2014.

(Amounts in thousands)		**Asset Derivatives**		**Liability Derivatives**	
Description	**Designation**	**June 30, 2015**	**December 31, 2014**	**June 30, 2015**	**December 31, 2014**
Interest rate swap - active	Cash flow hedge	$ —	$ —	$107	$ 880
Forward starting interest rate swap #1	Cash flow hedge	—	—	1,578	1,298
Forward starting interest rate swap #2	Cash flow hedge	—	—	1,405	1,046
Total		$ —	$ —	$3,090	$ 3,224

The following table summarizes the gains (losses) recorded during the three and six months ended June 30, 2015 and 2014, and their location within the *Consolidated Statements of Operations*.

(Amounts in thousands)		**Three Months Ended June 30,**		**Six Months Ended June 30,**	
Description	**Consolidated Statement of Operations Location**	**2015**	**2014**	**2015**	**2014**
Interest rate swap - active [1]	Interest on Federal Home Loan Bank of San Francisco borrowings	$(292)	$—	$(587)	$—
Forward starting interest rate swap [2]	Interest on Federal Home Loan Bank of San Francisco borrowings	—	111	—	261
Forward starting interest rate swap [3]	Other noninterest income	—	1,617	—	1,617
Total		$(292)	$1,728	$(587)	$1,878

(1) Loss represents net settlement on active interest rate swap.
(2) Gains represent tax adjusted amounts reclassified from accumulated other comprehensive income pertaining to the terminated forward starting interest rate swap.
(3) Gains represent tax adjusted amounts reclassified from accumulated other comprehensive income immediately upon cancellation of forecasted Federal Home Loan Bank of San Francisco borrowings.

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The following table summarizes the gains and (losses) on all derivative instruments (active and forward starting) designated as cash flow hedges recorded in accumulated other comprehensive income and reclassified into earnings during the three and six months ended June 30, 2015 and June 30, 2014.

(Amounts in thousands)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
Description	**2015**	**2014**	**2015**	**2014**
Interest rate swaps	$(177)	$1,017	$(350)	$1,105

The following table summarizes management's estimate of the amount of existing losses on derivative instruments recorded in accumulated other comprehensive income that are expected to reclassified into earnings within the next 12 months, assuming various rate shock scenarios. In each scenario, the impact to net income as a result of the increase in interest rates paid on the hedged instrument would remain unchanged because the derivative instrument is effectively offsetting changes in cash flows of the underlying hedged instrument.

(Amounts in thousands)	**Interest Rate Shock**		
Description	**Flat**	**+100bp**	**+200bp**
Reclassifications from accumulated OCI	$1,013	$ 572	$ 130

The following table summarizes the derivatives that have a right of offset at June 30, 2015 and December 31, 2014.

	Gross Amounts Not Offset In The Consolidated

(Amounts in thousands)	**Gross Amounts of Recognized Assets / (Liabilities)**	**Gross Amounts Offset In The Consolidated Balance Sheets**	**Balance Sheets Net Amounts of Assets / (Liabilities) Included In The Consolidated Balance Sheets**	**Fair Value of Collateral Posted**	**Net Amount**
June 30, 2015					
Derivative liabilities					
Interest rate swaps	$ (3,090)	$ —	$(3,090)	$ 4,051	$ 961
December 31, 2014					
Derivative liabilities					
Interest rate swaps	$ (3,224)	$ —	$(3,224)	$ 3,533	$ 309

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

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

The Company was required to post collateral against the obligations of $3.1 million at June 30, 2015. Accordingly, the Company pledged three mortgage backed securities with an aggregate par value of $3.8 million and an aggregate fair value of $4.1 million.

NOTE 15. FAIR VALUES

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

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The following table presents estimated fair values of the Company's financial instruments as of June 30, 2015 and December 31, 2014, whether or not recognized or recorded at fair value in the *Consolidated Balance Sheets*. The table indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

Non-financial assets and non-financial liabilities defined by the FASB ASC 820, *Fair Value Measurement*, such as Bank premises and equipment, deferred taxes and other liabilities are excluded from the table. In addition, we have not disclosed the fair value of financial instruments specifically excluded from disclosure requirements of FASB ASC 825, *Financial Instruments*, such as bank-owned life insurance policies.

(Amounts in thousands)	**Carrying**	**Fair Value Measurements Using**			
June 30, 2015	**Amounts**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets :					
Cash and cash equivalents	$32,796	$32,796	$—	$—	$32,796
Securities available-for-sale	$160,763	$—	$160,763	$—	$160,763
Securities held-to-maturity	$36,655	$—	$36,430	$—	$36,430
Net loans	$688,775	$—	$—	$698,993	$698,993
Federal Home Loan Bank of San Francisco stock	$4,465	$4,465	$—	$—	$4,465
Financial liabilities:					
Deposits	$760,039	$—	$761,349	$—	$761,349
Federal Home Loan Bank of San Francisco advances	$90,000	$—	$90,000	$—	$90,000
Subordinated debenture	$10,310	$—	$5,111		$5,111
Derivatives	$3,090	$—	$3,090	$—	$3,090

(Amounts in thousands)	**Carrying**	**Fair Value Measurements Using**			
December 31, 2014	**Amounts**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets :					
Cash and cash equivalents	$58,422	$58,422	$—	$—	$58,422
Securities available-for-sale	$186,986	$2,571	$184,415	$—	$186,986
Securities held-to-maturity	$36,806	$—	$37,118	$—	$37,118
Net loans	$650,235	$—	$—	$661,126	$661,126

Federal Home Loan Bank of San Francisco stock	$5,728	$5,728	$—	$—	$5,728
Financial liabilities:					
Deposits	$789,035	$—	$790,068	$—	$790,068
Federal Home Loan Bank of San Francisco advances	$75,000	$—	$75,000	$—	$75,000
Subordinated debenture	$10,310	$—	$4,932	$—	$4,932
Derivatives	$3,224	$—	$3,224	$—	$3,224

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.

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

The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when developing fair value measurements. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

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

Cash and cash equivalents – The carrying amounts reported in the *Consolidated Balance Sheet*s for cash and cash equivalents are a reasonable estimate of fair value. The carrying amount is a reasonable estimate of fair value because of the relatively short term between the origination of the instrument and its expected realization. Therefore, the Company believes the measurement of fair value of cash and cash equivalents is derived from Level 1 inputs.

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

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

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

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

Federal Home Loan Bank of San Francisco advances – For variable rate Federal Home Loan Bank of San Francisco borrowings, the carrying value approximates fair value. The Company measures the fair value of Federal Home Loan Bank of San Francisco advances using Level 2 inputs.

Subordinated debenture – The fair value of the subordinated debenture is estimated by discounting the future cash flows using market rates at the reporting date, of which similar debentures would be issued with similar credit ratings as ours and similar remaining maturities. At June 30, 2015, future cash flows were discounted at 6.12%. The Company measures the fair value of subordinated debentures using Level 2 inputs.

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

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available-for-sale securities and derivatives are recorded at fair value on a recurring basis. From time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as collateral dependent impaired loans and certain other assets including OREO. These nonrecurring fair value adjustments involve the application of lower of cost or fair value accounting or write downs of individual assets.

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The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value, as of June 30, 2015 and December 31, 2014.

(Amounts in thousands)	**Fair Value at June 30, 2015**			
Recurring Basis	**Total**	**Level 1**	**Level 2**	**Level 3**
Available-for-sale securities:				
U.S. government and agencies	$5,314	$ —	$5,314	$ —
Obligations of states and political subdivisions	51,324	—	51,324	—
Residential mortgage backed securities and collateralized mortgage obligations	37,776	—	37,776	—
Corporate securities	33,501	—	33,501	—
Commercial mortgage backed securities	9,467	—	9,467	—
Other investment securities [(1)]	23,381	—	23,381	—
Total assets measured at fair value	$160,763	$ —	$160,763	$ —
Derivatives – forward starting interest rate swaps	$3,090	$ —	$3,090	$ —
Total liabilities measured at fair value	$3,090	$ —	$3,090	$ —

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

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

Recurring Items

Debt Securities – The available-for-sale securities amount in the recurring fair value table above represents securities that have been adjusted to their fair values. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond’s terms and conditions among other things. The Company has determined that the source of these fair values falls within Level 2 of the fair value hierarchy.

Forward starting interest rate swaps – The valuation of the Company’s interest rate swaps was obtained from third party pricing services. The fair values of the interest rate swaps were determined by using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis was based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. The Company has determined that the source of these derivatives’ fair values falls within Level 2 of the fair value hierarchy.

Sensitivity of the Level 3 Fair Value Measurements

There were no assets or liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis at June 30, 2015 or at December 31, 2014. There were no transfers in or out of level 3 during the six months ended June 30, 2015 or the year ended December 31, 2014.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These adjustments to fair value generally result from the application of lower of cost or fair value accounting or write-downs of individual assets due to impairment. The following table presents information about the Company's assets and liabilities at June 30, 2015 and December 31, 2014 measured at fair value on a nonrecurring basis for which a nonrecurring change in fair value has been recorded during the reporting period. The amounts disclosed below present the fair values at the time the nonrecurring fair value measurements were made, and not necessarily the fair values as of the date reported upon.

(Amounts in thousands)	**Fair Value at June 30, 2015**			
Nonrecurring basis:	**Total**	**Level 1**	**Level 2**	**Level 3**
Collateral dependent impaired loans	$1,883	$ —	$ —	$1,883
Other real estate owned	223	—	—	223
Total assets measured at fair value	$2,106	$ —	$ —	$2,106

(Amounts in thousands)	**Fair Value at December 31, 2014**			
Nonrecurring basis:	**Total**	**Level 1**	**Level 2**	**Level 3**
Collateral dependent impaired loans	$10,319	$ —	$ —	$10,319
Other real estate owned	108	—	—	108
Total assets measured at fair value	$10,427	$ —	$ —	$10,427

The following table presents the losses resulting from nonrecurring fair value adjustments for the three and six months ended June 30, 2015 and 2014:

(Amounts in thousands)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
Fair value adjustment loss:	**2015**	**2014**	**2015**	**2014**
Collateral dependent impaired loans	$492	$892	$544	$5,501
Other real estate owned	108	—	108	290
Total	$600	$892	$652	$5,791

During the six months ended June 30, 2015 collateral dependent impaired loans with a carrying amount of $2.4 million were written down to their fair value of $1.9 million resulting in a $544 thousand adjustment to the ALLL.

During the six months ended June 30, 2015, one property was transferred into OREO with an aggregate carrying value of $70 thousand and written down to its fair value of $53 thousand, resulting in a $17 thousand adjustment to the ALLL. Additionally, during the quarter ended June 30, 2015 the Company transferred land with a carrying value of $261 thousand previously held for construction of a new branch to OREO for disposition. The property was transferred to OREO at its fair value less expected selling costs resulting in a write down of $91 thousand.

The loan amounts above represent impaired, collateral dependent loans that have been adjusted to fair value during the respective reporting period. When we identify a collateral dependent loan as impaired, we measure the impairment using the current fair value of the collateral, less selling costs. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining external appraisals. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we recognize this impairment and adjust the carrying value of the loan to fair value through the ALLL.

The loss represents charge offs or impairments on collateral dependent loans for fair value adjustments based on the fair value of collateral. The carrying value of loans fully charged off is zero. When the fair value of the collateral is based on a current appraised value, or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

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

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Notes to Consolidated Financial Statements (Unaudited)

Limitations – Fair value estimates are made at a specific point in time, based on relevant market information and other information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company’s entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company’s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

NOTE 16. PURCHASE OF FINANCIAL ASSETS

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

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

On May 12, 2014, the Company agreed to purchase $40.0 million of unsecured consumer home improvement loans. The loans were purchased without recourse or servicing rights. The agreement calls for purchases up to $4.0 million per month up to a maximum par value of $40.0 million. As of June 30, 2015 the Company has paid cash totaling $50.1 million, and received cash repayments of $12.8 million for $37.3 million in net loans. The Company initially measured the acquired loan portfolio at a fair equal to the price paid to acquire the portfolio as the difference between the par value and cash purchase price represents the fair value adjustment.

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

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

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

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

Forward Looking Statements and Risk Factors

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

- Our ability to attract new deposits and loans
- Demand for financial services in our market areas
- Competitive market pricing factors
- Deterioration of economic conditions that could result in increased loan losses
- Risks associated with concentrations of real estate related loans
- Market interest rate volatility
- Stability of funding sources and continued availability of borrowing
- Changes in legal or regulatory requirements or the results of regulatory examinations that could restrict growth

Our ability to recruit and maintain key management staff

Our ability to raise capital and incur debt on reasonable terms

Regulatory limits on the Bank's ability to pay dividends to the Company

The impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") and related rules and regulations on the Company's business operations and competitiveness, including the impact of executive compensation restrictions, which may affect the Company's ability to retain and recruit executives in competition with firms in other industries who do not operate under those restrictions

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

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

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

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

The following sections discuss significant changes and trends in the financial condition, capital resources and liquidity of the Company from December 31, 2014 to June 30, 2015. Also discussed are significant trends and changes in the Company's results of operations for the six months ended June 30, 2015, compared to the same period in 2014. The consolidated financial statements and related notes appearing elsewhere in this report are unaudited. The following discussion and analysis is intended to provide greater detail of the Company's financial condition and results.

GENERAL

Bank of Commerce Holdings ("Company," "Holding Company," "we," or "us") is a corporation organized under the laws of California and a bank holding company ("BHC") registered under the Bank Holding Company Act of 1956, as amended ("BHC Act"). The Holding Company's principal business is to serve as a holding company for Redding Bank of Commerce (the "Bank" and together with the Holding Company, the "Company") which operates under two separate names (Redding Bank of Commerce and Sacramento Bank of Commerce, a division of Redding Bank of Commerce).

The Company has an unconsolidated subsidiary in Bank of Commerce Holdings Trust II, which was organized in connection with our prior issuance of trust preferred securities. Our common stock is traded on the NASDAQ Global Market under the symbol “BOCH.”

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

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

The Company commenced banking operations in 1982 and currently operates four full service facilities in two diverse markets in Northern California. We are proud of the Bank’s reputation as one of Northern California’s premier banks for business. We provide a wide range of financial services and products for business and retail customers which are competitive with those traditionally offered by banks of similar size in California.

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

Executive Overview

Significant items for the three months ended June 30, 2015 were as follows:

Net income available to common shareholders of $2.3 million for the three months ended June 30, 2015 was an improvement of $184 thousand (8.5%) over $2.2 million net income available to common shareholders earned during the second quarter of 2014, and an improvement of $589 thousand (33.6%) over $1.8 million available to common shareholders earned during the previous quarter.

Nonperforming assets at June 30, 2015 totaled $18.4 million, a decrease of $9.9 million (35.1%) compared to June 30, 2014, and a decrease of $1.7 million (33.6% annualized) compared to March 31, 2015.

Average loans for the quarter increased $29.9 million to $703.0 million from $673.1 million for the first quarter of 2015.

Net loan loss recoveries of $106 thousand combined with continuing improved asset quality resulted in no additional provision for loan and lease losses during the second quarter.

The Company’s book value per share increased to $6.49 per common share at June 30, 2015 from $6.07 per common share at June 30, 2014 (6.9%) and $6.41 at March 31, 2015 (5.0% annualized).

The Company’s net interest margin improved to 3.71% for the quarter ended June 30, 2015 from 3.62% for the second quarter of 2014.

Significant items for the six months ended June 30, 2015 were as follows:

Net income available to common shareholders of $4.1 million for the six months ended June 30, 2015 was an improvement of $1.4 million (53.2%) over $2.7 million net income available to common shareholders earned during the six months ended June 30, 2014.

Nonperforming assets at June 30, 2015 totaled $18.4 million, a decrease of $3.8 million (34.6% annualized) compared to December 31, 2014.

Gross loans at June 30, 2015 totaled $699.8 million, an increase of $38.9 million (12% annualized) since December 31, 2014.

Net loan loss recoveries of $582 thousand combined with continuing improved asset quality resulted in no additional provision for loan and lease losses during the first six months of 2015.

The Company's book value per share increased to $6.49 per common share at June 30, 2015 from $6.29 per common share at December 31, 2014 (6.4% annualized).

The Company's net interest margin improved to 3.72% for the six months ended June 30, 2015 from 3.57% for the year ended December 31, 2014.

The Company's efficiency ratio improved to 68.0% during the first six months of 2015 compared to 71.5% during the same period in 2014.

Summary of Critical Accounting Policies

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

Valuation of Investments and Impairment of Securities

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

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When an investment is other-than-temporarily impaired, the Company assesses whether it intends to sell the security, or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses. If the Company intends to sell the security or if it is more likely than not that the Company will be required to sell security before recovery of the amortized cost basis, the entire amount of other-than-temporary impairment ("OTTI") is recognized in earnings.

For debt securities that are considered other-than-temporarily impaired and that we do not intend to sell and will not be required to sell prior to recovery of our amortized cost basis, we separate the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is calculated as the difference between the investment's amortized cost basis and the present value of its expected future cash flows.

The remaining differences between the investment's fair value and the present value of future expected cash flows is deemed to be due to factors that are not credit related and is recognized in other comprehensive income. Significant judgment is required in the determination of whether OTTI has occurred for an investment. The Company follows a consistent and systematic process for determining OTTI loss. The Company has designated the ALCO responsible for the other-than-temporary evaluation process.

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

Allowance for Loan and Lease Losses

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

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

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

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

Income Taxes

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

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

ASC 740-10-55 requires a two-step process that separates recognition from measurement of tax positions. We recognize the financial statement effect of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination by a taxing authority. The measurement process is applied only after satisfying the recognition requirement and determines what amount of a tax position will be sustainable upon a potential examination or settlement. If upon measuring, the tax position produces a range of potential tax benefits, the Company may claim the highest tax benefit from that range as long as it is over 50% likely to be realized using a probability analysis.

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

Derivative Financial Instruments and Hedging Activities

The Company uses derivatives to hedge the risk of changes in market interest rates to limit the impact on earnings and cash flow relating to specific groups of assets and liabilities. Presently, the Company utilizes interest rate swaps (the “hedging instrument”) with other major financial institutions (counterparties) to hedge interest expenses associated with certain Federal Home Loan Bank of San Francisco borrowings (the “hedged instrument”). The Company does not use derivative instruments for trading or speculative purposes.

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

ASC 815-10, *Derivatives and Hedging* (“ASC 815”) requires companies to recognize all derivative instruments as assets or liabilities at fair value in the *Consolidated Balance Sheets*. In accordance with ASC 815, the Company has designated its interest rate swaps as cash flow hedges of certain active and forecasted variable rate Federal Home Loan Bank of San Francisco advances. Changes in the fair value of the hedging instrument in cash flow hedges, except any ineffective portion, are recorded in accumulated other comprehensive income until earnings are impacted by the hedged instrument. No components of the Company’s hedging instruments are excluded from the assessment of hedge effectiveness in hedging exposure to variability in cash flows.

Classification of the gain or loss in the *Consolidated Statements of Operations* upon release from accumulated other comprehensive income is the same as that of the underlying exposure. The Company discontinues the use of hedge accounting prospectively when (1) the derivative instrument is no longer effective in offsetting changes in fair value or cash flows of the underlying hedged item; (2) the derivative instrument expires, is sold, terminated, or exercised; or (3) designating the derivative instrument as a hedge is no longer appropriate. When the Company discontinues hedge accounting because it is no longer probable that an anticipated transaction will occur in the originally expected period, or within an additional two-month period thereafter, changes to fair value that were in accumulated other comprehensive income are recognized immediately in earnings.

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

The following table summarizes the Company’s interest rate swap contracts with counterparties outstanding at June 30, 2015. The interest rate swap contracts are made with a single issuer and include the right of offset.

(Amounts in thousands)

Description	We Pay Fixed		We Receive Variable [(1)]		Unrealized Loss Position	Notional Amount	Effective Date	Maturity Date
Interest rate swap - active	1.84	%	0.278	%	$ 107	$ 75,000	August 1, 2014	August 3, 2015
Forward starting interest rate swap #1	2.64	%	Variable		1,578	$ 75,000	August 3, 2015	August 1, 2016
Forward starting interest rate swap #2	3.22	%	Variable		1,405	$ 75,000	August 1, 2016	August 1, 2017
Total					$ 3,090			

(1) Rate floats to 3 month LIBOR payable quarterly on February 1, May 1, August 1, and November 1.

The following table summarizes management’s estimate of the amount of existing losses on derivative instruments record in accumulated other comprehensive income that are expected to reclassified into earnings within the next 12 months, assuming various rate shock scenarios. In each scenario, the impact to net income as a result of the increase in interest rates paid on the hedged insrument would remain unchanged because the derivative instrument is effectively offsetting changes in cash flows of the underlying hedged instrument.

(Amounts in thousands)	**Interest Rate Shock**		
Description	**Flat**	**+100bp**	**+200bp**
Reclassifications from accumulated OCI	$1,013	$ 572	$ 130

Fair Value Measurements

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

We have established and documented a process for determining fair value. We maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. Whenever there is no readily available market data, management uses its best estimate and assumptions in determining fair value, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if other assumptions had been used, our recorded earnings or disclosures could have been materially different from those reflected in these consolidated financial statements. Additional information on our use of fair value measurements and our related valuation methodologies is provided in Note 15 of the *Notes to the Consolidated Financial Statements* incorporated in this document.

Sources of Income

We derive our income primarily from 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. Other sources of noninterest income include fees earned on deposit related services, payroll processing, gain on sale of available-for-sale securities, earnings on bank-owned life insurance and dividends on Federal Home Loan Bank of San Francisco stock.

Our income depends to a great extent on net interest income, which correlates strongly with certain interest rate characteristics. These interest rate characteristics are highly sensitive to many factors which are beyond our control, including general economic conditions, inflation, recession, and the policies of various governmental and regulatory agencies, the Federal Reserve Board in particular. In recent years the bank has originated higher volumes of longer term fixed rate loans. These loans, combined with the structure of the bank's investment portfolio, the use of floors in the pricing of our variable rate loans and funding mix caused the bank to become liability senstive, which would negatively impact earnings in a rising interest rate environment. To mitigate this liability sensitive position, the bank entered into an interest rate swap on a portion of its FHLB borrowings and has been working to shorten the average duration of its investment portfolio. These actions have brought the bank's interest rate risk profile to a position that is neutral / slightly liability sensitive.

Net interest income reflects both the amount of earning assets we hold and our net interest margin, which is the difference between the yield we earn on our assets and the interest rate we pay to fund those assets. As a result, changes in either our net interest margin or the amount of earning assets we hold will affect our net interest income and earnings.

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

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

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

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

BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

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

RESULTS OF OPERATIONS

OVERVIEW

Net income available to common shareholders for the six months of 2015 increased $1.4 million compared to the same period a year ago. In the current year, net interest income was $601 thousand higher, provision for loan and lease losses was $1.5 million lower and noninterest expenses were $776 thousand lower. These positive changes were partially offset by noninterest income that was $765 thousand lower and an income tax provision that was higher by $642 thousand.

Diluted Earnings Per Share (“EPS”) were $ 0.31 for the six months ended June 30, 2015 compared with $0.19 for the same period a year ago. The increase in diluted EPS compared to the same period a year ago resulted mostly from increased net income, and also from a small decrease in weighted average shares outstanding, resulting from common stock repurchases.

The Company continued its quarterly cash dividends of $0.03 per share during the quarter ended June 30, 2015. In determining the amount of dividend to be paid, management gives consideration to capital preservation objectives, expected asset growth, projected earnings, the overall dividend pay-out ratio, and the dividend yield.

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

The following table presents the returns on average assets, average total equity and average common shareholders' equity for the six months ended June 30, 2015 and 2014. For each of the periods presented, the table includes the calculated ratios based on reported net income and net income available to common shareholders as shown in the Consolidated Statements of Operations incorporated in this document.

	For the Six Months Ended	
	June 30, 2015	June 30, 2014
Return on average assets:		
Net income	0.86 %	0.58 %
Income available to common shareholders	0.84 %	0.56 %
Return on average total equity:		
Net income	8.02 %	5.47 %
Income available to common shareholders	7.83 %	5.27 %
Return on average common shareholders' equity:		
Net income	9.89 %	6.79 %
Income available to common shareholders	9.65 %	6.55 %

Net Interest Income and Net Interest Margin

Net interest income is the largest source of our operating income. For the six months ended June 30, 2015 compared to the same period a year ago:

Net interest income increased $601 thousand.

Interest income increased $1.2 million or 7% to $19.3 million, which reflects the increase in average earnings assets and the reallocation of lower yielding assets into higher yielding loans.

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Interest expense increased $626 thousand or 37% to $2.3 million.

Interest expense on deposits decreased $171 thousand.

Interest expense on the Bank’s Federal Home Loan Bank of San Francisco borrowings increased $888 thousand.

Interest expense on other borrowings decreased $91 thousand.

For the three months ended June 30, 2015 compared to the same period a year ago:

Net interest income increased $405 thousand.
Interest income increased $701 thousand or 8% to $9.8 million.
Interest expense increased $296 thousand or 34% to $1.2 million.
Interest expense on deposits decreased $92 thousand.
Interest expense on the Bank’s Federal Home Loan Bank of San Francisco borrowings increased $432 thousand.
Interest expense on other borrowings decreased $44 thousand.

In 2011, to mitigate interest rate and market risks, the Bank entered into forward starting interest rate swaps to hedge interest rate risk associated with variable rate Federal Home Loan Bank of San Francisco borrowings. The hedges converted the LIBOR based floating rate of interest on the $75.0 million Federal Home Loan Bank of San Francisco borrowings to fixed interest rates. The remaining interest rate swaps adjust each August and were/are 0.94% at August 2013, 1.84% at August 2014, 2.64% at August 2015 and 3.22% at August 2016.

During the first six months of 2014, the net cost of the Bank’s FHLB borrowings was reduced when hedge gains from a previous set of interest rate swaps, were reclassified out of other accumulated comprehensive income into earnings as a reduction of interest expense. As a result, interest expense on FHLB borrowings for the first six months of 2014 was a negative $176 thousand.

Interest expense on other borrowings, primarily junior subordinated debentures was $96 thousand and $187 thousand for the first six months of 2015 and 2014, respectively. During December of 2014, the Company repaid $5.0 million of junior subordinated debentures resulting in a decrease in interest on junior subordinated debentures in 2015.

The net interest margin (net interest income as a percentage of average interest earning assets) on a fully tax-equivalent basis was 3.85% for the six months ended June 30, 2015, an increase of seven basis points as compared to the same period a year ago. The increase in the net interest margin resulted from a 21 basis point increase in the tax-equivalent yield on average earning assets offset by a 14 basis point increase in interest expense to fund average earning assets. Maintaining our net interest margin in a historically low interest rate environment, while confronted with known increases in Federal Home Loan Bank of San Francisco borrowing costs will be challenging in the foreseeable future. Management will continue to reallocate the asset mix into higher yielding assets by pursuing organic loan growth and actively managing the investment securities portfolio within our accepted risk tolerance.

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

The following tables present condensed average balance sheet information, together with interest income and yields earned on average interest earning assets, and interest expense and rates paid on average interest bearing liabilities for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30, 2015			**Three Months Ended June 30, 2014**		
(Amounts in thousands)	**Average Balance**	**Interest**	**Yield/ Rate**	**Average Balance**	**Interest**	**Yield/ Rate**
Interest earnings assets:						
Net loans [(1)]	$703,008	$ 8,304	4.74 %	$605,761	$ 7,188	4.71 %
Taxable securities	121,110	801	2.65 %	156,156	1,112	2.93 %
Tax-exempt securities	76,772	602	3.15 %	85,097	635	3.05 %
Interest bearing due from banks	27,688	56	0.81 %	62,123	127	0.87 %
Average interest earning assets	928,578	9,763	4.22 %	909,137	9,062	4.01 %
Cash & due from banks	10,833			10,183		
Bank premises	11,767			11,696		
Other assets	42,637			31,845		
Average total assets	$993,815			$962,861		
Interest bearing liabilities:						
Interest bearing demand	$268,784	107	0.16 %	$270,695	118	0.17 %
Savings deposits	93,291	55	0.24 %	91,447	57	0.25 %
Certificates of deposit	245,573	594	0.97 %	261,151	673	1.03 %
Federal Home Loan Bank of San Francisco Borrowings	105,330	363	1.38 %	75,000	(69)	(0.37)%
Other borrowings	10,310	49	1.91 %	15,465	93	2.41 %
Average interest bearing liabilities	$723,288	1,168	0.65 %	$713,758	872	0.48 %
Noninterest bearing demand	147,442			131,736		
Other liabilities	16,887			15,174		
Shareholders’ equity	106,198			102,193		
Average liabilities and shareholders’ equity	$993,815			$962,861		

Net interest income and net interest margin	$ 8,595	3.71 %	$ 8,190	3.62 %
Tax equivalent net interest margin [2]		3.85 %		3.77 %

Interest income on loans includes fee expense of approximately $(63) thousand and $(26) thousand for the three months ended June 30, 2015 and 2014, respectively.

(1) Average nonaccrual loans of $17.1 million and $24.6 million for the three months ended June 30, 2015 and 2014 are included, respectively.

(2) Tax-exempt income has been adjusted to a tax equivalent basis at a 34% tax rate. The amount of such adjustments was an addition to recorded income of approximately $310 thousand and $327 thousand for the three months ended June 30, 2015 and 2014, respectively.

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	Six Months Ended June 30, 2015			Six Months Ended June 30, 2014		
(Amounts in thousands)	**Average Balance**	**Interest**	**Yield/ Rate**	**Average Balance**	**Interest**	**Yield/ Rate**
Interest earnings assets:						
Net loans [1]	$688,146	$16,215	4.75 %	$605,761	$14,282	4.75 %
Taxable securities	128,791	1,746	2.73 %	156,156	2,229	2.87 %
Tax-exempt securities	77,043	1,201	3.14 %	85,097	1,287	3.05 %
Interest bearing due from banks	26,795	127	0.96 %	62,123	264	0.87 %
Average interest earning assets	920,775	19,289	4.22 %	909,137	18,062	4.01 %
Cash & due from banks	10,566			10,183		
Bank premises	11,980			11,696		
Other assets	43,085			31,845		
Average total assets	$986,406			$962,861		
Interest bearing liabilities:						
Interest bearing demand	$272,349	223	0.17 %	$270,695	239	0.18 %
Savings deposits	92,227	109	0.24 %	91,447	114	0.25 %
Certificates of deposit	246,137	1,185	0.97 %	261,151	1,335	1.03 %
Federal Home Loan Bank of San Francisco Borrowings	94,779	712	1.52 %	75,000	(176)	(0.47)%
Other borrowings	10,310	96	1.88 %	15,465	187	2.44 %
Average interest bearing liabilities	$715,802	2,325	0.66 %	$713,758	1,699	0.48 %
Noninterest bearing demand	148,179			131,736		
Other liabilities	17,013			15,174		
Shareholders' equity	105,412			102,193		
Average liabilities and shareholders' equity	$986,406			$962,861		
Net interest income and net interest margin		$16,964	3.72 %		$16,363	3.63 %
Tax equivalent net interest margin [2]			3.85 %			3.78 %

Interest income on loans includes fee expense of approximately $(122) thousand and $(166) thousand for the six months ended June 30, 2015 and 2014, respectively.

(1) Average nonaccrual loans of $18.8 million and $27.3 million for the six months ended June 30, 2015 and 2014 are included, respectively.

(2)

Tax-exempt income has been adjusted to a tax equivalent basis at a 34% tax rate. The amount of such adjustments was an addition to recorded income of approximately $619 thousand and $663 thousand for the six months ended June 30, 2015 and 2014, respectively.

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Analysis of Changes in Net Interest Income

The following tables set forth a summary of the changes in tax equivalent net interest income due to changes in average asset and liability balances (volume variance) and changes in average rates (rate variance) for the three and six months ended June 30, 2015 and June 30, 2014. Changes in tax equivalent interest income and expense, which are not attributable specifically to either volume or rate, are allocated proportionately between both variances.

	Three Months Ended June 30, 2015 Over Three Months Ended June 30, 2014		
(Amounts in thousands)	**Volume**	**Rate**	**Total**
Increase (decrease) in interest income:			
Net loans	$1,081	$35	$1,116
Taxable securities	(212)	(99)	(311)
Tax-exempt securities [1]	(82)	32	(50)
Interest bearing due from banks	(64)	(7)	(71)
Total increase (decrease)	723	(39)	684
Increase (decrease) in interest expense:			
Interest bearing demand	(2)	(9)	(11)
Savings deposits	1	(3)	(2)
Certificates of deposit	(43)	(36)	(79)
Federal Home Loan Bank of San Francisco borrowings	18	414	432
Other borrowings	(27)	(17)	(44)
Total (decrease) increase	(53)	349	296
Net increase (decrease)	$776	$(388)	$388

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

34% tax rate.

	Six Months Ended June 30, 2015 Over Six Months Ended June 30, 2014		
(Amounts in thousands)	**Volume**	**Rate**	**Total**
Increase (decrease) in interest income:			
Net loans	$1,941	$(8)	$1,933
Taxable securities	(375)	(108)	(483)
Tax-exempt securities [1]	(193)	63	(130)
Interest bearing due from banks	(172)	35	(137)
Total increase (decrease)	1,201	(18)	1,183
Increase (decrease) in interest expense:			
Interest bearing demand	1	(17)	(16)
Savings deposits	1	(6)	(5)
Certificates of deposit	(75)	(75)	(150)
Federal Home Loan Bank of San Francisco borrowings	47	841	888
Other borrowings	(53)	(38)	(91)
Total (decrease) increase	(79)	705	626
Net increase (decrease)	$1,280	$(723)	$557

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

PROVISION FOR LOAN AND LEASE LOSSES

The company made no provision for loan and lease losses during the first six months of 2015 compared to a provision of $1.5 million during six months ended June 30, 2014. See Note 6 - *Loans* in the *Notes to Consolidated Financial Statements* for further discussion.

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NONINTEREST INCOME

Noninterest income for the six months ended June 30, 2015 was $1.7 million, a decrease of $765 thousand, or 31%, compared to the same period a year ago. The following table presents the key components of noninterest income for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,				**Six Months Ended June 30,**			
(Amounts in thousands)	**2015**	**2014**	**Change Amount**	**Change Percent**	**2015**	**2014**	**Change Amount**	**Change Percent**
Noninterest income:								
Service charges on deposit accounts	$52	$41	$11	27 %	$101	$85	$16	19 %
Payroll and benefit processing	130	109	21	19 %	278	244	34	14 %
Earnings on cash surrender value – life insurance	159	162	(3)	(2)%	324	288	36	13 %
Gain (loss) on investment securities, net	61	(39)	100	256 %	276	(284)	560	197 %
Other	479	1,863	(1,384)	(74)%	756	2,167	(1,411)	(65)%
Total noninterest income	$881	$2,136	$(1,255)	(59)%	$1,735	$2,500	$(765)	(31)%

During the six months ended June 30, 2015, the Company purchased 14 securities with weighted average yields of 2.51%. During the same period the Company sold 33 securities with weighted average yields 2.42%.

During the three months ended June 30, 2014, the Company recognized $1.6 million in hedge gains in other noninterest income related to interest payments associated with previously forecasted FHLB advances.

NONINTEREST EXPENSE

Noninterest expense for the six months ended June 30, 2015 was $12.7 million, a decrease of $776 thousand or 6% compared to the same period a year ago. The following table presents the key elements of noninterest expense for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,				**Six Months Ended June 30,**			
(Amounts in thousands)	**2015**	**2014**	**Change Amount**	**Change Percent**	**2015**	**2014**	**Change Amount**	**Change Percent**
Noninterest expense:								
Salaries & related benefits	$3,575	$3,464	$ 111	3 %	$7,485	$7,144	$341	5 %
Premises & equipment	709	678	31	5 %	1,443	1,320	123	9 %
Write down of other real estate owned	—	—	—	— %	—	290	(290)	(100)%
FDIC insurance premium	178	189	(11)	(6)%	385	380	5	1 %
Data processing	251	227	24	11 %	493	430	63	15 %
Professional service fees	442	304	138	45 %	830	534	296	55 %
Deferred compensation	71	68	3	4 %	142	125	17	14 %
Other	896	921	(25)	(3)%	1,937	3,268	(1,331)	(41)%
Total noninterest expense	$6,122	$5,851	$ 271	5 %	$12,715	$13,491	$(776)	(6)%

Salaries and related benefits expense for the three and six months ended June 30, 2015 were $3.6 million and $7.5 million, an increase of $111 thousand or 3% and $341 thousand or 5% compared to the same periods a year ago, respectively. The increase in salaries and related benefits was primarily driven by costs associated the Bank's supplemental executive retirement plans and the Bank's various profit sharing and incentive plans.

During the first quarter of 2014 management determined that there was further impairment on commercial property held in OREO and recorded a write down of the carrying value in the amount of $290 thousand. There were no write downs recorded for OREO during the six months ended June 30, 2015. See Note 7 *Other Real Estate Owned* in the *Notes to Consolidated Financial Statements* for further discussion.

Professional service fees for the three and six months ended June 30, 2015 were $442 thousand and $830 thousand, an increase of $138 thousand or 45% and $296 thousand or 55% compared to the same periods a year ago, respectively. The increase in professional service fees during the current year is driven by increased use of outside services.

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Other noninterest expense for the six months ended June 30, 2015 was $1.9 million, a decrease of $1.3 million, compared to the same period a year ago. During the quarter ended March 31, 2014 the Company negotiated the settlement of a note receivable from its former mortgage subsidiary which resulted in a loss of $1.4 million.

INCOME TAXES

Our provision for income taxes includes both federal and state income taxes and reflects the application of federal and state statutory rates to our income before taxes. The following table reflects the Company's tax provision and the related effective tax rate for the three and six months ended June 30, 2015 and 2014:

	For the Three Months Ended June 30,		**For the Six Months Ended June 30,**	
(Amounts in thousands)	**2015**	**2014**	**2015**	**2014**
Provision for income taxes	$964	$819	$1,793	$1,151
Effective tax rate	28.74%	27.07%	29.96%	29.35%

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

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FINANCIAL CONDITION

BALANCE SHEET

As of June 30, 2015, the Company had total consolidated assets of $983.1 million, gross loans of $699.8 million, an ALLL of $11.4 million, deposits outstanding of $760.0 million, and shareholders’ equity of $106.6 million.

As of June 30, 2015, the Company maintained cash positions at the Federal Reserve Bank and correspondent banks in the amount of $25.3 million. The Company also held interest bearing deposits with other financial institutions in the amount of $7.5 million.

Available-for-sale investment securities totaled $160.8 million at June 30, 2015, compared with $187.0 million at December 31, 2014. The Company’s available-for-sale investment portfolio provides the Company a secondary source of liquidity to fund other higher yielding asset opportunities, such as loan originations and wholesale loan purchases. During the first six months of 2015, the Company purchased fourteen securities with a par value of $23.1 million and weighted average yield of 2.51% and sold thirty-three securities with a par value of $35.3 million and weighted average yield of 2.42%. The sales activity resulted in $276 thousand in net realized gains for the six months ended June 30, 2015. During the six months ended June 30, 2015, the Company also received $12.2 million in proceeds from principal payments, calls and maturities within the available-for-sale investment securities portfolio. Average securities balances and weighted average tax equivalent yields for the three months ended June 30, 2015 and 2014 were $197.9 million and 3.47% compared to $235.7 million and 3.53%, respectively. Reductions in the available-for-sale investment portfolio during the six months ended June 30, 2015 were used to fund higher yielding loan assets.

During the current quarter, the Company’s securities transactions were focused on improving credit quality and continuing to shorten the effective duration of the portfolio in anticipation of rising interest rates. Management will continue to actively seek out opportunities to reduce the overall duration of the portfolio and accelerate cash flows, while also improving credit quality and liquidity. This strategy could entail absorbing small losses within the portfolio to meet longer term objectives. At June 30, 2015, the Company’s net unrealized gains on available-for-sale investment securities were $1.5 million compared with $1.3 million and $3.1 million at June 30, 2014 and March 31, 2015, respectively. The decrease in net unrealized gains during the current quarter resulted primarily from decreases in the fair value of the Company’s municipal bond and corporate securities portfolios, as a result of increases in interest rates.

The Company recorded gross loan balances of $699.8 million at June 30, 2015, compared with $660.9 million at December 31, 2014; an increase of $38.9 million. The increase in gross loans compared to the prior year was driven by strong organic loan originations and the purchase of wholesale loan pools. During the six months ended June 30, 2015, the Company purchased $20.4 million and $6.4 million in consumer and commercial real estate investor loan pools, respectively. See Note 16, *Purchase of Financial Assets* in the *Notes to the Consolidated Financial Statements* in this document for further information regarding the purchase of these pools.

The Company continues to monitor credit quality, and adjust the ALLL to ensure that the ALLL is maintained at a level that management believes is adequate to cover estimated credit losses in the loan and lease portfolio. The increase in the ALLL during the six months ended June 30, 2015 resulted from net loan loss recoveries of $582 thousand. As a result of net recoveries, and continued improved asset quality, no additional provision for loan and lease losses was deemed necessary during the current year. See table 8 for additional detail of the ALLL. The Company's ALLL as a percentage of gross loans was 1.63% as of June 30, 2015 compared 1.64% as of December 31, 2014.

At June 30, 2015, given the bank's ALLL methodology which uses criteria such as risk weighting and historical loss rates, and given the ongoing improvements in asset quality, management believes the Company's ALLL is adequate. There is, however, no assurance that future loan and lease losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses.

Nonperforming loans, which include nonaccrual loans and accruing loans past due over 90 days, decreased by $4.7 million to $17.0 million, or 2.42% of gross loans, as of June 30, 2015, compared to $21.7 million, or 3.28% of gross loans as of December 31, 2014. Past due loans as of June 30, 2015 decreased to $12.4 million, compared to $18.7 million as of December 31, 2014. The decrease in past due loans occurred primarily in the commercial and 1-4 family residential loan portfolios. Management believes that risk grading for past due loans appropriately reflects the risk associated with the past due loans.

The Company's OREO balance at June 30, 2015 was $1.4 million compared to $502 thousand at December 31, 2014. During the second quarter of 2015, the addition of one nonfarm nonresidential property, one 1-4 family residential property and one undeveloped commercial property were partially offset by the sale of five nonfarm nonresidential properties and two 1-4 family residential properties. See Note 7, *Other Real Estate Owned* in the *Notes to Consolidated Financial Statements* in this document, for further details relating to the Company's OREO portfolio.

Premises and equipment totaled $11.3 million at June 30, 2015 a decrease of $953 thousand compared to $12.3 million at December 31, 2015. Bank-owned life insurance increased $324 thousand during the six months ended June 30, 2015 to $22.2 million compared to $21.8 million at December 31, 2014. The Company's net deferred tax assets were $10.6 million at June 30, 2015 compared to $10.2 million at December 31, 2014. Other assets which include the bank's investment in low income housing tax credits and investment in Federal Home Loan Bank of San Francisco stock totaled $18.5 million at June 30, 2015 compared to $19.9 at December 31, 2014.

Total deposits as of June 30, 2015 were $760.0 million compared to $789.0 million at December 31, 2014, a decrease of $29.0 million. During the first six months of 2015, cyclical decreases in interest bearing and noninterest bearing demand and certificate of deposit accounts were partially offset by increases in savings accounts. Management anticipates core deposit growth throughout the remainder of the year and desires to continue to reduce reliance on certificates of deposit as a funding source.

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Federal Home Loan Bank of San Francisco borrowings increased of $15.0 million to $90.0 million at June 30, 2015 compared to $75.0 million at December 31, 2014. Junior subordinated debentures were $10.3 million for both June 30, 2015 and December 31, 2014. Other liabilities which include the Bank's supplemental executive retirement plan, derivative instruments, and funding obligation for investments in qualified affordable housing projects decreased $3.1 million to $16.2 million as of June 30, 2015 compared to $19.2 million at December 31, 2014.

The Company authorized, repurchased and subsequently retired 700,000 common shares under a plan announced and completed in the second quarter of 2014. As such, the weighted average number of dilutive common shares outstanding for the six months ended June 30, 2015 decreased by 352,945 shares compared to the same period a year ago.

Investment Securities

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

Available-for-sale investment securities totaled $160.8 million at June 30, 2015, compared $187.0 million at December 31, 2014, respectively. During the first two quarters of 2015, reductions in the available-for-sale investment portfolio were used to fund higher yielding loan assets.

The Company's held-to-maturity investment portfolio is generally utilized to hold longer term securities that may have greater price risk many of which are pledged as collateral for the bank's local agency deposit program. This portfolio includes securities with longer durations and higher coupons than securities held in the available-for-sale securities portfolio. Held-to-maturity investment securities had carrying amounts of $36.7 million at June 30, 2015, compared with $36.8 million at December 31, 2014. There were no held-to-maturity securities purchased during the six months ended June 30, 2015.

The following table presents the investment securities portfolio by classification and major type as of June 30, 2015 and December 31, 2014:

(Amounts in thousands)	**June 30, 2015**	**December 31, 2014**
Available-for-sale securities: [1]		
U.S. government & agencies	$5,314	$6,393
Obligations of state and political subdivisions	51,324	54,363
Residential mortgage backed securities and collateralized mortgage obligations	37,776	47,015
Corporate securities	33,501	37,734
Commercial mortgage backed securities	9,467	10,389
Other asset backed securities	23,381	31,092
Total	$160,763	$186,986
Held-to-maturity securities: [1]		
Obligations of state and political subdivisions	$36,655	$36,806

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

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The following table presents information regarding the amortized cost, maturity structure and average yield of the investment portfolio at June 30, 2015:

	Within One Year		**Over One Through Five Years**		**Over Five Through Ten Years**		**Over Ten Years**		**Total**	
(Amounts in thousands)	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
Available-for-sale securities:										
U.S. government & agencies	$—	— %	$5,229	3.02 %	$—	— %	$—	— %	$5,229	3.02 %
Obligations of state and political subdivisions	—	— %	6,226	2.65 %	16,927	3.17 %	26,730	2.95 %	49,883	2.99 %
Mortgage backed securities and collateralized mortgage obligations	1,667	4.13 %	29,268	2.45 %	5,671	4.45 %	1,139	3.99 %	37,745	2.87 %
Corporate securities	2,022	0.25 %	16,812	2.58 %	11,910	2.44 %	2,636	2.00 %	33,380	2.34 %
Commercial mortgage backed securities	—	— %	—	— %	—	— %	9,558	2.81 %	9,558	2.81 %
Other asset backed securities	—	— %	—	— %	550	2.11 %	22,898	2.77 %	23,448	2.76 %
Total	$3,689	2.00 %	$57,535	2.56 %	$35,058	3.11 %	$62,961	2.84 %	$159,243	2.78 %
Held-to-maturity securities:										
Obligations of state and political subdivisions	$—	— %	$1,494	2.39 %	$16,065	3.02 %	$19,096	3.10 %	$36,655	3.04 %

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

LOANS AND PORTFOLIO CONCENTRATIONS

Loans and Portfolio Concentration

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

The Company recorded gross loan balances of $699.8 million at June 30, 2015, compared with $660.9 million at December 31, 2014; an increase of $38.9 million. The increase in gross loans compared to the prior year was driven by strong organic loan originations and the purchase of wholesale loan pools. See Note 16, *Purchase of Financial Assets* in the *Notes to the Consolidated Financial Statements* in this document for further information regarding the purchase of these pools.

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The following table presents the composition of the loan portfolio as of June 30, 2015 and December 31, 2014:

(Amounts in thousands)	**June 30, 2015**	**% of Gross Loans**	**December 31, 2014**	**% of Gross Loans**
Commercial	$143,088	20 %	$150,253	23 %
Real estate – construction loans	27,858	4	30,099	5
Real estate – commercial (investor)	237,375	34	215,114	32
Real estate – commercial (owner occupied)	136,981	20	119,093	18
Real estate – ITIN loans	51,249	7	52,830	8
Real estate – mortgage	12,209	2	13,156	2
Real estate – equity lines	46,463	7	44,981	7
Consumer	44,482	6	35,210	5
Other	69	—	162	—
Gross loans	699,774	100 %	660,898	100 %
Deferred loan fees, net	403		157	
Loans, net of deferred fees and costs	700,177		661,055	
Allowance for loan and lease losses	(11,402)		(10,820)	
Net loans	$688,775		$650,235	

The following table sets forth the maturity and re-pricing distribution of our gross loans outstanding as of June 30, 2015, which, based on remaining scheduled repayments of principal, were due within the periods indicated:

(Amounts in thousands)	**Within One Year**	**After One Through Five Years**	**After Five Years**	**Total**
Commercial	$56,193	$52,911	$33,984	$143,088
Real estate - construction loans	12,928	8,705	6,225	27,858
Real estate - commercial (investor)	14,509	39,771	183,095	237,375
Real estate - commercial (owner occupied)	4,591	23,793	108,597	136,981

Real estate - ITIN loans	—	—	51,249	51,249
Real estate - mortgage	872	992	10,345	12,209
Real estate - equity lines	3,338	2,892	40,233	46,463
Consumer	38,930	952	4,600	44,482
Other	69	—	—	69
Gross loans	$131,430	$130,016	$438,328	$699,774
Loans due after one year with:				
Fixed rates		$56,082	$116,660	$172,742
Variable rates		73,934	321,668	395,602
Total		$130,016	$438,328	$568,344

Loans with unique credit characteristics

In April of 2009, the Company completed a loan ‘swap’ transaction which included the purchase of a pool of Individual Tax Identification Number (“ITIN”) residential mortgage loans. The ITIN loans are made to legal United States residents without a social security number, and are geographically dispersed throughout the United States. The ITIN loan portfolio is serviced through a third party. The majority of the ITIN loans are variable rate loans and may have an increased default risk in a rising rate environment. Worsening economic conditions in the United States may cause us to suffer higher default rates on our ITIN loans and reduce the value of the assets that we hold as collateral. In addition, if we are forced to foreclose and service these ITIN properties ourselves, we may realize additional monitoring, servicing and appraisal costs due to the geographic disbursement of the portfolio which will adversely affect our noninterest expense.

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Purchased Loans

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

The following table presents the recorded investment in purchased loans at June 30, 2015 and December 31, 2014.

(Amounts in thousands)	**June 30, 2015**		**December 31, 2014**	
Loan Pool	**Balance**	**% of Gross Loans**	**Balance**	**% of Gross Loans**
ITIN	$51,249	7 %	$52,830	8 %
Service Finance	37,336	5	26,216	4
SBA 504	16,674	2	18,100	3
Commercial participations	19,417	3	15,891	2
Arrow	8,261	1	9,137	1
Solar	4,217	1	5,948	1
Total purchased loans	$137,154	19 %	$128,122	19 %

ASSET QUALITY

Nonperforming Assets

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

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

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

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

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

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

The following table summarizes our nonperforming assets as of June 30, 2015 and December 31, 2014:

(Amounts in thousands) **Nonperforming Assets**	**June 30, 2015**	**December 31, 2014**
Commercial	$3,170	$ 5,112
Real estate mortgage:		
ITIN 1-4 family loan pool	4,375	4,647
1-4 family, closed end 1st lien	1,693	2,135
1-4 family revolving	24	24
Total real estate mortgage	6,092	6,806
Commercial real estate	7,611	9,696
Consumer	34	35
Total nonaccrual loans	16,907	21,649
90 days past due and still accruing	54	23
Total nonperforming loans	16,961	21,672
Other real estate owned	1,405	502
Total nonperforming assets	$18,366	$ 22,174
Nonperforming loans to loans, net of deferred fees and costs	2.42 %	3.28 %
Nonperforming assets to total assets	1.87 %	2.22 %

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

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

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As of June 30, 2015, the Company had $19.9 million in troubled debt restructurings compared to $23.5 million as of December 31, 2014. As of June 30, 2015, the Company had 121 restructured loans that qualified as troubled debt restructurings, of which 103 loans were performing according to their restructured terms. Troubled debt restructurings represented 2.85% of gross loans as of June 30, 2015, compared with 3.55% at December 31, 2014.

At June 30, 2015 and December 31, 2014, impaired loans of $7.6 million and $9.2 million were classified as accruing troubled debt restructurings, respectively. The restructured loans on accrual status represent the majority of impaired loans accruing interest at each respective date. In order for a restructured loan to be on accrual status, the loan’s collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. The Company had no obligation to lend additional funds on the restructured loans as of June 30, 2015.

The following table sets forth a summary of the Company’s restructured loans that qualify as TDRs as of June 30, 2015 and December 31, 2014:

(Amounts in thousands) **Troubled Debt Restructurings**	**June 30, 2015**	**December 31, 2014**
Accruing troubled debt restructurings:		
Commercial	$10	$ 1,485
Commercial real estate:		
Other	1,681	1,698
Residential:		
1-4 family	5,303	5,462
Home equities	569	579
Total accruing troubled debt restructurings	$7,563	$ 9,224
Nonaccruing troubled debt restructurings:		
Commercial	$1,650	$ 2,136
Commercial real estate:		
Other	7,610	9,397
Residential:		
1-4 family	3,060	2,662
Consumer	34	35

Total nonaccruing troubled debt restructurings	$12,354	$ 14,230
Total troubled debt restructurings:		
Commercial	$1,660	$ 3,621
Commercial real estate:		
Other	9,291	11,095
Residential:		
1-4 family	8,363	8,124
Home equities	569	579
Consumer	34	35
Total troubled debt restructurings	$19,917	$ 23,454
Percentage of gross loans	2.85 %	3.55 %

Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments

The ALLL at June 30, 2015 increased $582 thousand to $11.4 million compared to $10.8 million at December 31, 2014. The Company recorded net recoveries of $582 thousand for the six months ended June 30, 2015 compared to net charge offs of $6.5 million for the year ended December 31, 2014. During the first six months of 2015 net loan loss recoveries combined with continuing improved asset quality resulted in no additional provision for loan and lease losses.

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

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The following table summarizes the activity in the ALLL reserves at June 30, 2015, December 31, 2014 and June 30, 2014

(Amounts in thousands)	**June 30, 2015**	**December 31, 2014**	**June 30, 2014**
Beginning balance ALLL	$10,820	$14,172	$14,172
Provision for loan and lease loss charged to expense	—	3,175	1,450
Loans charged off	(890)	(7,319)	(6,359)
Loan and lease loss recoveries	1,472	792	619
Ending balance ALLL	$11,402	$10,820	$9,882
Nonaccrual loans at period end:			
Commercial	$3,170	$5,112	$4,375
Commercial real estate	7,611	9,696	15,598
Residential real estate	6,068	6,782	6,939
Home equity	24	24	479
Consumer	34	35	87
Total nonaccrual loans	16,907	21,649	27,478
Accruing troubled-debt restructured loans:			
Commercial	10	1,485	13
Commercial real estate	1,681	1,698	1,716
Residential real estate	5,303	5,462	5,074
Home equity	569	579	589
Total accruing restructured loans	7,563	9,224	7,392
All other accruing impaired loans	530	535	585
Total impaired loans	$25,000	$31,408	$35,455
Gross loans outstanding at period end	$699,774	$660,898	$619,418
Ratio of ALLL to loans, net of deferred fees and costs	1.63%	1.64%	1.59%
Nonaccrual loans to loans, net of deferred fees and costs	2.41%	3.28%	4.43%

As of June 30, 2015, impaired loans totaled $25.0 million, of which $16.9 million were in nonaccrual status. Of the total impaired loans, $9.7 million or 120 were ITIN loans with an average balance of approximately $81 thousand. The remaining impaired loans consist of twelve commercial loans, seven commercial real estate loans, seven residential mortgages, twelve home equity loans and one consumer loan.

At June 30, 2015, impaired loans had a corresponding valuation allowance of $1.3 million. The valuation allowance on impaired loans represents the impairment reserves on performing restructured loans, other accruing loans, and nonaccrual loans. At December 31, 2014, the total recorded investment in impaired loans was $31.4 million, with a corresponding valuation allowance of $1.6 million.

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The following table sets forth the allocation of the ALLL and percent of loans in each category to gross loans as of June 30, 2015 and December 31, 2014:

	June 30, 2015			**December 31, 2014**		
(Amounts in thousands)	**Amount**	**% Loan Category**		**Amount**	**% Loan Category**	
ALLL at end of period applicable to:						
Commercial	$3,389	30	%	$3,503	33	%
Commercial real estate:						
Construction	359	3		388	4	
Other	5,088	45		4,487	41	
Residential:						
1-4 family	798	7		986	9	
Home equities	682	6		684	6	
Consumer	583	5		450	4	
Unallocated	503	4		322	3	
Total ALLL	$11,402	100	%	$10,820	100	%

The unallocated portion of ALLL provides for coverage of credit losses inherent in the loan portfolio but not captured in the credit loss factors that are utilized in the risk rating-based component, or in the specific impairment reserve component of the ALLL, and acknowledges the inherent imprecision of all loss prediction models. As of June 30, 2015, the unallocated allowance amount represented 4% of the ALLL, compared to 3% at December 31, 2014. The ALLL composition should not be interpreted as an indication of specific amounts or loan categories in which future charge offs may occur.

Deposits

Total deposits as of June 30, 2015 were $760.0 million compared to $789.0 million at December 31, 2014, a decrease of $29.0 million. During the first six months of 2015, decreases in interest bearing demand, noninterest bearing demand and certificates of deposit accounts were partially offset by increases in savings accounts.

The following table presents the deposit balances by major category as of June 30, 2015, and December 31, 2014:

	June 30, 2015		**December 31, 2014**	
(Amounts in thousands)	**Amount**	**Percentage**	**Amount**	**Percentage**
Noninterest bearing demand	$151,640	20 %	$157,557	20 %
Interest bearing demand	276,103	36	298,160	38
Savings	93,500	12	88,569	11
Time, $100,000 or greater	202,238	27	204,103	26
Time, less than $100,000	36,558	5	40,646	5
Total	$760,039	100 %	$789,035	100 %

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The following table sets forth the distribution of our year to date average daily balances and their respective rate as of June 30, 2015, and December 31, 2014.

	June 30, 2015		**December 31, 2014**	
(Amounts in thousands)	**Average Balance**	**Rate**	**Average Balance**	**Rate**
Interest bearing demand	$140,440	0.16%	$138,547	0.16%
Money market accounts	131,909	0.17%	133,836	0.19%
Savings	92,227	0.24%	91,108	0.25%
Certificates of deposit	246,137	0.97%	259,445	1.01%
Interest bearing deposits	610,713	0.50%	622,936	0.53%
Noninterest bearing demand	148,179		139,792	
Average total deposits	$758,892		$762,728	
Federal Home Loan Bank of San Francisco borrowings	$94,779	1.52%	$77,534	0.54%
Junior subordinated debentures	10,310	1.88%	15,239	2.38%
Average total borrowings	$105,089	1.55%	$92,773	0.85%

Deposit Maturity Schedule

The following table sets forth the remaining maturities of certificates of deposit in amounts of $100,000 or more as of June 30, 2015:

(Amounts in thousands)	**June 30, 2015**
Maturing in:	
Three months or less	$43,794
Three through six months	22,344
Six through twelve months	26,963
Over twelve months	109,137
Total	$202,238

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

In accordance with regulatory Call Report instructions, the Bank has filed quarterly Call Reports which listed brokered deposits of $76.1 million, and $97.9 million at June 30, 2015 and December 31, 2014, respectively. These amounts include deposits obtained through the CDARS and ICS programs of $58.6 million and $90.3 million, respectively which management does not consider to be brokered.

BORROWINGS

At June 30, 2015, the Bank had term debt outstanding with a carrying value of $90.0 million compared to $75.0 million at December 31, 2014. Advances from the Federal Home Loan Bank of San Francisco amounted to 100% of the total term debt and are secured by commercial real estate, and residential mortgage loans. At June 30, 2015, the Company had one variable rate advance for $75.0 million at 0.29% and two fixed rate advances, one for $5.0 million at 0.25% and one for $10.0 million at 0.29%. All of the Federal Home Loan Bank of San Francisco advances mature in three months or less.

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Junior Subordinate Debentures

Bank of Commerce Holdings Trust

During March 2003, the Holding Company participated in a private $5.0 placement of fixed rate trust preferred securities (the “Trust Preferred Securities”) through a newly formed wholly-owned Delaware trust affiliate, Bank of Commerce Holdings Trust (the “Trust”). The Trust simultaneously issued $155 thousand common securities to the Holding Company. The Trust Preferred Securities paid distributions on a quarterly basis at three month LIBOR plus 3.30%. The rate increase was capped at 2.75% annually and the lifetime cap was 12.5%. The final maturity on the Trust Preferred Securities was April 7, 2033, and the covenants allowed for redemption after five years on the quarterly payment date.

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

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

Bank of Commerce Holdings Trust II

During July 2005, the Holding Company participated in a $10.0 million private placement to of fixed rate trust preferred securities (the "Trust Preferred Securities") through a newly formed wholly owned Delaware trust affiliate, Bank of Commerce Holdings Trust II (the "Trust II"). Trust II simultaneously issued $310 thousand common securities to the Holding Company. Rates paid on the Trust Preferred Securities have transitioned from fixed to floating and are now paid on a quarterly basis at three month LIBOR plus 1.58%. The effective interest rate at June

30, 2015 was 1.85%. The final maturity on the Trust Preferred Securities is September 15, 2035, and the covenants allow for redemption at the Holding Company's option during any quarter until maturity.

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

LIQUIDITY AND CASH FLOW

Redding Bank of Commerce

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

We monitor the sources and uses of funds on a daily basis to maintain an acceptable liquidity position. One source of funds includes public deposits. The bank may be required to collateralize a portion of public deposits that exceed FDIC insurance limitations based on the state of California's risk assessment of the bank. Public deposits represent 3% of total deposits at June 30, 2015 and December 31, 2014. In addition to liquidity from core deposits, loan repayments and maturities of securities, the Bank can utilize established uncommitted federal funds lines of credit, sell securities, borrow on a secured basis from the Federal Home Loan Bank of San Francisco, or issue brokered certificates of deposit.

The Bank had available lines of credit with the Federal Home Loan Bank of San Francisco totaling $193.9 million as of June 30, 2015; credit availability is subject to certain collateral requirements, namely the amount of pledged loans and investment securities. The Bank had available lines of credit with the Federal Reserve totaling $28.4 million subject to certain collateral requirements, namely the amount of certain pledged loans. The Bank had uncommitted federal funds line of credit agreements with additional financial institutions totaling $40.0 million at June 30, 2015. Availability of lines is subject to federal funds balances available for loan and continued borrower eligibility. These lines are intended to support short-term liquidity needs, and the agreements may restrict consecutive day usage.

Bank of Commerce Holdings

The Holding Company is a separate entity from the Bank and must provide for its own liquidity. Substantially all of the Holding Company's cash flows are obtained from dividends declared and paid by the Bank. There are statutory and regulatory provisions that could limit the ability of the Bank to pay dividends to the Holding Company. As of January 1, 2015, the Bank is required to obtain regulatory approval from the California Department of Business Oversight for payment of a dividend or other distribution to the Holding Company. We believe that such restrictions will not have an adverse impact on the ability of the Holding Company to fund its quarterly cash dividend distributions to common shareholders and meet its ongoing cash obligations, which consist principally of debt service on the $10.3 million (issued amount) of outstanding junior subordinated debentures. The Bank received approval from the California Department of Business Oversight and paid $1.3 million in dividends to the Holding Company during the six months ended June 30, 2015. As of June 30, 2015, the Holding Company did not have any other borrowing arrangements of its own.

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Consolidated Statements of Cash Flows

As disclosed in the *Consolidated Statements of Cash Flows*, net cash of 3.3 million was provided by operating activities for the six months ended June 30, 2015. The material differences between cash provided by operating activities and net income consisted of non-cash items including: $947 thousand of net amortization of investment premiums and accretion of discounts, and $743 thousand in provision for depreciation and amortization.

Net cash of $14.2 million used for investing activities consisted principally of $27.2 million in purchase of loan pools and $14.2 million in net loan originations partially offset by $12.2 million in net proceeds from purchase and sales of available-for-sale investment securities and $12.2 million in proceeds from maturities and payments from available-for-sale investment securities.

Net cash of $14.8 million used for financing activities consisted principally of a $23.0 million decrease in demand deposit and savings accounts and a $6.0 million decrease in certificate of deposit accounts partially offset by $15.0 million in net advances on term debt.

CAPITAL RESOURCES

We use capital to fund organic growth, pay dividends and repurchase our shares. The objective of effective capital management is to produce above market long term returns by using capital when returns are perceived to be high and issuing capital when costs are perceived to be low. Our potential sources of capital include retained earnings, common and preferred stock issuance, and issuance of subordinated debt, senior debt or trust notes.

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

This standard characterizes an institution's capital as being "Tier 1" capital (defined as principally comprising shareholders' equity) and "Tier 2" capital (defined as principally comprising the qualifying portion of the ALLL). The minimum ratio of total risk-based capital to risk-adjusted assets, including certain off-balance sheet items, is 8%. At least one-half (4)% of the total risk-based capital is to be comprised of common equity; the remaining balance may consist of debt securities and a limited portion of the ALLL.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets and of Tier 1 capital to average assets. Management believes that the Company and the Bank met all capital adequacy requirements to which they are subject to, as of June 30, 2015.

As of June 30, 2015, the most recent notification from the FDIC categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Bank's category. The Holding Company and the Bank's capital amounts and ratios as of June 30, 2015, are presented in the following table.

(Amounts in thousands)	**Capital**	**Actual Ratio**		**Well Capitalized Requirement**		**Minimum Capital Requirement**	
Holding Company:							
Common equity tier 1 capital ratio	$87,003	9.96	%	n/a		4.50	%
Tier 1 capital ratio	$116,485	13.33	%	n/a		6.00	%
Total capital ratio	$127,424	14.58	%	n/a		8.00	%
Tier 1 leverage ratio	$116,485	11.76	%	n/a		4.00	%
Bank:							
Common equity tier 1 capital ratio	$115,939	13.27	%	6.50	%	4.50	%
Tier 1 capital ratio	$115,939	13.27	%	8.00	%	6.00	%
Total capital ratio	$126,878	14.52	%	10.00	%	8.00	%
Tier 1 leverage ratio	$115,939	11.75	%	5.00	%	4.00	%

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

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

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

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

The final rules also provide for a number of adjustments to and deductions from the new CET1, as well as changes to the calculation of risk-weighted assets which is expected to increase the absolute level. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under Basel III, the effects of certain accumulated other comprehensive items are not excluded; however, banks with $250 billion or less in total assets, may make a one-time permanent election to continue to exclude these items. The Company and Bank made this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of the Company's securities portfolio. In addition, deductions include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in nonconsolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. As of June 30, 2015 amounts in these categories did not exceed the regulatory limits.

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

Total shareholders’ equity at June 30, 2015 was $106.6 million, compared to shareholder’s equity of $103.6 million reported at December 31, 2014. During the six months ended June 30, 2015, the increase in shareholders’ equity was due to net income from operations and the exercise of stock options.

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

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

If the Series B Preferred Stock remains outstanding beyond December 2015, the dividend rate will be 5% for the first quarter of 2016 and then fixed at 9%. This increase in the Series B Preferred Stock annual dividend rate could have a material adverse effect on our earnings and could also adversely affect our ability to pay dividends on our common shares. Management is currently evaluating options to redeem the shares.

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

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

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

Periodically, the Board of Directors authorizes the Holding Company to repurchase shares. Share repurchase plans are published in press releases and SEC 8-K filings. Typically we do not give any further public notice before repurchasing shares. Various factors determine the amount and timing of our share repurchases, including our capital requirements, market conditions and legal considerations. These factors can change at any time and there can be no assurance as to the number of shares repurchased or the timing of the repurchases. Our policy has been to repurchase shares under the safe harbor conditions of Rule 10b-18 of the Exchange Act including a limitation on the daily volume of repurchases.

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BANK OF COMMERCE HOLDINGS & SUBSIDIARIES

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

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

During the six months ended June 30, 2015 and 2014, the Company's Board of Directors declared a quarterly cash dividend of $0.03 per common share per quarter. These dividends were made pursuant to our existing dividend policy and in consideration of, among other things, earnings, regulatory capital levels, capital preservation, expected growth, and the overall payout ratio. We expect that the dividend rate will be reassessed on a quarterly basis by the Board of Directors in accordance with the dividend policy. There is no assurance that future cash dividends on common shares will be declared or increased.

The following table presents cash dividends declared and dividend payout ratios (dividends declared per common share divided by basic earnings per common share) for the three and six months ended June 30, 2015 and 2014.

Cash Dividends and Payout Ratios per Common Share

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2015	**2014**	**2015**	**2014**
Dividends declared per common share	$0.03	$0.03	$0.06	$0.06
Dividend payout ratio	17 %	19 %	20 %	30 %

OFF-BALANCE SHEET ARRANGEMENTS

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

CONCENTRATION OF CREDIT RISK

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

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's assessment of market risk as of June 30, 2015 indicates there are no material changes in the quantitative and qualitative disclosures from those in our Annual Report on Form 10-K for the year ended December 31, 2014.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of the Company's management, including its President and Chief Executive Officer and its Chief Financial Officer, of the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that these disclosure controls and procedures were effective.

Disclosure controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving an entity's disclosure objectives. The likelihood of achieving such objectives is affected by limitations inherent in disclosure controls and procedures. These include the fact that human judgment in decision-making can be faulty and that breakdowns in internal controls can occur because of human failures such as simple errors, mistakes or intentional circumvention of the established processes.

Report on Internal Control over Financial Reporting

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

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

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

On a quarterly basis, we carry out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer (whom is also our Principal Accounting Officer) of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934. As of June 30, 2015, our management, including our Chief Executive Officer, and Principal Financial Officer, concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us that is required to be included in our periodic SEC filings.

Although we change and improve our internal controls over financial reporting on an ongoing basis, we do not believe that any such changes occurred in the first six months of 2015 that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1a. Risk Factors

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

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

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

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits

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

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SIGNATURES

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

BANK OF COMMERCE HOLDINGS

(Registrant)

Date: August 7, 2015 */s/ James A Sundquist*
James A. Sundquist
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)