Bank of Commerce Holdings
Form 10-K/A
June 03, 2005

Table of Contents

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

Form 10-K/A

(Amendment No. 2)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2004 Commission File Number 0-25135

OR

___ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

BANK OF COMMERCE HOLDINGS

(Exact name of Registrant as specified in its charter)

California	94-2823865
(State or jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1951 Churn Creek Road Redding, California	96002
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (530) 224-3333

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

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

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 x No o

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

Indicate by a check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes o No x

As of May 31, 2005 there were 8,571,781 total shares of the Registrant s common stock outstanding.

Table of Contents

Bank of Commerce Holdings Form 10-K/A (Amendment No. 2)

Explanation:

On March 4, 2005 Bank of Commerce Holdings electronically filed their Annual Form 10-K as of December 31, 2004. In the filing, the original signature the companies independent registered public accounting firm (Moss Adams LLP) was missing. In addition, Exhibit item 23.1 Consent of Independent Registered Public Accounting Firm (Moss Adams LLP) was not included. Instead Exhibit 23.2 (Deloitte & Touche LLP) was reproduced twice.

The purpose of this filing is to incorporate the missing original signatures and to re-file Item No. 8 Financial Statements and Supplementary Data to include such original signatures.

/s/ Linda J. Miles
Linda J. Miles
Principal Accounting Officer

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Directors of Bank of Commerce Holdings

We have audited the accompanying consolidated balance sheet of Bank of Commerce Holdings and subsidiaries (the Company) as of December 31, 2004, and the related consolidated statements of income, stockholders equity, and cash flows for the year ended December 31, 2004. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bank of Commerce Holdings and subsidiaries as of December 31, 2004, and the results of their operations and their cash flows for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

Stockton, California
January 14, 2005

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Directors of Bank of Commerce Holdings:

We have audited the consolidated balance sheet of Bank of Commerce Holdings (formerly Redding Bancorp) and subsidiaries (the Company) as of December 31, 2003, and the related consolidated statements of income, stockholders equity, and cash flows for each of the two years in the period ended December 31, 2003. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Bank of Commerce Holdings and subsidiaries as of December 31, 2003, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

San Francisco, California
February 24, 2004
(February 24, 2005 as to the effects of the stock split described in Note 2)

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2004 and 2003

ASSETS	**2004**	**2003**
Cash and due from banks	$ 13,120,951	$ 23,843,864
Federal funds sold and securities purchased under agreements to resell	6,120,000	8,195,000
Cash and cash equivalents	19,240,951	32,038,864
Securities available-for-sale (including pledged collateral of $35,345,000 at December 31, 2004 and $10,589,000 at December 31, 2003)	82,443,193	70,034,442
Securities held-to-maturity, at cost (estimated fair value of $487,092 at December 31 2004 and $1,460,052 at December 31 2003)	448,753	1,390,851
Loans, net of the allowance for loan losses of $3,866,498 at December 31, 2004 and $3,675,084 at December 31, 2003	318,800,587	278,203,553
Bank premises and equipment, net	5,484,196	5,812,789
Other assets	12,127,127	13,677,153
TOTAL ASSETS	$ 438,544,807	$ 401,157,652
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Demand noninterest bearing	$ 82,262,500	$ 71,221,552
Demand interest bearing	108,644,844	94,051,087
Savings accounts	23,471,100	22,196,598
Certificates of deposit	138,499,839	140,069,406
Total Deposits	352,878,283	327,538,643
Securities sold under agreements to repurchase	2,003,712	3,748,797
Federal Home Loan Bank borrowings	35,000,000	30,000,000
Other liabilities	8,379,475	4,359,019
Junior subordinated debt payable to unconsolidated subsidiary grantor trust	5,000,000	5,000,000
Total liabilities	403,261,470	370,646,459
Commitments and contingencies (Note 17)		
Stockholders equity:		
Preferred stock, no par value; 2,000,000 shares authorized; no shares issued and outstanding in 2004 and 2003		
Common stock, no par value; 10,000,000 shares authorized; 8,502,831 shares issued and outstanding in 2004 and 8,130,174 shares issued and outstanding in 2003	10,536,562	9,539,752
Retained earnings	25,079,522	21,236,140
Accumulated other comprehensive (loss) income, net of tax	(332,747)	(264,699)

Total stockholders equity	35,283,337	30,511,193
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 438,544,807	$ 401,157,652

See accompanying notes to consolidated financial statements.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003	2002
Interest income:			
Interest and fees on loans	$ 18,444,703	$ 17,655,479	$ 16,812,119
Interest on tax-exempt securities	225,976	139,895	138,573
Interest on U.S. government securities	2,175,274	1,290,481	1,299,956
Interest on federal funds sold and securities purchased under agreement to resell	143,449	193,089	226,854
Interest on other securities	6,788	0	87,691
Total interest income	20,996,190	19,278,944	18,565,193
Interest expense:			
Interest on demand deposits	429,699	463,708	596,646
Interest on savings deposits	103,670	132,758	144,845
Interest on certificates of deposit	2,876,236	3,570,686	5,115,243
Interest on FHLB and other borrowings	449,432	233,649	191,194
Interest on junior subordinated debt payable to unconsolidated subsidiary grantor trust	250,495	183,805	0
Total interest expense	4,109,532	4,584,606	6,047,928
Net interest income	16,886,658	14,694,338	12,517,265
Provision for loan and lease losses	593,000	515,000	620,000
Net interest income after provision for loan and lease losses	16,293,658	14,179,338	11,897,265
Noninterest income:			
Service charges on deposit accounts	475,971	348,086	289,042
Payroll and benefit processing fees	343,086	331,492	301,983
Earnings on cash surrender value - Bank owned life insurance	258,539	233,094	246,796
Net gain on sale of securities available-for-sale	0	88,395	275,425
Net gain on sale of loans	94,878	101,005	59,604
Merchant credit card service income, net	433,822	407,945	424,557
Mortgage brokerage fee income	186,188	250,451	161,439
Other income	403,437	389,698	332,108
Total noninterest income	2,195,921	2,150,166	2,090,954
Noninterest expense:			
Salaries and related benefits	5,938,672	5,450,874	4,709,133
Occupancy and equipment expense	1,534,490	1,470,722	1,463,252
FDIC insurance premium	47,843	49,431	47,852
Data processing fees	253,895	217,169	88,589
Professional service fees	802,742	653,698	440,985

Deferred compensation expense	280,771	255,612	239,128
Stationery and supplies	208,102	219,473	234,991
Postage	96,780	102,650	105,597
Directors expenses	266,911	241,384	256,672
Other expenses	1,150,790	999,157	680,416
Total noninterest expense	10,580,996	9,660,170	8,266,615
Income before income taxes	7,908,583	6,669,334	5,721,604
Provision for income taxes	2,930,908	2,486,658	2,025,144
Net Income	$ 4,977,675	$ 4,182,676	$ 3,696,460
Basic earnings per share	$ 0.60	$ 0.52	$ 0.46
Weighted average shares basic	8,282,588	8,033,484	8,012,667
Diluted earnings per share	$ 0.57	$ 0.50	$ 0.43
Weighted average shares diluted	8,702,611	8,326,908	8,604,219

See accompanying notes to consolidated financial statements.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	Comprehensive Income	Common Shares	Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income(Loss), net of tax	Total
Balance at January 1, 2002		8,110,371	$ 8,850,826	18,397,061	(8,038)	27,239,849
Comprehensive Income:						
Net Income	$ 3,696,460			3,696,460		3,696,460
Other Comprehensive Income:						
Unrealized holding gains arising during period, net of tax	324,623					
Less: reclassification adjustment for gains included in net income, net of tax	(177,925)					
Other Comprehensive Income	146,698				146,698	146,698
Total Comprehensive Income	$ 3,843,158					
Cash dividends ($0.22 per share)				(1,721,279)		(1,721,279)
Compensation expense associated with stock options			67,200			67,200
Stock options exercised		93,180	102,141	197,566		299,707
Purchase and retirement of common stock		(278,943)	(305,400)	(1,782,102)		(2,087,502)
Tax benefit on exercise of options				25,997		25,997
Balance at December 31, 2002		7,924,608	$ 8,714,767	$ 18,813,703	$ 138,660	$ 27,667,130
Comprehensive Income:						
Net Income	4,182,676			4,182,676		4,182,676

Other Comprehensive Income:						
Unrealized holding losses arising during period, net of tax	(347,918)					
Less: reclassification adjustment for gains included in net income, net of tax	(55,441)					
Other Comprehensive Income	(403,359)				(403,359)	(403,359)
Total Comprehensive Income	$ 3,779,317					
Cash dividends ($0.22 per share)				(1,760,239)		(1,760,239)
Compensation expense associated with stock options			22,404			22,404
Stock options exercised		205,566	621,452			621,452
Tax benefit on exercise of options				181,129		181,129
Balance at December 31, 2003		8,130,174	$ 9,358,623	$ 21,417,269	($264,699)	$ 30,511,193

(Continues)

See accompanying notes to the consolidated financial statements.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	Comprehensive Income	Common Shares	Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net of tax	Total
Balance at December 31, 2003		8,130,174	$ 9,358,623	$ 21,417,269	($264.699)	$ 30,511,193
Comprehensive Income:						
Net Income	4,977,675			4,977,675		4,977,675
Other Comprehensive Income:						
Unrealized holding losses arising during period, net of tax	(68,048)					
Less: reclassification adjustment for gains included in net income, net of tax	(0)					
Other Comprehensive Income	(68,048)				(68,048)	(68,048)
Total Comprehensive Income	$ 4,909,627					
Cash dividends ($0.23 per share)				(1,955,584)		(1,955,584)
Compensation expense associated with stock options			3,856			3,856
Stock options exercised		372,657	1,174,083			1,174,083
Tax benefit on exercise of options				640,162		640,162
Balance at December 31, 2004		8,502,831	$ 10,536,562	$ 25,079,522	($332,747)	$ 35,283,337

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003	2002
Cash flows from operating activities:			
Net income	$ 4,977,675	$ 4,182,676	$ 3,696,460
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	593,000	515,000	620,000
Provision for depreciation and amortization	610,997	691,859	737,020
Compensation expense associated with stock options	3,856	22,404	67,200
Gain on sale of securities available-for-sale	0	(88,395)	(275,425)
Amortization of securities premiums and accretion of discounts, net	272,479	325,112	534,180
Gain on sale of loans	(94,878)	(101,005)	(59,604)
Gain on sale of fixed assets	(50)	(2,036)	(18,806)
Proceeds from sale of loans	1,664,878	1,193,689	1,326,629
Loans originated for sale	(1,570,000)	(1,092,684)	(1,386,233)
Deferred income taxes	314,555	(514,197)	(319,820)
Effect of changes in:			
Other assets	1,283,062	(364,438)	(2,115,248)
Deferred loan fees	158,604	(89,540)	448,944
Other liabilities	4,660,608	479,422	317,047
Net cash provided by operating activities	12,874,786	5,157,867	3,572,344
Cash flows from investing activities:			
Proceeds from maturities of available-for-sale securities	32,797,174	20,115,204	18,539,071
Proceeds from sale of available-for-sale securities	0	15,244,634	42,062,130
Purchases of available-for-sale securities	(45,599,957)	(73,979,119)	(52,074,912)
Maturities of held-to-maturity securities	948,022	1,025,791	1,711,823
Loan originations, net of principal repayments	(41,348,638)	1,721,867	(64,002,564)
Purchase of Bank premises and equipment, net	(282,354)	(1,017,857)	(626,255)
Net cash used in investing activities	(53,485,753)	(36,889,480)	(54,390,707)
Cash flows from financing activities:			
Net increase in demand deposits and savings accounts	26,909,207	23,252,044	32,765,223
Net (decrease) increase in certificates of deposit	(1,569,567)	(10,160,051)	245,883
Increase (decrease) in securities sold under agreements to repurchase	(1,745,085)	44,412	(3,075,847)
Proceeds from Federal Home Loan Bank advances	95,000,000	55,000,000	28,000,000
Repayments of Federal Home Loan Bank advances	(90,000,000)	(43,000,000)	(10,000,000)
Junior subordinated debt payable to unconsolidated subsidiary grantor trust	0	5,000,000	0
Cash dividends	(1,955,584)	(1,760,239)	(1,721,279)
Equity transactions, net	1,174,083	802,582	(1,761,798)

Net cash provided by financing activities	27,813,054	29,178,748	44,452,182
Net increase (decrease) in cash and cash equivalents	(12,797,913)	(2,552,865)	(6,366,181)
Cash and cash equivalents at beginning of year	32,038,864	34,591,729	40,957,910
Cash and cash equivalents at end of year	$ 19,240,951	$ 32,038,864	$ 34,591,729

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002 (Continued)

Supplemental disclosures:			
Cash paid during the period for:			
Income taxes	$ 1,959,700	$ 2,258,200	$ 1,915,800
Interest	$ 4,083,048	$ 4,655,112	$ 6,161,458
Supplemental Schedule of Non cash Investing and Financing Activities			
Transfer from loans to other real estate owned	$ 0	$ 0	$ 337,977

See accompanying notes to consolidated financial statements.

11

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

1. THE BUSINESS OF THE COMPANY

On May 18, 2004 the Holding Company (Redding Bancorp) amended the Articles of Incorporation to change the Company s name to Bank of Commerce Holdings. Bank of Commerce Holdings (the Holding Company), is a financial holding company (FHC) with its principal offices in Redding, California. A financial holding company may engage in commercial banking, insurance, securities business and offer other financial products to customers. The Company received notification from the Federal Reserve Board approving the election to change to a financial holding company on April 22, 2001. The election to change to a financial holding company has had no impact to date on the operations of the Company. As a financial holding company, Bank of Commerce Holdings is subject to the Financial Holding Company Act and to supervision by the Board of Governors of the Federal Reserve System (the FRB). The Holding Company s wholly-owned subsidiaries are Redding Bank of Commerce (the Bank) and Bank of Commerce Mortgage, (formerly RBC Mortgage Services) (collectively the Company). The Company has an unconsolidated subsidiary in Bank of Commerce Holdings Trust (formerly Redding Bancorp Trust). On January 2, 2003, Redding Service Corporation changed names to RBC Mortgage Services and on March 18, 2004, RBC Mortgage Services changed its name to Bank of Commerce Mortgage. The subsidiary offers mortgage brokerage services through an affiliate agreement with BWC Mortgage Services, an affiliate of Bank of Walnut Creek. The Bank is principally supervised and regulated by the California Department of Financial Institutions (DFI) and the Federal Deposit Insurance Corporation (FDIC). Substantially all of the Company s activities are carried out through the Bank. The Bank was incorporated as a California banking corporation on November 25, 1981. The Bank operates four full service branches in Redding and Roseville, California, a suburb of the greater Sacramento metro area.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America and general practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts for prior periods have been reclassified to conform to the current financial statement presentation. All references to share and per share information have been adjusted to reflect the July 21, 2004 three-for-one stock split on a retroactive basis. The more significant accounting and reporting policies and estimates applied in the preparation of the accompanying consolidated financial statements are discussed below.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

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

Cash and Cash Equivalents - For purposes of reporting cash flows, cash and cash equivalents include amounts due from banks, federal funds sold and securities purchased under agreements to resell. Generally, federal funds sold are for a one-day period and securities purchased under agreements to resell are for no more than a 90-day period.

Securities purchased under agreements to resell- The Company enters into purchases of securities under agreements to resell substantially identical securities. Securities purchased under agreements to resell consist primarily of U.S. Treasury and Agency securities. The amounts advanced under these agreements are reflected as assets in the consolidated balance sheet. It is the Company s policy to take possession of securities purchased under agreements to resell. Agreements with third parties specify the Company s rights to request additional collateral, based on its monitoring of the fair value of the underlying securities on a daily basis. The securities are delivered by appropriate entry into the Company s account maintained at the Federal Reserve Bank or into a third-party custodian s account designated by the Company under a written custodial agreement that explicitly recognizes the Company s interest in the securities. In general, these agreements matured within 90 days and no material amount of agreements to resell securities purchased is outstanding with any individual dealer.

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 stockholders 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.

Loans Loans are stated at the principal amounts outstanding less deferred loan fees and costs and the allowance for loan losses. Interest on commercial, installment and real estate loans is accrued daily based on the principal outstanding. Loan origination and commitment fees and certain origination costs are deferred and the net amount is amortized over the contractual life of the loans as an adjustment of their yield. A loan is impaired when, based on current information and events, management believes it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. Impairment is measured based upon the present value of future cash flows discounted at the loan s effective rate, the loan s observable market price, or the fair value of collateral if the loan is collateral dependent. Interest on impaired loans is recognized on a cash basis, and only when the principal is not considered impaired.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

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

Allowance for Loan and Lease Losses The allowance for loan and lease losses are established through a provision charged to expense. Loans are charged off against the allowance for loan losses when management believes that the collectibility of the principal is unlikely.

The allowance is an amount that management believes will be adequate to absorb losses inherent in existing loans, overdrafts and commitments to extend credit (off-balance sheet liabilities) based on evaluations of collectibility and prior loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, and current economic conditions that may affect the borrowers ability to pay. Material estimates relating to the determination of the allowance for loan losses are particularly susceptible to significant change in the near term. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, the FDIC and DFI, as an integral part of their examination process, periodically review the Bank s allowance for loan losses. The FDIC may require the Bank to recognize additions to the allowance based on their judgment about information available to them at the time of their examination.

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

Securities Sold under Agreements to Repurchase At December 31, 2004 and 2003, securities sold under agreements to repurchase consist of commercial repurchase agreements, where the Company has an agreement with the depositor to sell and repurchase, on a daily basis, a proportionate interest in US Government and Agency securities. These securities are held as collateral for non-FDIC insured deposits.

Federal Home Loan Bank Borrowings As part of its asset/liability management strategy the Company has obtained advances from the Federal Home Loan Bank. The Company has pledged collateral of commercial real estate loans and specific securities to support the borrowings.

Core Deposit Intangibles - In June 2001, the Company purchased a bank branch office. Because of this acquisition, the Company recorded core deposit intangibles, which are being amortized over seven years by the straight-line method.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

Amortization expense for the year ended December 31, 2004, 2003 and 2002 was $108,800, $118,800 and $118,800, respectively. Estimated amortization expense for 2005, 2006, 2007 and 2008 is approximately $109,000 per year. Deposit retention, growth and activities are evaluated for impairment on an annual basis.

Earnings Per Share - Basic earnings per share (EPS) excludes dilution and is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing net income by the sum of the weighted-average number of common shares outstanding for the period plus the dilutive effect that could occur if the Company s outstanding stock options were exercised and converted into common stock, net of estimated shares that could be reacquired with proceeds from the exercise of such options. Stock options are considered to be common stock equivalents. The following table reconciles the numerator and denominator used in computing both basic earnings per share and diluted earnings per share for the years ended December 31. All references to issued and outstanding per share information have been adjusted to reflect the stock split on a retroactive basis.

	2004	**2003**	**2002**
Basic EPS Calculation			
Numerator (net income)	$ 4,977,675	$ 4,182,676	$ 3,696,460
Denominator (weighted average common shares outstanding)	8,282,588	8,033,484	8,012,667
Basic EPS	$ 0.60	$ 0.52	$ 0.46
Diluted EPS Calculation			
Numerator (net income)	$ 4,977,675	$ 4,182,676	$ 3,696,460
Denominator:			
Weighted average common shares outstanding	8,282,588	8,033,484	8,012,667
Diluted effect of stock options	420,023	293,424	591,552
Adjusted weighted average common shares outstanding	8,702,611	8,326,908	8,604,219
Diluted EPS	$ 0.57	$ 0.50	$ 0.43

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

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

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

Income Taxes The Company accounts for income taxes under the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using currently enacted tax rates applied to such taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Stock Option Plan The Company accounts for its stock option plan under the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. As such, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. As required by the Statement of Financial Accounting Standards, (SFAS) No. 123, *Accounting for Stock-Based Compensation,* as amended, by SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure* the Company provides pro forma net income and pro forma earnings per share disclosures for employee stock option grants. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS Statement No. 123, to stock-based employee compensation. All references to share and per share information have been adjusted to reflect the July 21, 2004 three-for-one stock split on a retroactive basis.

Net income before option expense less compensation expense associated with stock options

	Year Ended December 31		
	2004	2003	2002
Net income before option expense less compensation expense associated with stock options	$ 4,981,531	$ 4,205,080	$ 3,763,660
	(3,856)	(22,404)	(67,200)
Net income as reported	$ 4,977,675	$ 4,182,676	$ 3,696,460
Deduct:			
Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(149,639)	(77,803)	(168,352)
Pro forma net income	$ 4,828,036	$ 4,104,873	$ 3,528,108
Earnings per share:			
Basic as reported	$ 0.60	$ 0.52	$ 0.46
Basic pro forma	$ 0.58	$ 0.51	$ 0.44
Diluted as reported	$ 0.57	$ 0.50	$ 0.43

Diluted pro forma	$	0.55	$	0.49	$	0.41

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

In 2004, 2003 and 2002 there were no shares that could potentially dilute basis EPS in the future that were excluded from the calculation of diluted EPS because their effect would be anti-dilutive.

Comprehensive Income - Comprehensive income includes net income and other comprehensive income (loss). The Company s only source of other comprehensive income (loss) is unrealized gains and losses on securities available-for-sale. Reclassification adjustments result from gains or losses on securities that were realized and included in net income of the current period that also had been included in other comprehensive income (loss) as unrealized holding gains or losses in the period in which they arose. They are excluded from comprehensive income of the current period to avoid double counting.

Segment Reporting -Reportable operating segments are generally defined as components of an enterprise for which discrete financial information is available, whose operating results are regularly reviewed by the organizations management and whose revenue is 10 percent or more of total revenue. Under this definition the Company does not have reportable segments. In prior reporting periods, The Company has two reportable segments: commercial banking and credit card services. Commercial banking includes all services to the Company s customers except credit card services. Credit card services are limited to those revenues, net of related data processing costs, associated with the Bank s agreement to provide credit and debit card processing services for merchants solicited by an ISO or the Bank who accept credit and debit cards as payments for goods and services. In the years 2004 and 2003, the Company accounted for its operations as one operating segment.

Income before income taxes:	**2004**	**2003**	**2002**
Commercial Banking	$ 7,908,583	$ 6,669,334	$ 5,297,047
Merchant credit card service income, net			424,557
	$ 7,908,583	$ 6,669,334	$ 5,721,604

Derivative Instruments and Hedging Activities The Company did not enter into any freestanding derivative contracts or identify any embedded derivatives requiring bifurcation and separate valuation during 2004 or 2003.

The meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments In March 2004, the Financial Accounting Standards Board (FASB) ratified the consensuses reached by the Emerging Issues Task Force (EITF) regarding Issue 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* . Issue 03-1 provides guidance in the recognition and measurement of other-than-temporary impairment for certain securities, including:

All debt securities and equity securities that are subject to the scope of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities ; and

Equity securities that are not subject to the scope of SFAS No. 115 and that are accounted for under the cost method of accounting, or cost method investments.

Issue 03-1 also provides guidance on disclosure requirements for other-than-temporary impairment for cost method investments. The guidance in these areas is effective for fiscal years ending after June 15, 2004.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

The implementation of these areas of Issue 03-1 did not have a material impact to our financial statements. The Company has previously adopted the disclosure provisions of Issue 03-1 for debt and equity investments that are accounted for under SFAS No.115. Those requirements were effective for fiscal years ending after December 15, 2003.

On September 30, 2004, the FASB issued a proposed Board-directed Staff Position, FSP EITF Issue 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.* The proposed FSP would provide implementation guidance with respect to debt securities that are impaired solely due to interest rates and/or sector spreads and analyzed for other-than-temporary impairment under paragraph 16 of Issue 03-1. The accounting standard setters have decided to delay the effective date of and provide further implementation guidance for the rule that would require financial institutions to recognize unrealized losses of debt securities from rising interest rates as an expense item. This delay does not suspend the requirement to recognize other-than-temporary impairments as required by existing authoritative literature. The delay of the effective date for paragraphs 10-20 of Issue 03-1 will be superseded concurrent with the final issuance of FSB EITF Issue 03-1-a.

Application of Accounting Principles to Loan Commitments (SAB105) On March 9, 2004, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 105 *Application of Accounting Principles to Loan Commitments* (SAB 105), which specifies that servicing assets embedded in commitments for loans to be held for sale should be recognized only when the servicing asset has been contractually separated from the associated loans by sale or securitization. SAB 105 is effective for commitments entered into after March 31, 2004. SAB 105 has had no effect on the Company s results of operations or financial condition.

Statement of Financial Accounting Standards No. 123 (revised 2004) In December 2004 the FASB revised SFAS No. 123, *Accounting for Stock Based Compensation.* This statement supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and its related implementation guidance. The Statement establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods and services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of those equity instruments. The Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in Statement No. 123 as originally issued and EITF Issue No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.

The Statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. A public entity will initially measure the cost of employee services received in exchange for an award of liability instruments based on its current fair value; the fair value of that award will be remeasured subsequently at each reporting date through the settlement date.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

Changes in fair value during the requisite service period will be recognized as compensation cost over that period.

The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments. If an equity award is modified after the grant date, incremental compensation cost will be recognized in amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification. The notes to financial statements of both public and nonpublic entities will disclose information to assist users of financial information to understand the nature of share-based payment transactions and the effects of those transactions on the financial statements.

This Statement is effective for public entities that do not file as small business issuers as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Statement applies to all awards granted after the required effective date and to awards modified, repurchased or cancelled after that date. The cumulative effect of initially applying this Statement, if any, will be recognized as of the required effective date. Under the transition method, compensation cost is recognized on or after the required effective date for the portion of outstanding awards, for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under Statement No. 123 for either recognition or pro forma disclosures. The Company will adopt the value based method of accounting for stock based employee compensation effective for financial statements after July 1, 2005. Management believes that the adoption of this rule will not have a material impact on the Company s results of operations or financial condition.

3. RESTRICTIONS ON CASH AND DUE FROM BANKS

During 2004 the Bank implemented a deposit reclassification program which reduced required average reserve balances at the Federal Reserve Bank to zero. Previously the Bank was required to maintain average reserve balances with the Federal Reserve Bank. The average amount of these reserve balances for the years ended December 31, 2004 and 2003 was approximately $0 and $7,760,000 respectively. The Bank maintains compensating balances with its primary correspondent, which totaled $2,500,000 at December 31, 2004 and 2003.

4. SECURITIES

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

	December 31, 2004			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. agencies	$ 34,012,555	$ 14,897	$ (436,410)	$ 33,591,042
Obligations of state and political subdivisions	6,517,077	59,603	(101,592)	6,475,088
Mortgage-backed securities	42,478,977	41,595	(143,509)	42,377,063
	$ 83,008,609	$ 116,095	$ (681,511)	$ 82,443,193

19

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	December 31, 2003			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. agencies	$ 21,767,536	$ 60,402	$ (464,721)	$ 21,363,217
Obligations of state and political subdivisions	6,442,310	68,697	(125,878)	6,385,129
Bankers acceptances	9,993,211	0	0	9,993,211
Mortgage-backed securities	32,281,173	115,202	(103,490)	32,292,885
	$ 70,484,230	$ 244,301	$ (694,089)	$ 70,034,442

The amortized cost and estimated fair value of securities held-to-maturity at December 31, 2004 and 2003 consist of the following:

	December 31, 2004			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Mortgage backed securities	$ 448,753	$ 38,339	$ 0	$ 487,092

	December 31, 2003			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Mortgage backed securities	$ 1,390,851	$ 69,201	$ 0	$ 1,460,052

The amortized cost and estimated fair value of securities at December 31, 2004 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 6,029,795	$ 6,023,153	$ 0	$ 0
Due after one year through five years	28,165,152	27,905,031	0	0
Due after five years through ten years	24,920,024	24,715,891	0	0

Due after ten years	23,893,638	23,799,118	448,753	487,092
	$ 83,008,609	$ 82,443,193	$ 448,753	$ 487,092

20

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

At December 31, 2004, the Company s securities available-for-sale shown below have been in a continuous loss position for periods less than 12 months as shown below:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and Obligations of U. S. Agencies	$ 18,018,818	($54,815)	$ 9,000,546	($381,595)	$ 27,019,364	($436,410)
Obligations of state and political subdivisions	$ 617,632	($1,918)	$ 3,775,579	($99,674)	$ 4,393,211	($101,592)
Mortgage-backed securities	$ 16,739,302	($87,202)	$ 6,624,003	($56,307)	$ 23,363,305	($143,509)
Total temporarily impaired securities	$ 35,375,752	($143,935)	$ 19,400,128	($537,576)	$ 54,775,880	($681,511)

Economic factors may affect market pricing over the stated maturity of the security. The Company recognizes an impairment charge when the decline in the fair value of its investments below the cost basis is judged to be other than temporary. As of December 31, 2004, thirty-three securities were in a loss position. The Company has determined the loss position to be temporary and no impairment charges have occurred. Security income is accrued when earned and included in interest income. The Company requires a credit rating of A or higher on its initial acquisition of investments and maintains an average rating of AAA on the overall portfolio. The Company believes it has the ability to hold available-for-sale securities to maturity.

At December 31, 2004, the Company has pledged book values of $1,000,000 in securities for treasury, tax and loan accounts, $7,341,000 for deposits of public funds, $2,004,000 for collateralized repurchase agreements, and $25,000,000 for Federal Home Loan borrowings.

Gross realized gains and gross realized losses, respectively, on available-for-sale securities were $0 and $0 in 2004 and $93,528 and $5,133 in 2003. Gross unrealized gains and gross unrealized losses, respectively, on available-for-sale securities were $116,095 and $681,511 in 2004 and $244,301 and $694,089 in 2003. There were no gains or losses recognized in securities held-to-maturity in 2004, 2003 and 2002.

5. LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

Outstanding loan balances consist of the following:

	December 31,	
	2004	2003
Commercial and financial loans	$ 105,544,794	$ 104,508,704
Real estate construction loans	77,438,755	66,741,598
Real estate commercial	135,260,186	102,952,921
Real estate mortgage	4,423,104	7,085,683
Installment loans	300,337	451,567

Other	352,879	632,529
	323,320,055	282,373,002
Less:		
Deferred loan fees, net	652,970	494,365
Allowance for loan and lease losses	3,866,498	3,675,084
	$ 318,800,587	$ 278,203,553

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

Included in total loans are nonaccrual loans of $2,382,886 and $3,930,810 at December 31, 2004 and 2003, respectively. If interest on nonaccrual loans at December 31, 2004 and 2003 had been accrued, such interest income would be $146,276 and $184,785 during the years ended December 31, 2004 and 2003, respectively. A loan is impaired when, based on current information and events, management believes it is probable that the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Bank had outstanding balances of $3,214,492 and $4,028,004 in impaired loans that had impairment allowances of $867,590 and $837,000 as of December 31, 2004 and 2003, respectively.

The average outstanding balances of impaired loans were $3,601,274, $2,235,293 and $14,277, for the years ended December 31, 2004, 2003 and 2002 respectively. There was interest of $57,058, $0 and $0 recognized on impaired loans during the year ended December 31, 2004, 2003 and 2002, respectively. The Company services, for others, loans and participation of loans that are sold of $4,550,992 and $5,971,387 as of December 31, 2004 and 2003, respectively.

The Company concentrates its lending activities primarily within Shasta, El Dorado, Placer and Sacramento counties, in California, and the location of the four full service offices of the Bank. Although the Company has a diversified loan portfolio, a significant portion of its customers ability to repay the loans is dependent upon the professional services and residential real estate development industry sectors. Generally, the loans are secured by real estate or other assets and are expected to be repaid from cash flows of the borrower or proceeds from the sale of the collateral.

The Company s exposure to credit loss, if any, is the difference between the fair value of the collateral, and the outstanding balance of the loan. At December 31, 2004 and 2003, the Company had pledged $44,982,725 and $35,689,544, respectively, in loans as available collateral for Federal Home Loan Bank borrowings. In the ordinary course of business, the Company enters various types of transactions, which involve financial instruments with off-balance sheet risk. These instruments include commitments to extend credit and stand-by letters of credit, which are not reflected in the consolidated balance sheets. These transactions may involve, to varying degrees, credit and interest rate risk more than the amount, if any recognized in the consolidated balance sheets. Commitments to extend credit and standby letters of credit bear similar credit risk characteristics as outstanding loans. An allowance for unfunded loan commitments and letters of credit is determined using estimates of the probability of funding. This reserve is carried as a liability on the consolidated balance sheet.

Changes in the allowance for loan losses consist of the following:

	Years Ended December 31,		
	2004	**2003**	**2002**
Balance at beginning of year	$ 3,675,084	$ 3,528,968	$ 2,915,906
Provision for loan losses	593,000	515,000	620,000
Loans charged off	(368,300)	(379,717)	(25,839)
Recoveries of loans previously charged off	5,714	10,833	18,901
Transfer to off-balance sheet liabilities	(39,000)		
Balance at end of year	$ 3,866,498	$ 3,675,084	$ 3,528,968

22

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

6. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consist of the following:

	Estimated Lives	December 31, 2004	December 31, 2003
Land		$ 1,507,628	$ 1,507,628
Bank buildings	31.5 years	3,723,075	4,049,397
Furniture, fixtures and equipment	3 - 7 years	5,255,257	4,440,834
		10,485,960	9,997,859
Less accumulated depreciation		(5,056,342)	(4,485,843)
		5,429,618	5,512,016
Construction in progress		54,578	300,773
		$ 5,484,196	$ 5,812,789

Depreciation expense, included in net occupancy and equipment expense, is $610,997, $691,859, and $737,020 for the years ended December 31, 2004, 2003 and 2002, respectively.

7. OTHER ASSETS

Other assets consist of the following:

	December 31, 2004	December 31, 2003
Cash surrender value of bank owned life insurance policies	$ 4,810,851	$ 4,593,005
Deferred tax asset, net	2,683,763	2,369,208
Accrued interest on loans	1,495,967	1,135,786
Accrued interest on investment securities	474,451	288,590
Goldman Sachs Sweep account receivable	176,172	2,607,284
Federal Home Loan Bank Stock	1,678,300	1,500,000
Core Deposit Intangible, net of accumulated amortization of $401,336 and $292,536	367,809	476,609
Other	439,814	706,671
	$ 12,127,127	$ 13,677,153

8. **DEPOSITS**

Time certificates of deposit of $100,000 or more totaled $83,514,897 and $79,931,791 at December 31, 2004 and 2003, respectively. Interest expense on such deposits was $1,760,780, $1,937,164 and $2,260,692 during 2004, 2003 and 2002, respectively. At December 31, 2004, the scheduled maturities for all time deposits are as follows:

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

Time Deposit Maturity Schedule	
2005	$ 115,830,086
2006	16,848,648
2007	5,616,215
2008	204,890
2009	0
Thereafter	0
Total	$ 138,499,839

9. OTHER LIABILITIES

Other liabilities consist of the following:

	December 31,	
	2004	2003
Deferred compensation	$ 3,161,765	$ 2,830,193
Employee incentive payable	518,852	401,026
Accrued 401(k) match payable	35,000	136,166
Accrued interest payable	228,934	202,450
Reserve for off-balance sheet commitments	302,876	263,876
Investment purchase payable	3,320,384	0
Taxes payable	572,623	352,363
Other	239,041	172,945
	$ 8,379,475	$ 4,359,019

10. FEDERAL HOME LOAN BANK ADVANCES

Included in other borrowings are advances from the Federal Home Loan Bank of San Francisco (FHLB) totaling $35,000,000 as of December 31, 2004 and $30,000,000 as of December 31, 2003. The FHLB advances bear fixed rates of interest ranging from 1.39% to 2.87%. Interest is payable on a monthly basis. FHLB advances due as follows: $10,000,000 maturing January 24, 2005 at 1.92%, $10,000,000 maturing February 4, 2005 at 1.39% and $5,000,000 maturing May 9, 2005 at 2.47% and $10,000,000 maturing on November 25, 2005 at 2.87% . These borrowings are secured by an investment in FHLB stock and certain real estate mortgage loans which have been specifically pledged to the FHLB pursuant to their collateral requirements. Based upon the level of FHLB advances, the Company was required to hold a minimum investment in FHLB stock of $1,678,300 at December 31, 2004 and to pledge $44,982,725 and $35,689,544 of its real estate mortgage loans to the FHLB as collateral as of December 31, 2004 and 2003. At December 31, 2004 the Bank had available borrowing lines at the FHLB of $49,437,000 and additional federal fund borrowing lines at two correspondent banks totaling $15,000,000.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

11. JUNIOR SUBORDINATED DEBT PAYABLE TO UNCONSOLIDATED SUBSIDIARY GRANTOR TRUST

During the first quarter 2003, Bank of Commerce Holdings formed a wholly-owned Delaware statutory business trust, Bank of Commerce Holdings Trust (the grantor trust), which issued $5.0 million of guaranteed preferred beneficial interests in Bank of Commerce Holdings junior subordinated debentures (the trust notes) to the public and $155,000 common securities to the Company. These debentures qualify as Tier 1 capital under Federal Reserve Board guidelines. The proceeds from the issuance of the trust notes were transferred from the grantor trust to the Holding Company and from the Holding Company to the Bank as surplus capital. The trust notes accrue and pay distributions on a quarterly basis at 3 month London Interbank Offered Rate (LIBOR) plus 3.30%. The rate at December 31, 2004 was 5.37%. The rate increase is capped at 2.75% annually and the lifetime cap is 12.5%. The final maturity on the trust notes is March 18, 2033, and the debt allows for prepayment after five years on the quarterly payment date.

12. INCOME TAXES

Provision for income taxes consists of the following:

	Years Ended December 31,		
	2004	2003	2002
Current:			
Federal	$ 2,571,071	$ 2,171,432	$ 1,966,162
State	674,392	568,351	459,196
Total currently payable	3,245,463	2,739,783	2,425,358
Deferred:			
Federal	(224,682)	(153,895)	(305,390)
State	(89,873)	(99,230)	(94,824)
Total deferred provision	(314,555)	(253,125)	(400,214)
Total provision for income taxes	$ 2,930,908	$ 2,486,658	$ 2,025,144

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

	% of Pretax Income		
	2004	2003	2002
Income tax at the Federal statutory rate	34.00%	34.00%	34.00%
State franchise tax, net of Federal tax benefit	4.85	4.64	4.20
Tax-exempt interest	(0.91)	(0.67)	(0.76)

Other	(0.88)	(0.69)	(2.05)
	37.06%	37.28%	35.39%

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2004 and 2003 consist of the following:

	2004	2003
Deferred tax assets:		
State franchise taxes	$ 174,456	$ 173,511
Deferred compensation	1,417,735	1,269,059
Loan loss reserves	1,475,084	1,296,097
Net unrealized losses on securities available-for-sale	232,669	185,088
Other	227,384	184,189
Total deferred tax assets	3,527,328	3,107,944
Deferred tax liabilities:		
Depreciation	(318,439)	(264,068)
Deferred loan origination costs	(333,658)	(310,942)
Deferred state taxes	(191,468)	(163,726)
Total deferred tax liabilities	(843,565)	(738,736)
Net deferred tax asset	$ 2,683,763	$ 2,369,208

13. STOCK OPTION PLAN

On February 17, 1998, the Board of Directors adopted the 1998 Stock Option Plan (the Plan) which was approved by the Company s stockholders on April 21, 1998. The Plan provides for awards in the form of options, which may constitute incentive stock options (Incentive Options) under Section 422(a) of the Internal Revenue Code of 1986, as amended (the Code), or non-statutory stock options (NSOs) to key personnel of the Company, including directors. The Plan provides that Incentive Options under the Plan may not be granted at less than 100% of fair market value of the Company s common stock on the date of the grant. NSOs may not be granted at less than 85% of the fair market value of the common stock on the date of the grant. The purpose of the plan is to promote the long-term success of the Company and the creation of stockholder value by (a) encouraging key personnel to focus on critical long range objectives, (b) increasing the ability of the Company to attract and retain key personnel and (c) linking key personnel directly to stockholder interests through increased stock ownership.

All references to share and per share information have been adjusted to reflect the July 21, 2004 three-for-one stock split on a retroactive basis. A total of 1,782,000 shares of the Company s common stock are reserved for grant under the Plan.

The Plan provides that all options under the Plan shall vest at a rate of at least 20% per year from the date of the grant. Vesting may be accelerated in case of an optionee s death, disability, and retirement or in case of a change of control.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

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

	Number of Shares	Weighted Average Exercise Price
Options outstanding, December 31, 2001	1,283,550	$ 3.29
Granted	66,900	$ 6.67
Exercised	(93,180)	$ 3.22
Forfeited	(19,938)	$ 5.12
Options outstanding, December 31, 2002	1,237,332	$ 3.53
Granted	13,500	$ 6.75
Exercised	(205,566)	$ 3.03
Forfeited	(10,470)	$ 5.76
Options outstanding, December 31, 2003	1,034,796	$ 3.50
Granted	111,000	$ 10.63
Exercised	(372,665)	$ 3.15
Forfeited	(7,200)	$ 5.89
Options outstanding, December 31, 2004	765,931	$ 4.80

At December 31, 2004, 122,190 shares were available for future grants under the Plan. As of December 31, 2004, 2003 and 2002, respectively, 572,488, 916,536 and 859,101 shares respectively were available to be exercised.

The Company uses the intrinsic value based method for measuring compensation cost related to the Plan. Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date over the amount an employee or director must pay to acquire the stock. This cost is amortized on a straight-line basis over the vesting period of the options granted. Compensation cost related to the discount on non-qualified options as of December 31, 2004, 2003 and 2002 was $3,856, $22,404 and $67,200 respectively.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

Additional information regarding options outstanding as of December 31, 2004 is as follows:

Exercise Prices		Options Outstanding	Weighted Avg. Contractual Remaining Life (Years)	Options Exercisable
$	2.75	381,740	3.3	381,740
$	3.23	109,536	3.3	109,536
$	5.42	29,250	6.4	17,550
$	6.67	63,000	6.6	37,800
$	7.30	57,905	6.4	23,162
$	6.75	13,500	8.0	2,700
$	10.72	25,500	9.4	0
$	10.60	82,500	9.5	0
$	10.76	3,000	9.5	0
		765,931		572,488

The fair value of the options granted during 2004, 2003 and 2002, is estimated as $364,769, $28,142 and $95,061, respectively, on the date of grant using a binomial option-pricing model with the following assumptions: volatility of 30.88%, 22.75% and 29.55%, respectively, risk-free interest rate of 3.62%, 3.27% and 2.71%, respectively, expected dividends of $0.23 per share per year for 2004 and $0.22 per share in 2003, annual dividend rate of 2.00%, 3.55% and 3.06%, assumed forfeiture rate of zero and an expected life of seven years.

There were 111,000 options granted in 2004, 13,500 options granted in 2003 and 66,900 options granted in 2002. The fair value per share of the 2004, 2003 and 2002 awards was $3.29, $2.22 and $1.55, respectively.

14. CAPITAL STOCK

On August 24, 2001, the Board of Directors authorized a common stock repurchase of up to 5%, or approximately 425,000 shares, of the Company s common stock on an annual basis for the next seven years. The number of shares is adjusted on an annual basis to coincide with new issues and forfeitures. No shares were repurchased during 2004 or 2003. Shares purchased are retired by a charge to common stock and retained earnings for the cost. To date, the Company has repurchased 1,423,311 shares at an average price of $6.84.

On October 22, 2004 and 2003, a cash dividend of $0.23 and $0.22 per share, respectively, was paid to shareholders of record as of October 1, 2004 and 2003. On April 20, 1999, the Board of Directors authorized 2,000,000 shares of preferred stock. As of December 31, 2004, no preferred shares had been issued.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

15. RETIREMENT BENEFITS

Profit Sharing Plan In 1985, the Company adopted a profit sharing 401(k) plan for eligible employees to be funded out of the earnings of the Company. The employees contributions are limited to the maximum amount allowable under IRS Section 402(G). The Company s contributions include a matching contribution of 100% of the first 3% of salary deferred and 50% of the next 2% of salary deferred. Discretionary contributions are also permitted. The Company made matching contributions aggregating $134,570, $120,000 and $122,716 for the years ended December 31, 2004, 2003 and 2002, respectively. No discretionary contributions were made in 2004, 2003 or 2002.

Salary Continuation Plan In April 2002, the Board of Directors approved the implementation of the Executive Salary Continuation Plan (SCP), which is a non-qualified executive benefit plan in which the Bank agrees to pay the executives covered by the SCP plan additional benefits in the future in return for continued satisfactory performance by the executives.

Benefits under the salary continuation plan include a benefit generally payable commencing upon a designated retirement date for a fixed period of twenty years; disability or termination of employment, and a death benefit for the participants designated beneficiaries. Key-man life insurance policies were purchased as an investment to provide for the Bank s contractual obligation to pay pre-retirement death benefits and to recover the Bank s cost of providing benefits. The executive is the insured under the policy, while the Bank is the owner and beneficiary. The insured executive has no claim on the insurance policy, its cash value or the proceeds thereof.

The retirement benefit is derived from accruals to a benefit account during the participant s employment. At the end of the executive s period of service, the aggregate amount accrued should equal the then present value of the benefits expected to be paid to the executive. Accrued compensation expense under the salary continuation plan totaled $104,376 and $84,840 for 2004 and 2003, respectively. As of December 31, 2004 and 2003, the vested benefit payable was $339,099 and $228,087, respectively.

Directors deferred fee compensation Effective January 1, 1993, the Board of Directors approved the implementation of the Directors Deferred Compensation Plan, which is a non-qualified plan in which a Director may elect to defer the payment of all or any part of the fee compensation to which such director would otherwise be entitled to as director s fees or committee fees to be payable upon retirement of the director in a lump sum distribution or over a period not to exceed fifteen years. Interest on Directors deferred compensation is fixed at 10% per the plan. Deferred compensation expense totaled $280,771 and $255,612 at December 31, 2004 and 2003, respectively. As of December 31, 2004 and 2003, the vested benefit payable was $1,571,260 and $1,279,974, respectively.

16. RELATED PARTY TRANSACTIONS

Some of the directors, officers and principal stockholders of the Company and their associates were customers of and had banking transactions with the Bank in the ordinary course of the Bank s business during 2004 and the Bank expects to have such transactions in the future.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

All deposits, loans and commitments to loans included in such transactions were made in compliance with the applicable laws on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of similar creditworthiness, and in the opinion of the Company, did not involve more than a normal risk of collectibility or present other unfavorable features.

An analysis of the activity in related party loans consists of the following:

	December 31,	
	2004	**2003**
Balance at beginning of year	$ 4,123,712	$ 5,150,404
New loan additions	541,097	2,559,874
Principal repayments	(1,042,059)	(3,586,566)
Balance at end of year	$ 3,622,750	$ 4,123,712

As of December 31, 2004 and 2003 there were no related party loans, which were past due or classified. At December 31, 2004 there was approximately $4,200,000 available in commitments to related party loans.

17. COMMITMENTS AND CONTINGENCIES

Lease Commitments The Company leases certain facilities where it conducts its operations. Future minimum lease commitments under all non-cancelable operating leases as of December 31, 2004 are below:

(Dollars in thousands)	
2005	$ 462
2006	$ 371
2007	$ 377
2008	$ 383
2009	$ 340
Thereafter	$ 1,238
Total	$ 3,171
Minimum rental due in the future under noncancellable subleases	$ 103

Rental expense for the years ended December 31, 2004, 2003 and 2002 was $424,205, $449,818 and $326,521, respectively.

Off-Balance Sheet Financial Instruments In the ordinary course of business, the Company enters various types of transactions, which involve financial instruments with off-balance sheet risk. These instruments include commitments to extend credit and standby letter of credits, which are not reflected in the accompanying consolidated balance sheets. These transactions may involve, to varying degrees, credit and interest rate risk more than the amount, if any recognized in the consolidated balance sheets.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

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

	December 31, 2004	December 31, 2003
Off-balance sheet commitments:		
Commitments to extend credit	$ 128,837,320	$ 90,768,902
Standby letters of credit	7,064,798	4,594,010

Commitments to extend credit are agreements to lend to customers. These commitments have specified interest rates and generally have fixed expiration dates but may be terminated by the Company if certain conditions of the contract are violated. Although currently subject to draw down, many of the commitments do not necessarily represent future cash requirements. Collateral held relating to these commitments varies, but generally includes real estate, securities and cash.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Credit risk arises in these transactions from the possibility that a customer may not be able to repay the Bank upon default of performance. Collateral held for standby letters of credit is based on an individual evaluation of each customer s creditworthiness, but may include cash and securities.

Commitments to extend credit and standby letters of credit bear similar credit risk characteristics as outstanding loans.

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

18. REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that if undertaken, could have a direct material effect on the Company s and Consolidated Financial Statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

The capital amounts and the Bank s prompt corrective action classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to Bank Holding Companies.

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets and of Tier 1 capital to average assets. Management believes as of December 31, 2004 that the Company and the Bank met all capital adequacy requirements to which they are subject. As of December 31, 2004, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank s category. The Company s and the Bank s actual capital amounts and ratios as of December 31, 2004 and 2003 are also presented in the table.

	Actual		**For Capital Adequacy Purposes**		**To Be Categorized as Well Capitalized Under Prompt Corrective Action**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
At December 31, 2004:						
Company						
Leverage capital (to average assets)	$ 40,616,084	9.27%	$ 13,680,000	4.00%	n/a	n/a
Tier 1 capital (to risk-weighted assets)	40,616,084	11.34%	11,818,412	4.00%	n/a	n/a
Total capital (to risk-weighted assets)	44,482,582	12.42%	23,636,824	8.00%	n/a	n/a
Bank						
Leverage capital (to average assets)	$ 38,684,893	8.91%	$ 15,575,720	4.00%	$ 19,650,000	5.00%
Tier 1 capital (to risk-weighted assets)	38,684,893	10.80%	12,792,094	4.00%	19,188,141	6.00%
Total capital (to risk-weighted assets)	42,551,391	11.88%	25,584,187	8.00%	31,980,234	10.00%
At December 31, 2003:						
Company						
Leverage capital (to average assets)	$ 35,775,892	9.10%	$ 13,680,000	4.00%	n/a	n/a
Tier 1 capital (to risk-weighted assets)	35,775,892	11.19%	11,818,412	4.00%	n/a	n/a
Total capital (to risk-weighted assets)	39,773,421	12.44%	23,636,824	8.00%	n/a	n/a
Bank						
Leverage capital (to average assets)	$ 34,430,147	8.84%	$ 15,575,720	4.00%	$ 19,650,000	5.00%
	34,430,147	10.77%	12,792,094	4.00%	19,188,141	6.00%

Tier 1 capital (to risk-weighted assets)						
Total capital (to risk-weighted assets)	38,427,676	12.02%	25,584,187	8.00%	31,980,234	10.00%

The principal sources of cash for the Holding Company are dividends from the Bank. Dividends from the Bank to the Holding Company are restricted under California law to the lesser of the Bank s retained earnings or the Bank s net income for the latest three fiscal years, less dividends previously declared during that period, or, with the approval of California Superintendent of Banks, to the greater of the retained earnings of the Bank, the net income of the Bank for its last fiscal year, or the net income of the Bank for its current fiscal year. As of December 31, 2004, the maximum amount available for dividend distribution under this restriction was approximately $7,419,709. The Bank is subject to certain restrictions under the Federal Reserve Act, including restrictions on the extension of credit to affiliates. In particular, it is prohibited from lending to an affiliated company unless the loans are secured by specific types of collateral. Such secured loans and other advances from the subsidiaries are limited to 10 percent of the subsidiary s equity. No such loans or advances were outstanding during 2004 or 2003.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

19. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents are a reasonable estimate of fair value.

Securities Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Securities available-for-sale are carried at their aggregate fair value, while securities held-to-maturity are carried at amortized cost.

Loans receivable For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for fixed rate loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of accrued interest receivable approximates its fair value.

Commitments to extend credit and standby letters of credit The fair value of commitments is the off-balance sheet amount of loan commitments and outstanding letters of credit.

Federal Home Loan Bank borrowings The fair value of borrowed funds with maturities less than one year is based on carrying amounts.

Junior subordinated debt payable to unconsolidated subsidiary grantor trust The fair value of variable rate junior subordinated debt payable to subsidiary grantor trust is based on carrying amounts.

Deposit liabilities The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. The carrying amount of accrued interest payable approximates its fair value.

Securities purchased under agreements to resell The fair value of securities purchased under agreements to resell is estimated by discounting the contractual cash flows under outstanding borrowings at rates prevailing in the marketplace today for similar borrowings, rates and collateral.

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

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

Because no market exists for a significant portion of the Company s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors.

These estimates are subjective in nature, involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

The estimated fair values of the Company s financial instruments are approximately as follows:

	December 31, 2004		
	Contract Amount	**Carrying Amount**	**Fair Value**
Financial Assets:			
Cash and cash equivalents		$ 19,240,951	$ 19,240,951
Securities		82,891,946	82,930,285
Loans, net		318,800,587	318,555,822
Accrued interest on loans		1,495,967	1,495,967
Financial Liabilities:			
Demand and savings		$ 214,378,444	$ 214,378,444
Fixed rate certificates		131,311,824	131,291,349
Variable certificates		7,188,015	7,188,015
Accrued interest payable		228,934	228,934
Securities sold under agreements to repurchase		2,003,712	2,033,712
Federal Home Loan Borrowings		35,000,000	35,000,000
Junior subordinated debt payable to unconsolidated subsidiary grantor trust		5,000,000	5,000,000
Off balance sheet financial instruments:			
Commitments to extend credit	$ 128,837,320		$ 128,837,320
Standby letters of credit	7,064,798		7,064,798

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	December 31, 2003		
	Contract Amount	Carrying Amount	Fair Value
Financial Assets:			
Cash and cash equivalents		$ 32,038,864	$ 32,038,864
Securities		71,425,293	71,494,494
Loans, net		278,203,553	282,580,019
Accrued interest on loans		1,135,786	1,135,786
Financial Liabilities:			
Demand and savings		$ 187,469,237	$ 187,469,237
Fixed rate certificates		137,567,137	138,334,185
Variable certificates		2,502,269	2,502,269
Accrued interest payable		202,450	202,450
Securities sold under agreements to repurchase		3,748,797	3,748,797
Federal Home Loan Borrowings		30,000,000	30,000,000
Junior subordinated debt payable to unconsolidated subsidiary grantor trust		5,000,000	5,000,000
Off balance sheet financial instruments:			
Commitments to extend credit	$ 90,768,902		$ 90,768,902
Standby letters of credit	4,594,010		4,594,010

20. BANK OF COMMERCE HOLDINGS (PARENT COMPANY ONLY) FINANCIAL INFORMATION

	December 31,	
	2004	2003
Condensed Balance Sheets		
Assets:		
Cash	$ 613,049	$ 23,822
Time deposit with subsidiary	550,000	300,000
Cash and cash equivalents	1,163,049	323,822
Investment in subsidiaries	39,093,279	34,937,365
Other assets	97,500	308,630
Total assets	$ 40,353,828	$ 35,569,817
Junior subordinated debt payable to unconsolidated subsidiary grantor trust	5,000,000	5,000,000
Other liabilities	70,491	58,624
Stockholders equity	35,283,337	30,511,193
Total liabilities and stockholders equity	$ 40,353,828	$ 35,569,817

35

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	Years Ended December 31,		
	2004	**2003**	**2002**
Condensed Statements of Income			
Income:			
Interest on time deposit	$ 13,852	$ 5,497	$ 2,261
Dividend from subsidiary	1,955,584	1,760,239	3,721,279
	1,969,436	1,765,736	3,723,540
Expenses	549,431	394,050	153,901
Income before income taxes and equity in undistributed net income of subsidiaries	1,420,005	1,371,686	3,569,639
Provision for income taxes	800	800	800
Income before equity in undistributed net income of subsidiaries	1,419,205	1,370,886	3,568,839
Equity in undistributed net income of subsidiaries	3,558,470	2,811,790	127,621
Net income	$ 4,977,675	$ 4,182,676	$ 3,696,460

	Years Ended December 31,		
	2004	**2003**	**2002**
Statements of Cash Flows			
Cash flows from operating activities:			
Net income	$ 4,977,675	$ 4,182,676	3,696,460
Adjustments to reconcile net income to net cash provided by operating activities:			
Compensation associated with stock options	3,856	22,404	67,200
Equity in undistributed net income of subsidiaries	(3,558,470)	(2,811,790)	(127,621)
Other assets, net	197,667	(250,006)	0
Net cash provided by operating activities	1,620,728	1,143,284	3,636,039
Cash flows from investing activities:			
Investment in subsidiary trust	0	(155,000)	0
Capital contribution to Bank	0	(5,000,000)	0
Net cash used by investing activities	0	(5,155,000)	0
Cash flows from financing activities:			
Equity transactions, net	1,174,083	802,582	(1,787,794)
Proceeds from unconsolidated subsidiary			
Grantor trust	0	5,000,000	0
Cash dividends	(1,955,584)	(1,760,239)	(1,721,279)

Net cash used by financing activities	(781,501)	4,042,343	(3,509,073)
Increase (decrease) in cash and cash equivalents	839,227	30,627	126,966
Cash and cash equivalents at beginning of year	323,822	293,195	166,229
Cash and cash equivalents at end of year	$ 1,163,049	$ 323,822	$ 293,195

Table of Contents

BANK OF COMMERCE HOLDINGS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

22. UNAUDITED QUARTERLY RESULTS

UNAUDITED QUARTERLY STATEMENTS OF INCOME DATA

(Dollars in thousands, except per share data)	For the Quarter Ended			
	March 31, 2004	**June 30, 2004**	**September 30, 2004**	**December 31, 2004**
Net interest income	$ 3,915	$ 4,087	$ 4,269	$ 4,606
Provision for loan losses	(192)	(97)	(131)	(173)
Noninterest income	466	494	573	634
Noninterest expense	(2,425)	(2,640)	(2,641)	(2,836)
Income before taxes	1,764	1,844	2,070	2,231
Provision for income tax	(652)	(683)	(803)	(793)
Net Income	$ 1,112	$ 1,161	$ 1,267	$ 1,438
Per common share:				
Basic earnings per share	$ 0.14	$ 0.14	$ 0.15	$ 0.17
Diluted earnings per share	$ 0.13	$ 0.13	$ 0.14	$ 0.17
Dividends per share	$ 0.00	$ 0.00	$ 0.00	$ 0.23

(Dollars in thousands, except per share data)	For the Quarter Ended			
	March 31, 2003	**June 30, 2003**	**September 30, 2003**	**December 31, 2003**
Net interest income	$ 3,506	$ 3,559	$ 3,734	$ 3,918
Provision for loan losses	(175)	(200)	(40)	(100)
Noninterest income	471	609	584	462
Noninterest expense	(2,316)	(2,487)	(2,459)	(2,396)
Income before taxes	1,486	1,481	1,819	1,884
Provision for income tax	(560)	(596)	(565)	(766)
Net Income	$ 926	$ 885	$ 1,254	$ 1,118
Per common share:				
Basic earnings per share	$ 0.12	$ 0.11	$ 0.15	$ 0.14
Diluted earnings per share	$ 0.11	$ 0.11	$ 0.15	$ 0.13
Dividends per share	$ 0.00	$ 0.00	$ 0.22	$ 0.00

Dollars in thousands, except per share data)	For the Quarter Ended			
	March 31, 2002	**June 30, 2002**	**September 30, 2002**	**December 31, 2002**
Net interest income	$ 2,616	$ 3,044	$ 3,364	$ 3,493
Provision for loan losses	(65)	(125)	(105)	(325)
Noninterest income	443	458	565	625
Noninterest expense	(1,885)	(2,007)	(2,228)	(2,147)
Income before taxes	1,109	1,370	1,596	1,646
Provision for income tax	(368)	(523)	(483)	(651)
Net Income	$ 741	$ 847	$ 1,113	$ 995
Per common share:				
Basic earnings per share	$ 0.09	$ 0.11	$ 0.14	$ 0.13
Diluted earnings per share	$ 0.09	$ 0.10	$ 0.13	$ 0.12
Dividends per share	$ 0.00	$ 0.00	$ 0.00	$ 0.22

Table of Contents

EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this Form 10-K/A (Amendment No. 2):

(1) Financial Statements:

Reference is made to the Index to Consolidated Financial Statements under Item 8 in Part II of this Form 10-K/A (Amendment No. 2).

(2) Financial Statement Schedules:

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

(3) Exhibits:

Exhibit Number	Description of Document
23.1	Consent of Moss Adams LLP
23.2	Consent of Deloitte & Touche LLP
23.3	Updated Consent of Moss Adams LLP
32.1	Certification pursuant to Section 906 of the Sarbannes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on June 3, 2005.

BANK OF COMMERCE HOLDINGS

By /s/ Linda J. Miles

Linda J. Miles
Principal Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Michael C. Mayer and Linda J. Miles, and each of them, his or her true and lawful attorneys-in-fact, each with full power of substitution, for him or her in any and all capacities, to sign any amendments to this report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact or their substitute or substitutes may do or cause to be done by virtue hereof.

Table of Contents

CERTIFICATIONS

I, Michael C. Mayer, certify that:

1) I have reviewed this annual report on Form 10-K/A (Amendment No. 2) of Bank of Commerce Holdings (the registrant);

2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4) The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13-a-14 and 15d-14) for the registrant and we have:

(a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) Evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and

(c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5) The registrant s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of the registrant s board of directors;

(a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls: and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6) The registrant s other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ MICHAEL C. MAYER

Michael C. Mayer
President & Chief Executive Officer
(Principal Executive Officer)

Dated June 3, 2005

Table of Contents

CERTIFICATIONS

I, Linda J. Miles, certify that:

1) I have reviewed this annual report on Form 10-K/A (Amendment No. 2) of Bank of Commerce Holdings (the registrant);

2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4) The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13-a-14 and 15d-14) for the registrant and we have:

   (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   (b) Evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and

   (c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5) The registrant s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of the registrant s board of directors:

   (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls: and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6) The registrant s other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ LINDA J. MILES

Linda J. Miles
Executive Vice President & Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated June 3, 2005

40