

BANK OF COMMERCE

2010

ANNUAL REPORT

BANK OF COMMERCE

Our Mission:

We enable our clients to achieve success.

Our Vision:

***We are truly of service –
to our clients, shareholders,
employees and community.***



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**BANK OF COMMERCE
FINANCIAL OVERVIEW**

**At or for the years ended December 31, 2010, 2009, 2008 and 2007
and for the period beginning February 7, 2006 (date of opening) and ending December 31, 2006**

(Dollars in thousands, except per share data)

Balance Sheets	2010	2009	2008	2007	2006
Total assets	\$ 171,022	\$ 173,363	\$ 145,450	\$ 88,764	\$ 53,834
Investment securities	39,779	40,034	28,378	20,674	14,906
Loans	113,239	122,365	108,379	66,126	36,643
Allowance for loan losses	2,081	1,836	1,523	995	551
Deposits	123,665	118,738	83,820	58,030	29,473
Total earning assets	161,805	163,946	144,360	87,362	51,877
Total interest bearing liabilities	146,871	148,749	120,096	63,665	30,955
Shareholders' equity	13,899	14,980	15,832	15,370	15,555

Statements of Operations

Net interest income	\$ 4,991	\$ 4,586	\$ 3,934	\$ 2,877	\$ 1,412
Provision for loan losses	1,136	4,921	528	444	551
Other income	1,245	565	345	182	88
Other expenses	5,907	3,905	3,476	3,087	2,258
Net income (loss)	(807)	(3,675)	275	(472)	(1,309)
Net income (loss) available to common shareholders	(999)	(3,863)	275	(472)	(1,309)

Per Share Data

Basic and diluted net income (loss) per share	\$ (0.62)	\$ (2.41)	\$ 0.17	\$ (0.30)	\$ (0.82)
Book value per common share	6.78	7.56	9.90	9.61	9.72
Weighted average number of common shares outstanding:					
Basic and diluted	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000

FORWARD-LOOKING INFORMATION

This annual report contains certain forward-looking statements with respect to the financial condition, results of operations and business of Bank of Commerce (the "Bank"). These forward-looking statements involve risks and uncertainties and are based on the beliefs and assumptions of management of the Bank and on the information available to management at the time that these disclosures were prepared. These statements can be identified by the use of words like "expect," "anticipate," "estimate" and "believe," variations of these words and other similar expressions. Readers should not place undue reliance on forward-looking statements as a number of important factors could cause actual results to differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, (1) competition in the Bank's markets, (2) changes in the interest rate environment, (3) general national, regional or local economic conditions may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and the possible impairment of collectability of loans, (4) legislative or regulatory changes, including changes in accounting standards, (5) significant changes in the Federal and State legal and regulatory environment and tax laws and (6) the impact of changes in monetary and fiscal policies, laws, rules and regulations. The Bank undertakes no obligation to update any forward-looking statements.

BANK OF COMMERCE
LETTER TO SHAREHOLDERS

Dear Shareholders:

Challenges – both economic and regulatory – clouded the picture in 2010. We survived the slow growth in Charlotte and the volatile legislative environment of Washington, DC, and we believe the Bank of Commerce is positioned to grow in 2011.

The local economy appears to have stopped contracting, and is just beginning to show limited corporate and job growth. So, projected income growth will require an aggressive and targeted business development program as well as continued effective management of the remaining problem assets on our books.

Our Bank experienced a loss of just over \$800,000 in 2010. This loss was almost entirely the result of writing down previously foreclosed properties that we reappraised during the fourth quarter. For example, we had a property that appraised at \$80,000 an acre when we made the loan in late 2006. When the loan went into default in 2009 it appraised for \$37,000 an acre; finally, when we received the annual appraisal after foreclosure in 2010 it had dropped to \$19,000 an acre, which required a further write-down. We believe that as real estate values stabilize future losses on these properties will be minimal.

Achieving our goals of growing assets and effectively managing the loan portfolio has required some personnel changes and restructuring of the Bank. We have:

- hired additional business development officers to increase our loans and deposits,
- restructured our loan administration department to support loan growth, and
- consolidated management of our problem assets under one person.

In the first quarter of 2011 we hired two new Business Development Officers. The first is Rob Thomas, a Charlotte native and long term community banker who brings us more than 25 years of banking experience. He will lead the sales team and has already implemented an aggressive business development plan. Joining Rob is Mark Gill, another long-term local banker who previously has worked at other banks with Rob and Wes. He brings years of experience to the business development group.

We have enhanced our cash management services and continue to expand our remote deposit network. With those service enhancements and our new team members that soon will include a Deposit Development Officer, we expect to both grow and be of even greater service to our clients.

We have reorganized the credit group to allow our Business Development Officers to spend more of their time generating new business. Previously each lender was responsible for administering his share of problem loans. We decided at our annual planning meeting that it would be more effective to place all of them under one person's supervision. We therefore asked John Koch, our Chief Credit Officer, to assume the role of Special Assets Manager in the second quarter 2011. John has been directly involved over the past year in managing these credits. He has developed improved systems for managing foreclosed properties and knows what must be done to maximize sale values and decrease our losses.

As John addresses our remaining problems from the past, the rest of our team can now focus on the future. We can refocus our Bank to improve future earnings by growing assets with new business.

Stuart Hester, who has served in various lending roles at our Bank since we opened, has been promoted to Chief Credit Officer. He will assume this role from John during second quarter and will focus on overall loan portfolio management and new credit approval.

With the changes in the local banking competition, we have the opportunities both to attract new relationships and expand our relationships with current clients as well. In our early high loan-growth years we frequently utilized some lower cost brokered CDs to fund our loans rather than solely relying on demand deposit accounts. Now that we have a reasonably sized loan portfolio, we can concentrate on growing our business deposit accounts. Over the next year we plan to replace those CDs as they mature with new and expanded local accounts.

Our Bank has opened a loan production office in Asheville, North Carolina. Michael Bridges, a loan officer here in Charlotte, who is from the Asheville area noted there had been a significant change in the competitive environment in Asheville. We felt this would be an excellent opportunity to generate business in that market. Michael has a small office and is seeing initial success in attracting new businesses to Bank of Commerce.

BANK OF COMMERCE
LETTER TO SHAREHOLDERS

You will find three items to be addressed on this year's proxy:

1. Re-election of Directors. We are pleased that all three of our newest directors, Betty Trautwein, Richard "Stick" Williams and Eric Laster, plus two of our founding directors, Bill Loeffler and Anne Eddins, have agreed to stand for re-election. They have worked hard in helping our Bank weather the economic storm of the past two years. They, along with the rest of the directors, have spent hours in Board meetings, committee meetings and planning sessions to help us return to profitability.
2. Ratification of our Auditors. The Audit Committee has, again, recommended Dixon Hughes Goodman LLP, who has been our auditor since inception, to serve in this role.
3. Change in Stock Par Value. We are requesting that you approve the reduction of the par value of our stock. Under an old North Carolina banking statute, the par value cannot exceed twice the value of the surplus for a share of common stock. With our loss last year, our surplus was reduced. Therefore, we must reduce the par value to stay in compliance with this law. (Note: The par value was established prior to our opening the Bank and has no direct relationship to either our book value or the current price of our stock).


One other change we are making is our internal auditors. Bill Thompson, with his firm, T Paradigm, Inc. has served as our internal auditor since Bank formation. He has been instrumental in keeping us up-to-date on compliance technology and other internal audit functions. Bill retired at year end 2010; we appreciate what he has done for the Bank and wish him the best.

The Audit Committee conducted a thorough selection process and chose the firm of Elliot Davis, LLC to serve as our new internal auditors. They, like Bill, will work in close co-ordination with Dixon Hughes Goodman LLP, our external auditors, to assure that your Bank complies with the myriad of new legislative and regulatory policies that are a result of the Dodd-Frank Act and other recent Federal and State legislation.

In closing, 2010 was not a great year for us or our community; but the bottom line is we survived, we remain well capitalized and we are well positioned for growth. During the first quarter we actually saw some growth of our loan and deposit portfolios and, more importantly, we saw the beginnings of stronger economic activity in our community. This gives us hope that the Charlotte area's recession might truly be ending and we can look for economic expansion in the upcoming year. We will work hard to achieve our share of this growth.

We thank you for your support and look forward to an exciting 2011.

Sincerely,



Wesley W. Sturges
Chief Executive Officer & President



Earl D. Leake
Chair, Bank of Commerce Board



DIXON HUGHES GOODMAN^{LLP}

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors
Bank of Commerce
Charlotte, North Carolina

We have audited the accompanying balance sheets of Bank of Commerce (the "Bank") as of December 31, 2010 and 2009, and the related statements of operations, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Bank's internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

DIXON HUGHES GOODMAN LLP

Charlotte, North Carolina
April 12, 2011

BANK OF COMMERCE
BALANCE SHEETS
At December 31, 2010 and 2009

(Dollars in thousands, except for share data)

ASSETS	2010	2009
Cash and due from banks	\$ 9,355	\$ 4,061
Federal funds sold	1,788	859
Investment securities:		
Available for sale, at fair value	36,556	37,067
Held to maturity, at amortized cost	2,000	2,967
Federal Home Loan Bank stock, at cost	1,223	1,369
Gross Loans	113,239	122,365
Allowance for loan losses	<u>(2,081)</u>	<u>(1,836)</u>
NET LOANS	111,158	120,529
Bank owned life insurance	4,202	4,010
Accrued interest receivable	519	612
Bank premises and equipment, net	330	420
Prepaid FDIC insurance premiums	516	757
Other real estate owned	2,971	359
Other assets	<u>404</u>	<u>353</u>
TOTAL ASSETS	<u>\$ 171,022</u>	<u>\$ 173,363</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand non-interest-bearing	\$ 9,662	\$ 9,063
Demand interest-bearing	4,386	3,268
Money market and savings	46,700	53,884
Time	<u>62,917</u>	<u>52,523</u>
TOTAL DEPOSITS	123,665	118,738
Securities sold under agreements to repurchase	15,868	14,474
Federal Home Loan Bank borrowings	17,000	24,600
Accrued interest payable	162	186
Accrued expenses and other liabilities	<u>428</u>	<u>385</u>
TOTAL LIABILITIES	<u>157,123</u>	<u>158,383</u>
Commitments (Notes D, J and K)		
Shareholders' equity:		
Preferred Stock Series A, \$1,000 liquidation preference, 3,000 shares authorized, issued and outstanding in 2010 and 2009	2,890	2,854
Preferred Stock Series B, \$1,000 liquidation preference, 150 shares authorized, issued and outstanding in 2010 and 2009	169	175
Common stock, \$5 par value, 20,000,000 shares authorized; 1,600,000 shares issued and outstanding in 2010 and 2009	8,000	8,000
Additional paid-in capital	9,262	9,181
Accumulated deficit	(6,369)	(5,369)
Accumulated other comprehensive income (loss)	<u>(53)</u>	<u>139</u>
TOTAL SHAREHOLDERS' EQUITY	<u>13,899</u>	<u>14,980</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 171,022</u>	<u>\$ 173,363</u>

See accompanying notes.

BANK OF COMMERCE
STATEMENTS OF OPERATIONS
For the years ended December 31, 2010 and 2009

(Dollars in thousands, except for per share data)

	2010	2009
INTEREST INCOME		
Loans	\$ 6,314	\$ 6,097
Investment securities	1,342	1,620
Federal funds sold and deposits in other banks	16	12
TOTAL INTEREST INCOME	<u>7,672</u>	<u>7,729</u>
INTEREST EXPENSE		
Demand, money market and savings deposits	744	1,073
Time deposits	1,225	1,348
Borrowings	712	722
TOTAL INTEREST EXPENSE	<u>2,681</u>	<u>3,143</u>
NET INTEREST INCOME	4,991	4,586
PROVISION FOR LOAN LOSSES	<u>1,136</u>	<u>4,921</u>
NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES	<u>3,855</u>	<u>(335)</u>
NON-INTEREST INCOME		
Net gain on sale of investment securities available for sale	968	312
Bank owned life insurance	192	192
Other	85	61
TOTAL NON-INTEREST INCOME	<u>1,245</u>	<u>565</u>
NON-INTEREST EXPENSE		
Salaries and employee benefits	1,924	2,022
Occupancy and equipment	418	401
Professional fees and consulting services	135	239
Advertising and promotion	154	144
FDIC insurance	337	288
Data processing and outside service fees	375	348
Office supplies, telephone and postage	71	86
Director fees and expenses	138	131
Other real estate owned expenses	290	-
Other real estate owned valuation adjustments	1,814	-
Other	251	246
TOTAL NON-INTEREST EXPENSE	<u>5,907</u>	<u>3,905</u>
LOSS BEFORE INCOME TAXES	(807)	(3,675)
PROVISION FOR INCOME TAX	<u>-</u>	<u>-</u>
NET LOSS	(807)	(3,675)
PREFERRED STOCK DIVIDEND AND ACCRETION OF PREFERRED STOCK	<u>192</u>	<u>188</u>
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	<u>\$ (999)</u>	<u>\$ (3,863)</u>
BASIC AND DILUTED NET LOSS PER SHARE	<u>\$ (0.62)</u>	<u>\$ (2.41)</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
BASIC AND DILUTED	<u>1,600,000</u>	<u>1,600,000</u>

See accompanying notes.

BANK OF COMMERCE
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2010 and 2009

(Dollars in thousands, except for share data)

	Preferred stock series A	Preferred stock series B	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
			Shares	Amount				
Balance at December 31, 2008	\$ -	\$ -	1,600,000	\$ 8,000	\$ 9,096	\$ (1,506)	\$ 242	\$ 15,832
Preferred stock series A issued	3,000	-	-	-	-	-	-	3,000
Preferred stock series A discount	(181)	-	-	-	-	-	-	(181)
Discount accretion of preferred stock series A	35	-	-	-	-	(35)	-	-
Preferred stock series B issued	-	150	-	-	-	-	-	150
Preferred stock series B premium	-	31	-	-	-	-	-	31
Premium amortization preferred stock series B	-	(6)	-	-	-	6	-	-
Stock based compensation	-	-	-	-	85	-	-	85
Preferred stock series A dividends	-	-	-	-	-	(146)	-	(146)
Preferred stock series B dividends	-	-	-	-	-	(13)	-	(13)
Net loss	-	-	-	-	-	(3,675)	-	(3,675)
Other comprehensive loss	-	-	-	-	-	-	(103)	(103)
Total comprehensive loss	-	-	-	-	-	-	-	(3,778)
Balance at December 31, 2009	2,854	175	1,600,000	8,000	9,181	(5,369)	139	14,980
Discount accretion of preferred stock series A	36	-	-	-	-	(36)	-	-
Premium amortization preferred stock series B	-	(6)	-	-	-	6	-	-
Stock based compensation	-	-	-	-	81	-	-	81
Preferred stock series A dividends	-	-	-	-	-	(150)	-	(150)
Preferred stock series B dividends	-	-	-	-	-	(13)	-	(13)
Net loss	-	-	-	-	-	(807)	-	(807)
Other comprehensive loss	-	-	-	-	-	-	(192)	(192)
Total comprehensive loss	-	-	-	-	-	-	-	(999)
Balance at December 31, 2010	\$ 2,890	\$ 169	1,600,000	\$ 8,000	\$ 9,262	\$ (6,369)	\$ (53)	\$ 13,899

See accompanying notes.

BANK OF COMMERCE
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES	(in thousands)	
Net loss	\$ (807)	\$ (3,675)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	96	93
Provision for loan losses	1,136	4,921
Decrease in value of other real estate owned	1,706	-
Net gain on sale of investment securities available for sale	(968)	(312)
Net amortization of discount and premium on investment securities	292	139
Increase in cash surrender value of bank owned life insurance	(192)	(192)
Stock based compensation	81	85
Loss (gain) on sale of assets	(6)	3
Loss on other real estate owned	108	-
Change in assets and liabilities:		
Decrease (increase) in accrued interest receivable	93	(87)
Decrease (increase) in prepaid FDIC insurance premiums	241	(757)
Increase in other assets	(17)	(204)
Decrease in accrued interest payable	(24)	(40)
Increase (decrease) in accrued expenses and other liabilities	133	(12)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,872</u>	<u>(38)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease (increase) in loans	3,060	(18,953)
Purchase of bank premises and equipment	(17)	(215)
Proceeds from sale of bank premises and equipment	17	3
Payment of due to broker for investment purchase	-	(1,551)
Proceeds from sale of other real estate owned	749	-
Purchases of investment securities available for sale	(36,697)	(45,243)
Proceeds from maturities of investment securities held to maturity	1,000	-
Redemptions (purchases) of Federal Home Loan Bank stock	146	(309)
Proceeds from sales of investment securities available for sale	21,922	17,411
Proceeds from maturities, calls and paydowns of investment securities available for sale	15,613	16,179
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>5,793</u>	<u>(32,678)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	4,927	34,918
Net repayments in borrowings	(6,206)	(4,483)
Proceeds from the issuance of preferred stock	-	3,000
Dividends paid on preferred stock	(163)	(159)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(1,442)</u>	<u>33,276</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,223	560
CASH AND CASH EQUIVALENTS, BEGINNING	4,920	4,360
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 11,143</u>	<u>\$ 4,920</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 2,705</u>	<u>\$ 3,056</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Transfer from loans to other real estate owned	<u>\$ 5,175</u>	<u>\$ 359</u>
Change in unrealized gain on available for sale securities, net	<u>\$ (192)</u>	<u>\$ (103)</u>

See accompanying notes.

NOTE A - ORGANIZATION AND OPERATIONS

Bank of Commerce (the "Bank") was incorporated on January 24, 2006 and began banking operations on February 7, 2006. The Bank is engaged in commercial banking in the Charlotte region of North Carolina, principally Mecklenburg County, operating under the banking laws of North Carolina and the rules and regulations of the Federal Deposit Insurance Corporation ("FDIC") and the North Carolina Commissioner of Banks ("Commissioner"). The Bank undergoes periodic examinations by those regulatory authorities. The Bank's primary sources of revenue are derived from loans and investment securities.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents

For the purpose of presentation in the statements of cash flows, cash and cash equivalents include cash and due from banks and federal funds sold.

The Bank is subject to various requirements imposed by the State of North Carolina and Federal banking statutes and regulations, including regulations requiring the maintenance of reserve balances. As of December 31, 2010, the Bank's requirement by the State of North Carolina was a reserve balance of \$3.8 million.

Investment Securities

Investment securities that the Bank has the positive intent and ability to hold to maturity are classified as held to maturity securities and are reported at amortized cost.

Investment securities available for sale are reported at fair value and consist of debt instruments that are not classified as trading securities or as held to maturity securities. Unrealized holding gains and losses, net of applicable deferred income tax, on investment securities available for sale are reported in other comprehensive income. Gains and losses on the sale of investment securities available for sale are determined using the specific identification method. Declines in the fair value of individual investment securities available for sale below their cost that are other-than-temporary would result in write-downs of the individual securities to their fair value. In estimating other-than-temporary impairment ("OTTI") losses, management considers, among other issues, (i) the length of time and extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and , for debt securities, (iii) the intent of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value and whether it is more-likely-than-not the Bank will be required to sell the security prior to a recovery of value. Premiums and discounts are recognized in interest income using the effective interest rate method over the period to maturity. The Bank intends to hold investment securities available for sale for an indefinite period of time but may sell them prior to maturity.

Non-Marketable Equity Securities

As a requirement for membership, the Bank invests in stock of the Federal Home Loan Bank of Atlanta ("FHLB"). These investments are carried at cost. Because of the redemption provisions of the FHLB, the

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bank estimates that the fair value of these investments is equal to their cost. There was no impairment as of December 31, 2010.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are reported at their outstanding principal adjusted for any charge-offs, allowance for loan losses, and deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Loan origination fees and costs are capitalized and recognized as an adjustment to the yield of the related loan. The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received. Interest accrual is resumed after a sustained period, generally a minimum of six months, of repayment performance of principal and interest amounts contractually due. This treatment of interest applies to all loan segments.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level management deems sufficient to absorb probable losses inherent in the portfolio, and is based on management's evaluation of the risks in the loan portfolio and changes in the nature and volume of loan activity. The Bank consistently applies a review process to periodically evaluate loans for changes in credit risk. This process serves as the primary means by which the Bank evaluates the adequacy of the allowance for loan losses.

The Bank determines the allowance for loan losses by making specific allocations to impaired loans that exhibit inherent weaknesses and various credit risk factors, and general allocations segregated by homogeneous segments of loans. For measuring potential impairment or inherent losses in a segment of loans, the historical loss experience is generally utilized to project probable losses for each separately identified segment of loans. The homogeneous loan portfolio is determined by segregating the non-impaired portfolio into segments of loans with similar risk characteristics. The Bank segments loans by FDIC Call Report codes and the allowance is calculated for each loan segment. The Bank maintains data regarding historical loan losses in each of these segments to estimate the potential for future losses and uses an annualized eight quarter rolling historical loss calculation. The foregoing analysis is performed by management to evaluate the portfolio and calculate an estimated valuation allowance through a quantitative and qualitative analysis that applies risk factors to those identified risk areas. The qualitative factors in calculating a reasonable loan loss estimate include, but are not limited to: current economic and business conditions that affect key lending areas of the Bank, changes in the nature and volume of the loan portfolio; changes in the volume and severity of delinquent loans; changes in the Bank's loan review system, and changes in concentrations of credits.

The Bank performs individual evaluations of all impaired loans equal to or exceeding \$125,000 and recognizes an impairment loss, as necessary, based upon the estimated fair value of the collateral of the impaired loans. Estimated costs to sell are considered in all measures of impairment. For impaired loans not

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

considered collateral dependent, impairment is measured by estimating the timing and amount of expected future cash flows (principal and interest) of the impaired loan and discounting these cash flows using the loan's effective interest rate. The effective interest rate is the contractual rate adjusted for any deferred fees and costs, and discounts or premiums existing at the origination of the loan. An allowance for impaired loans is required for the excess of the recorded investment in the loan over the calculated impaired amount.

The expense to establish the allowance is recorded in the provision for loan losses in the income statement. If the impaired value of the loan is equal to or exceeds the Bank's recorded value in the loan, then no valuation allowance is required for that loan. If the impaired value of the loan is less than the Bank's recorded value, then based on management's opinion, either a charge-down or specific reserve is required for that loan. This treatment is applied to all loan segments.

While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the assumptions used in making the evaluations. In addition, the Bank's allowance for loan losses is subject to review and changes by regulatory agencies.

Other Real Estate Owned

Other real estate owned ("REO") is stated at the lower of carrying amount or market value less estimated costs to sell. Any initial losses at the time of foreclosure are charged against the allowance for loan losses with any subsequent losses or write-downs included in the statements of operations.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which are seven to ten years for leasehold improvements and three to seven years for furniture and equipment, computers and automobiles. Repairs and maintenance costs are charged to operations as incurred, and additions and improvements to premises and equipment are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts, and any gains or losses are reflected in current operations.

Income Taxes

Provisions for income taxes are based on amounts reported in the statements of operations and include changes in deferred taxes. Deferred taxes are computed using the asset and liability approach. The tax effects of differences between the tax and financial accounting basis of assets and liabilities are reflected in the balance sheets at the tax rates expected to be in effect when the differences reverse. Valuation allowances are recorded to reduce deferred tax assets to the amounts management concludes are more-likely-than-not to be realized. Under generally accepted accounting principles in the United States ("GAAP"), income tax benefits are recognized and measured based upon a two-step model: 1) a tax position must be more-likely-than-not to be sustained based solely on its technical merits in order to be

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

recognized, and 2) the benefit is measured as the largest dollar amount of that position that is more-likely-than-not to be sustained upon settlement. The difference between the benefit recognized for a position in accordance with GAAP model and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit.

Stock Compensation Plans

Stock-based compensation expense for all share-based payment awards is based on the grant date fair value. The grant date fair value for stock option awards is estimated using the Black-Scholes option pricing model. The Bank recognizes these compensation costs net of estimated forfeitures and recognizes stock-based compensation expense for only those awards expected to vest on a straight-line basis over the requisite service period of the award, which is currently a vesting term of up to four years.

The Bank has two share-based compensation plans in effect at December 31, 2010. The compensation cost that has been charged against income for those plans was \$81,000 and \$85,000 for the years ended December 31, 2010 and 2009, respectively.

Per Share Results

Basic earnings (loss) per share represent income available to common shareholders divided by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share reflect additional shares of common stock that would have been outstanding if potentially dilutive shares of common stock had been issued, as well as any adjustment to income that would result from the assumed issuance. Outstanding options did not have a dilutive effect in 2010 or 2009, as the exercise prices of the options were greater than the market price of the Bank's stock.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The term comprehensive income includes components of comprehensive income including net income (loss). Other comprehensive income (loss) refers to revenues, expenses, gains and losses that under GAAP are included in comprehensive income (loss) but excluded from net income (loss). Currently, the Bank's other comprehensive income (loss) consists of unrealized gains and losses, net of deferred income taxes, on available for sale securities.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include; the allowance for loan losses, valuation of certain level 2 and level 3 investment securities, evaluation of securities for OTTI, valuation of REO, and valuation of deferred tax assets. Actual results could differ from those estimates.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

Financial Accounting Standards Board ("FASB") *Accounting Standard Codification ("ASC") Topic 310, Receivables*; new authoritative accounting guidance under ASC Topic 310 amends prior guidance to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables by providing additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The new authoritative guidance is effective for interim and annual reporting periods ending on or after December 15, 2010, for public entities. The Bank adopted the provisions of the new authoritative accounting guidance under ASC Topic 310 during the fourth quarter of 2010. Other than the additional disclosures, the adoption of the new guidance had no significant impact on the Bank's financial statements.

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE C - INVESTMENTS

The amortized cost and fair value of investment securities available for sale and held to maturity with gross unrealized gains and losses are as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
(in thousands)				
December 31, 2010				
Investment securities available for sale				
U.S. Government agency securities	\$ 8,051	\$ 37	\$ (64)	\$ 8,024
Residential GSE mortgage-backed securities	28,590	185	(243)	28,532
Total available for sale securities	<u>\$ 36,641</u>	<u>\$ 222</u>	<u>\$ (307)</u>	<u>\$ 36,556</u>
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
(in thousands)				
December 31, 2010				
Investment securities held to maturity				
Subordinated debt securities	\$ 2,000	\$ -	\$ (560)	\$ 1,440
Total held to maturity securities	<u>\$ 2,000</u>	<u>\$ -</u>	<u>\$ (560)</u>	<u>\$ 1,440</u>
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
(in thousands)				
December 31, 2009				
Investment securities available for sale				
U.S. Government agency securities	\$ 15,635	\$ 8	\$ (157)	\$ 15,486
Residential GSE mortgage-backed securities	21,202	466	(87)	21,581
Total available for sale securities	<u>\$ 36,837</u>	<u>\$ 474</u>	<u>\$ (244)</u>	<u>\$ 37,067</u>
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
(in thousands)				
December 31, 2009				
Investment securities held to maturity				
Trust preferred securities	\$ 967	\$ 31	\$ -	\$ 998
Subordinated debt securities	2,000	-	(520)	1,480
Total held to maturity securities	<u>\$ 2,967</u>	<u>\$ 31</u>	<u>\$ (520)</u>	<u>\$ 2,478</u>

During the year ending December 31, 2010, the Bank had realized gains of \$968,000 and no realized losses on sales of investment securities available for sale with proceeds of \$21.9 million. The Bank had realized gains of \$337,000 and realized losses of \$25,000 on sales of investment securities with proceeds of \$17.4 million during the year ended December 31, 2009.

Investment securities available for sale with carrying values of approximately \$22.3 million at December 31, 2010 were pledged as collateral for public deposits and other purposes as required or permitted by law.

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE C – INVESTMENTS (Continued)

The amortized cost and fair values of investment securities available for sale and held to maturity at December 31, 2010 by contractual maturity are shown below. With respect to residential Government sponsored enterprise (“GSE”) mortgage-backed securities, expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized cost	Fair value
	(in thousands)	
Investment securities available for sale		
Due within one year	\$ -	\$ -
Due after one but within five years	-	-
Due after five years	<u>36,641</u>	<u>36,556</u>
 Total	 <u>\$ 36,641</u>	 <u>\$ 36,556</u>

	Amortized cost	Fair value
	(in thousands)	
Investment securities held to maturity		
Due within one year	\$ -	\$ -
Due after one but within five years	-	-
Due after five years	<u>2,000</u>	<u>1,440</u>
 Total	 <u>\$ 2,000</u>	 <u>\$ 1,440</u>

The following tables reflect those investments, both available for sale and held to maturity, in a continuous unrealized loss position for less than 12 months and for 12 months or longer for the years ended December 31, 2010 and 2009. There were 14 investment securities available for sale with unrealized losses at December 31, 2010 and 15 investment securities available for sale with unrealized losses at December 31, 2009. The unrealized losses relate to debt securities that have incurred fair value reductions due to higher long-term market interest rates since the securities were purchased. The unrealized losses are not likely to reverse unless and until market interest rates decline to the levels that existed when the securities were purchased. Since none of the unrealized losses relate to the marketability of the securities or the issuers’ ability to honor redemption obligations, the belief that the Bank will not have to sell before recovery of cost, and because the Bank has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, none of the securities are deemed to be OTTI.

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE C – INVESTMENTS (Continued)

There were two investment securities held to maturity that had unrealized losses at December 31, 2010. Both of these securities were acquired in 2008 and are subordinated debt instruments of North Carolina banks in which there is no readily available market. These securities are indexed 350 to 400 basis points above the 3-month London Interbank Offered Rate (“LIBOR”). The unrealized losses relate to the marketability of these securities. None of the securities are deemed to be OTTI because of the issuers’ ability to honor redemption obligations, the belief that the Bank will not have to sell before recovery of cost, and because the Bank has the ability and intent to hold these investments until a recovery of fair value, which may be maturity.

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
December 31, 2010	(in thousands)					
Investment securities available for sale:						
U.S. Government agency securities	\$ 5,987	\$ (64)	\$ -	\$ -	\$ 5,987	\$ (64)
Residential GSE mortgage-backed securities	14,917	(243)	-	-	14,917	(243)
Total temporarily impaired securities	<u>\$ 20,904</u>	<u>\$ (307)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,904</u>	<u>\$ (307)</u>
December 31, 2010	(in thousands)					
Investment securities held to maturity:						
Subordinated debt securities	\$ -	\$ -	\$ 1,440	\$ (560)	\$ 1,440	\$ (560)
Total temporarily impaired securities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,440</u>	<u>\$ (560)</u>	<u>\$ 1,440</u>	<u>\$ (560)</u>
December 31, 2009	(in thousands)					
Investment securities available for sale:						
U.S. Government agency securities	\$ 12,477	\$ (157)	\$ -	\$ -	\$ 12,477	\$ (157)
Residential GSE mortgage-backed securities	8,203	(87)	-	-	8,203	(87)
Total temporarily impaired securities	<u>\$ 20,680</u>	<u>\$ (244)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,680</u>	<u>\$ (244)</u>
December 31, 2009	(in thousands)					
Investment securities held to maturity:						
Subordinated debt securities	\$ -	\$ -	\$ 1,480	\$ (520)	\$ 1,480	\$ (520)
Total temporarily impaired securities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,480</u>	<u>\$ (520)</u>	<u>\$ 1,480</u>	<u>\$ (520)</u>

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE D - LOANS

The following is a summary of loans by segment at December 31, 2010 and 2009:

	2010	2009
	(In thousands)	
Single family residential construction	\$ 7,166	\$ 13,350
Other construction loans, land development and other land	5,619	9,794
Home equity lines	10,832	11,298
Single family residential - secured by first lien	15,746	17,445
Single family residential - secured by junior lien	588	788
Multi-family residential	381	442
Commercial real estate owner occupied	34,598	35,215
Commercial real estate non-owner occupied	33,378	27,908
Commercial and industrial	4,687	5,893
Other revolving	47	33
Other consumer	234	249
Total gross loans	<u>\$ 113,276</u>	<u>\$ 122,415</u>
Allowance for loan losses	(2,081)	(1,836)
Unamortized deferred fees and costs, net	<u>(37)</u>	<u>(50)</u>
Total loans, net	<u><u>\$ 111,158</u></u>	<u><u>\$ 120,529</u></u>

Real estate loans include commercial real estate loans, single family residential loans, construction single family and other land development loans, and home equity lines of credit.

Commercial real estate loans totaled \$68.0 million at December 31, 2010. This lending involves loans secured by owner occupied commercial buildings for office, storage and warehouse space, as well as non-owner occupied commercial buildings. The Bank generally requires the personal guaranty of borrowers and a demonstrated cash flow capability sufficient to service the debt. Loans secured by commercial real estate may be larger in size and may involve a greater degree of risk than single family residential loans. Payments on such loans are often dependent on successful operation or management of the properties.

Single family residential loans totaled \$16.7 million at December 31, 2010. The Bank's residential loans are typically for secondary homes, homes pledged for business loans and a limited number of rental properties.

Construction single family and other land development lending totaled \$12.8 million at December 31, 2010. The Bank originates single family residential construction loans for the construction of homes and provides financing to builders and consumers for the construction of single family developments. The Bank limits its construction lending risk through adherence to established underwriting procedures.

Home equity lines totaled \$10.8 million at December 31, 2010. These lines are revolving, open-end lines of credit secured by single family residential properties.

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE D – LOANS (Continued)

Commercial Loans totaled \$4.7 million at December 31, 2010. Commercial loans include both secured and unsecured loans for working capital, expansion, and other business purposes. Short-term working capital loans are secured by accounts receivable, inventory and/or equipment. The Bank also makes term commercial loans secured by equipment and real estate. Lending decisions are based on an evaluation of the financial strength, cash flow, management and credit history of the borrower, and the quality of the collateral securing the loan. Generally, the Bank requires personal guarantees and secondary sources of repayment.

Loans to Individuals totaled \$0.3 million at December 31, 2010. Loans to individuals (consumer loans) include automobile loans, boat and recreational vehicle financing, and miscellaneous secured and unsecured personal loans. Consumer loans generally can carry greater risks than other loans. The Bank makes very few loans in this category due to the risk associated with these types of loans.

Loans are primarily made in the Charlotte region of North Carolina. Real estate loans can be affected by the condition of the local real estate market. Commercial and industrial loans can be affected by the local economic conditions.

The Bank engages in loan transactions with its directors, executive officers and their related interests. Such loans are made in the ordinary course of business and on substantially the same terms as those for comparable transactions prevailing at the time and do not involve more than the normal risk of collectability or present other unfavorable features. A summary of related party loan transactions is as follows:

	(in thousands)
Balance at December 31, 2009	\$ 5,074
Loan disbursements	119
Loan repayments	<u>(338)</u>
Balance at December 31, 2010	<u>\$ 4,855</u>

At December 31, 2010, the Bank had pre-approved but unused lines of credit totaling \$1.9 million to directors, executive officers and their related interests.

The following is a summary of the allowance for loan losses:

	<u>2010</u>	<u>2009</u>
	(in thousands)	
Allowance for loan losses at beginning of year	\$ 1,836	\$ 1,523
Provision for loan losses	1,136	4,921
Loans charged-off	(894)	(4,608)
Recoveries	<u>3</u>	<u>-</u>
Allowance for loan losses at end of year	<u>\$ 2,081</u>	<u>\$ 1,836</u>

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE D – LOANS (Continued)

The following table details the Bank's balance in the allowance for loan losses by portfolio segment for 2010.

	Balance 12/31/2009	Provisions	Charge-offs	Recoveries	Balance 12/31/2010
(In thousands)					
Single family residential construction	\$ 322	\$ 683	\$ 67	\$ 3	\$ 941
Other construction loans, land development and other land	156	87	120	-	123
Home equity lines	71	(35)	-	-	36
Single family residential - secured by first lien	326	445	533	-	239
Single family residential - secured by junior lien	5	81	65	-	21
Multi-family residential	3	(2)	-	-	1
Commercial real estate owner occupied	382	(31)	20	-	331
Commercial real estate non-owner occupied	401	(84)	-	-	317
Commercial and industrial	167	(7)	89	-	71
Other revolving	-	-	-	-	-
Other consumer	3	(2)	-	-	1
Total	\$ 1,836	\$ 1,136	\$ 894	\$ 3	\$ 2,081

The following table details the Bank's balance in the allowance for possible loan losses disaggregated on the basis of the Bank's impairment methodology by portfolio segment.

	Balances for individually evaluated for impairment		Balances for collectively evaluated for impairment	
	Allowance	Recorded investment	Allowance	Recorded investment
(In thousands)				
December 31, 2010				
Single family residential construction	\$ 445	\$ 4,178	\$ 496	\$ 2,988
Other construction loans, land development and other land	-	563	123	5,057
Home equity lines	-	180	36	10,652
Single family residential - secured by first lien	-	3,625	239	12,121
Single family residential - secured by junior lien	-	158	21	430
Multi-family residential	-	-	1	381
Commercial real estate owner occupied	108	3,876	223	30,722
Commercial real estate non-owner occupied	183	968	134	32,410
Commercial and industrial	-	844	71	3,843
Other revolving	-	-	-	46
Other consumer	-	-	1	234
Total	\$ 736	\$ 14,392	\$ 1,345	\$ 98,884

The Bank identifies loans for potential impairment through a variety of means including, but not limited to, ongoing loan review, renewal processes, delinquency data, market conditions, and public information. If it is determined that it is probable that the Bank will not collect all principal and interest amounts contractually due, the loan is generally deemed to be impaired. The following table presents the Bank's recorded investment in loans considered to be impaired and related information on those impaired loans for the period ended December 31, 2010.

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE D – LOANS (Continued)

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
	(In thousands)				
Impaired loans with no related allowance recorded					
Single family residential construction	\$ 2,073	\$ 2,129	\$ -	\$ 2,045	\$ 62
Other construction loans, land development and other land	563	563	-	564	13
Home equity lines	180	180	-	179	6
Single family residential - secured by first lien	3,625	4,078	-	4,090	189
Single family residential - secured by junior lien	158	158	-	155	8
Commercial real estate owner occupied	1,743	1,743	-	1,774	115
Commercial and industrial	844	933	-	1,003	55
Total loans with no related allowance	<u>\$ 9,186</u>	<u>\$ 9,784</u>	<u>\$ -</u>	<u>\$ 9,810</u>	<u>\$ 448</u>
Impaired loans with an allowance recorded					
Single family residential construction	\$ 2,105	\$ 2,105	\$ 445	\$ 2,044	\$ 103
Commercial real estate owner occupied	2,133	2,133	108	2,149	130
Commercial real estate non-owner occupied	968	968	183	968	38
Total loans with related allowance	<u>\$ 5,206</u>	<u>\$ 5,206</u>	<u>\$ 736</u>	<u>\$ 5,161</u>	<u>\$ 271</u>

The following table presents the Bank's investment in loans considered to be impaired and related information on those impaired loans for the periods ended December 31, 2009:

	2009
	(in thousands)
Impaired loans without a valuation allowance	\$ 5,849
Impaired loans with a valuation allowance	2,243
Total impaired loans	<u>\$ 8,092</u>
Allowance for loan losses related to impaired loans	<u>\$ 298</u>
Nonperforming loans	\$ 5,849
Troubled debt restructured loans	2,243
Total impaired loans	<u>\$ 8,092</u>
	2009
	(in thousands)
Average investment in impaired loans	\$ 3,218
Interest income recognized on impaired loans	140
Interest income recognized on a cash basis on impaired loans	-
Interest income that would have been recognized on impaired loans	257

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE D – LOANS (Continued)

The Bank utilizes a risk grading matrix to assign a risk grade to each of its loans. A description of the general characteristics of the risk grades is as follows:

- Pass – This grade includes loans to borrowers of acceptable credit quality and risk. The Bank further differentiates within this grade based upon borrower characteristics which include: primary or secondary sources of repayment, loan structure, earnings stability, leverage, and industry.
- Special Mention – This grade includes loans that require more than a normal degree of supervision and attention. This also includes extending loans that are currently performing satisfactorily but with potential income weaknesses that may, if not corrected, weaken the asset or inadequately protect the Bank's position at some future date.
- Substandard – This grade includes loans that have well defined weaknesses which make payment default or principal exposure possible, but not yet certain. Such loans may be dependent upon collateral liquidation, a secondary source of repayment or an event outside of the normal course of business to meet the repayment terms.
- Doubtful – This grade includes loans that may be placed on non-accrual status. These loans have all the weaknesses inherent in a "substandard" loan with the added factor that the weaknesses are so severe that collection or liquidation in full, on the basis of current existing facts, conditions and values, is extremely unlikely, but because of certain specific pending factors, the amount of loss cannot yet be determined.
- Loss – This grade includes loans that are to be charged-off or charged-down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. "Loss" is not intended to imply that the asset has no recovery or salvage value, but simply that it is not practical or desirable to defer writing off all or some portion of the loan, even though partial recovery may be affected in the future.

The following tables present the Bank's investment in loans by credit quality indicator at December 31, 2010.

	Pass	Special Mention	Substandard	Doubtful	Total
	(In thousands)				
Single family residential construction	\$ 2,693	\$ 295	\$ 4,178	\$ -	\$ 7,166
Other construction loans, land development and other land	5,056	563	-	-	5,619
Home equity lines	10,652	-	180	-	10,832
Single family residential - secured by first lien	12,121	766	2,859	-	15,746
Single family residential - secured by junior lien	430	-	158	-	588
Multi-family residential	381	-	-	-	381
Commercial real estate owner occupied	29,262	945	4,391	-	34,598
Commercial real estate non-owner occupied	32,410	-	968	-	33,378
Commercial and industrial	3,530	75	1,082	-	4,687
Other revolving	47	-	-	-	47
Other consumer	234	-	-	-	234
Total	\$ 96,816	\$ 2,644	\$ 13,816	\$ -	\$ 113,276

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE D – LOANS (Continued)

Non-accrual loans consisted of the following at December 31, 2010.

	(In thousands)
Single family residential construction	\$ 859
Other construction loans, land development and other land	563
Home equity lines	-
Single family residential - secured by first lien	1,029
Single family residential - secured by junior lien	8
Multi-family residential	-
Commercial real estate owner occupied	-
Commercial real estate non-owner occupied	-
Commercial and industrial	-
Other revolving	-
Other consumer	-
Total	<u><u>\$ 2,459</u></u>

The calculation of days past due begins on the day after payment is due and includes all days through which all required interest or principal have not been paid. Loans less than 30 days past due are considered current due to certain grace periods that allow borrowers to make payments within a stated period after the due date and still remain in compliance with the loan agreement. This calculation of days past due applies to all loan segments.

The following table presents the aging of the recorded investment in past due loans as of December 31, 2010. There were no loans past due 90 days and still accruing interest at December 31, 2010. Non-accrual loans are included in the appropriate delinquency category.

	30-59 Days past due	60-89 Days past due	Greater than 90 days past due	Total past due	Current	Total gross loans	Loans > 90 days past due and accruing
	(In thousands)						
Single family residential construction	\$ -	\$ -	\$ 859	\$ 859	\$ 6,307	\$ 7,166	\$ -
Other construction, land development and other land	-	-	563	563	5,056	5,619	-
Home equity lines	-	-	-	-	10,832	10,832	-
Single family residential - secured by first lien	-	-	1,029	1,029	14,717	15,746	-
Single family residential - secured by junior lien	-	-	8	8	580	588	-
Multi-family residential	-	-	-	-	381	381	-
Commercial real estate owner occupied	-	-	-	-	34,598	34,598	-
Commercial real estate non-owner occupied	352	1,066	-	1,418	31,960	33,378	-
Commercial and industrial	10	-	-	10	4,677	4,687	-
Other revolving	-	-	-	-	47	47	-
Other consumer	-	-	-	-	234	234	-
Total	<u><u>\$ 362</u></u>	<u><u>\$ 1,066</u></u>	<u><u>\$ 2,459</u></u>	<u><u>\$ 3,887</u></u>	<u><u>\$ 109,389</u></u>	<u><u>\$ 113,276</u></u>	<u><u>\$ -</u></u>

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE E - BANK PREMISES AND EQUIPMENT

The following is a summary of Bank premises and equipment at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
	(in thousands)	
Leasehold improvements	\$ 243	\$ 243
Furniture and equipment	304	304
Computers	325	308
Automobiles	-	29
	<u>872</u>	<u>884</u>
Accumulated depreciation	<u>(542)</u>	<u>(464)</u>
Total	<u>\$ 330</u>	<u>\$ 420</u>

Depreciation and amortization amounted to \$96,000 and \$93,000 for the years ended December 31, 2010 and 2009, respectively, and are included in occupancy and equipment expense on the accompanying statements of operations.

NOTE F – DEPOSITS

The aggregate amount of time deposits in denominations of \$100,000 or more at December 31, 2010 and 2009 was \$49.3 million and \$41.3 million, respectively. Interest expense on such deposits aggregated \$938,000 and \$1,051,000 in the years ended December 31, 2010 and 2009, respectively. At December 31, 2010, the scheduled maturities of time deposits are as follows:

<u>Year Ending December 31,</u>	<u>Less than</u> <u>\$100,000</u>	<u>\$100,000</u> <u>or more</u>	<u>Total</u>
	(in thousands)		
2011	\$ 13,255	\$ 44,254	\$ 57,509
2012	376	5,032	5,408
2013 and thereafter	-	-	-
Total	<u>\$ 13,631</u>	<u>\$ 49,286</u>	<u>\$ 62,917</u>

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE G – BORROWED FUNDS

The Bank has available unused lines of credit totaling \$27.2 million from banks at December 31, 2010. The outstanding borrowed funds consist of the following:

	December 31, 2010		December 31, 2009	
	Balance	Weighted average rate	Balance	Weighted average rate
	(Dollars in thousands)			
FHLB borrowings maturing:				
One to five years	\$ 17,000	3.27%	\$ 24,600	2.47%
Securities sold under agreements to repurchase	15,868	0.73%	14,474	0.73%
Total	<u>\$ 32,868</u>	<u>2.04%</u>	<u>\$ 39,074</u>	<u>1.83%</u>

Of the securities sold under agreements to repurchase included in the amount above, \$14.3 million and \$12.6 million are to a related party at December 31, 2010 and 2009, respectively. Such securities sold under agreements to repurchase are made in the ordinary course of business and on substantially the same terms as those for comparable transactions prevailing at the time.

The following table presents long-term advances from the FHLB at December 31, 2010 and 2009:

Maturity and rate type	Rate	Call feature	2010	2009
			Balance	Balance
			(in thousands)	
6/20/2011, variable rate spreads to the one month LIBOR	0.36%	None	\$ -	\$ 3,000
6/8/2011, fixed rate	1.41%	Quarterly	-	4,600
9/25/2012, fixed rate	4.00%	One time, 3 year	2,000	2,000
2/5/2013, fixed rate	2.83%	One time, 3 year	5,000	5,000
7/8/2013, fixed rate	3.19%	One time, 2 year	5,000	5,000
10/10/2013, fixed rate	3.05%	One time, 2 year	5,000	5,000
Total	3.27%		<u>\$ 17,000</u>	<u>\$ 24,600</u>

Investment securities available for sale with amortized costs totaling \$17.6 million (market value of \$17.6 million) were pledged as collateral for the securities sold under agreements to repurchase at December 31, 2010. Investment securities available for sale with costs totaling \$1.1 million and \$2.4 million (market values of \$1.1 million and \$2.3 million) were pledged as collateral for public deposits and a federal funds line, respectively, at December 31, 2010.

At December 31, 2010 loans totaling \$33.4 million and investment securities totaling \$1.3 million (market value of \$1.3 million) were pledged for \$17.0 million in FHLB advances.

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE H - INCOME TAXES

The significant components of the provision for income taxes for years ended December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
	(in thousands)	
Current tax provision		
Federal	\$ -	\$ -
State	-	-
Total current tax provision	<u>-</u>	<u>-</u>
Deferred tax provision:		
Federal	(315)	(1,236)
State	(34)	(269)
Total deferred tax provision	<u>(349)</u>	<u>(1,505)</u>
Provision for income tax before adjustment to deferred tax asset valuation allowance	(349)	(1,505)
Increase in valuation allowance	<u>349</u>	<u>1,505</u>
Net provision for income taxes	<u>\$ -</u>	<u>\$ -</u>

The differences between the provision for income taxes and the amounts computed by applying the statutory Federal income tax rate of 34% to the loss before income taxes for years ended December 31, 2010 and 2009 are summarized as follows:

	<u>2010</u>	<u>2009</u>
	(in thousands)	
Tax benefit computed at the statutory Federal rate	\$ (274)	\$ (1,250)
Increase (decrease) resulting from:		
Non-taxable income	(65)	(100)
Non-deductible expenses	23	15
State income taxes, net of Federal tax benefit	(42)	(175)
Adjustment to deferred tax asset valuation allowance	349	1,505
Other	9	5
Provision for income taxes	<u>\$ -</u>	<u>\$ -</u>

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE H - INCOME TAXES (Continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred taxes at December 31, 2010 and 2009 are as follows:

	2010	2009
	(in thousands)	
Deferred tax assets relating to:		
Allowance for loan losses	\$ 441	\$ 363
Pre-opening costs and expenses	213	234
Net operating loss carryforwards	1,378	1,742
Unrealized gain on securities	32	-
Compensation expense	169	117
Other real estate owned	587	-
Other	27	35
Total deferred tax assets	<u>2,847</u>	<u>2,491</u>
Less valuation allowance	<u>(2,622)</u>	<u>(2,273)</u>
Net deferred tax assets	<u>225</u>	<u>218</u>
Deferred tax liabilities relating to:		
Other	(8)	(8)
Accretion income	(5)	(28)
Fixed asset differences	(32)	(38)
Unrealized gain on securities	-	(91)
Deferred loan fees, net of costs	(148)	(144)
Total deferred tax liabilities	<u>(193)</u>	<u>(309)</u>
Net recorded deferred tax asset (liability)	<u>\$ 32</u>	<u>\$ (91)</u>

The Bank had net operating loss carryforwards for Federal income tax purposes of approximately \$3.6 million and \$4.6 million as of December 31, 2010 and 2009, respectively. The Bank had State loss carryforwards in the same amounts. The Federal and State loss carryforwards for the year ended December 31, 2010 expire in 2029 and 2024, respectively.

NOTE I - REGULATORY MATTERS

The Bank, as a North Carolina banking corporation, may pay cash dividends only out of undivided profits as determined pursuant to Chapter 53 of the North Carolina General Statutes. However, regulatory authorities may limit payment of dividends by any bank when it is determined that such limitation is in the public interest and is necessary to ensure financial soundness of the Bank. The Bank is currently required to obtain prior approval from the FDIC and the Commissioner before it may pay dividends on its common or preferred stock. In 2010, the Bank was granted permission quarterly to pay cash dividends on preferred stock issued to the United States Department of Treasury ("Treasury") under the Treasury's Capital Purchase Program ("CPP").

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE I - REGULATORY MATTERS (Continued)

The Bank is subject to various regulatory capital requirements administered by Federal and State banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulations to ensure capital adequacy require the Bank to maintain minimum amounts and ratios, as prescribed by regulations, of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. As of December 31, 2010, the most recent notification from the FDIC categorizes the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category. Management believes, as of December 31, 2010 and 2009, that the Bank met all capital adequacy requirements to which it is subject, as set forth below:

	Actual		Minimum for capital adequacy purposes		Minimum to be well capitalized under prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(in thousands)						
December 31, 2010						
Total capital (to risk-weighted assets)	\$ 15,609	11.8%	\$ 10,578	8.0%	\$ 13,222	10.0%
Tier I capital (to risk-weighted assets)	\$ 13,951	10.6%	\$ 5,289	4.0%	\$ 7,933	6.0%
Tier I capital (to average assets)	\$ 13,951	8.0%	\$ 6,969	4.0%	\$ 8,712	5.0%

	Actual		Minimum for capital adequacy purposes		Minimum to be well capitalized under prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(in thousands)						
December 31, 2009						
Total capital (to risk-weighted assets)	\$ 16,603	11.8%	\$ 11,276	8.0%	\$ 14,095	10.0%
Tier I capital (to risk-weighted assets)	\$ 14,841	10.5%	\$ 5,638	4.0%	\$ 8,457	6.0%
Tier I capital (to average assets)	\$ 14,841	8.5%	\$ 7,006	4.0%	\$ 8,757	5.0%

NOTE J - LEASES

The Bank leases its main office facility under an operating lease that expires December 31, 2018 and which contains one renewal option for an additional five years. The Bank also leases office space in Asheville, North Carolina under an operating lease that expires October 31, 2011 and which contains three renewal options for one additional year. The Bank leases two automobiles under operating leases that expire December 2012. Minimum future rentals under these leases are as follows:

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE J - LEASES (Continued)

	(in thousands)
2011	\$ 304
2012	300
2013	283
2014	283
2015	283
2016 and thereafter	990
	<u>\$ 2,443</u>

Rental expense amounted to \$291,000 and \$257,000 during the years ended December 31, 2010 and 2009, respectively, and is included in occupancy and equipment expense on the accompanying statements of operations.

NOTE K - OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, upon extension of credit is based on management's credit evaluation of the borrower. Collateral obtained varies but may include real estate, stocks, bonds and certificates of deposit.

A summary of the contract amount of the Bank's exposure to off-balance sheet risk as of December 31, 2010 is as follows:

	(in thousands)
Financial instruments whose contract amounts represent credit risk:	
Commitments to extend credit	\$ -
Unused lines of credit and letters of credit	\$ 11,405

NOTE L - DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair Value Measurement

The Bank utilizes fair value measurements to record fair value adjustments for certain assets and liabilities and to determine fair value disclosures. Available for sale securities are recorded at fair value on a monthly basis. Additionally, from time-to-time, the Bank may be required to record other assets at fair value, such as loans held for investment and certain other assets. These nonrecurring fair value adjustments usually involve writing the asset down to fair value or the lower of cost or market value.

Fair Value Hierarchy

The Bank groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value, under GAAP. These levels are:

- Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets recorded at fair value on a recurring basis. The Bank does not have any liabilities recorded at fair value.

Investment Securities Available for Sale

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

The following table summarizes quantitative disclosures about investments subject to recurring fair value adjustments at December 31, 2010 and 2009:

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE L - DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

	December 31, 2010	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(in thousands)			
Investment securities available for sale				
U.S. Government agency securities	\$ 8,024	\$ -	\$ 8,024	\$ -
Residential GSE mortgage-backed securities	28,532	-	28,532	-
Total available for sale securities	<u>\$ 36,556</u>	<u>\$ -</u>	<u>\$ 36,556</u>	<u>\$ -</u>

	December 31, 2009	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(in thousands)			
Investment securities available for sale				
U.S. Government agency securities	\$ 15,486	\$ -	\$ 15,486	\$ -
Residential GSE mortgage-backed securities	21,581	-	21,581	-
Total available for sale securities	<u>\$ 37,067</u>	<u>\$ -</u>	<u>\$ 36,556</u>	<u>\$ -</u>

Impaired Loans

The Bank does not record loans held for investment at fair value on a recurring basis. However, from time-to-time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with GAAP. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2010, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. When the fair value of the collateral is based on a current appraised value or an observable market price, the Bank records the impaired loan measured at fair value on a nonrecurring basis as a Level 2 security. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank records the impaired loan measured at fair value on a nonrecurring basis as a Level 3 security.

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE L - DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

	December 31, 2010	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(in thousands)		
Impaired loans	\$ 5,479	\$ -	\$ -	\$ 5,479
		(in thousands)		
	December 31, 2009	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(in thousands)		
Impaired loans	\$ 7,794	\$ -	\$ -	\$ 7,794

Other Real Estate Owned

REO is adjusted to fair value upon transfer of the loans to REO. Subsequently, REO is carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on a current appraised value or an observable market price, the Bank records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank records the REO as nonrecurring Level 3.

	December 31, 2010	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(in thousands)		
REO	\$ 2,971	\$ -	\$ -	\$ 2,971
		(in thousands)		
	December 31, 2009	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		(in thousands)		
REO	\$ 359	\$ -	\$ -	\$ 359

Fair Value of Financial Instruments

Financial instruments include cash and due from banks, federal funds sold, investments, loans and deposit accounts. Fair value estimates are made at a specific moment in time, based on relevant market information and 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 Bank's entire holdings of a particular

NOTE L - DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

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

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

Cash and Due from Banks and Federal Funds Sold

The carrying amounts for cash and due from banks and federal funds sold approximate fair value because of the short maturities of those instruments.

Investment Securities Available for Sale and Held to Maturity

Fair values for investment securities available for sale and held to maturity are based on quoted market prices, where available. If quoted market prices are not available, fair value is estimated by evaluating the individual characteristics of the securities compared to the current market conditions.

Non-Marketable Equity Securities

These investments are carried at cost. Because of redemption provisions of the FHLB, the Bank estimates that the fair value of these investments is equal to its cost.

Loans

For certain homogenous segments of loans, such as multi-family residential loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. No adjustment has been made for illiquidity in the market on loans as there is no information from which to reasonably base this estimate.

Bank Owned Life Insurance

The fair value is determined by stated contract values to which the carrying amount is adjusted monthly.

Accrued Interest

The carrying amount is a reasonable estimate of fair value.

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE L - DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Deposits

The fair value of demand, money market and savings deposits is the amount payable on demand at the reporting date. The fair value of time deposits is estimated based on discounting cash flows using the rates currently offered for instruments of similar remaining maturities.

Borrowings, Securities Sold Under Agreements to Repurchase, and Federal Funds Purchased

The fair values of borrowings are based on discounting expected cash flows at the interest rate for debt with the same or similar remaining maturities and collateral requirements. Short-term borrowings, including securities sold under agreements to repurchase and federal funds purchased, are carried at approximate fair value because of the short maturities of those instruments.

Financial Instruments with Off-Balance Sheet Risk

With regard to financial instruments with off-balance sheet risk discussed in Note K, it is not practicable to estimate the fair value of future financing commitments.

The carrying amounts and estimated fair values of the Bank's financial instruments, none of which are held for trading purposes, are as follows at December 31, 2010 and 2009:

	2010		2009	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
	(in thousands)		(in thousands)	
Financial assets:				
Cash and due from banks	\$ 9,355	\$ 9,355	\$ 4,061	\$ 4,061
Federal funds sold	1,788	1,788	859	859
Investment securities available for sale	36,556	36,556	37,067	37,067
Investment securities held to maturity	2,000	1,440	2,967	2,478
FHLB stock	1,223	1,223	1,369	1,369
Loans, net	111,158	111,700	120,529	121,032
Bank owned life insurance	4,202	4,202	4,010	4,010
Accrued interest receivable	519	519	612	612
Financial liabilities:				
Deposits	123,665	124,109	118,738	119,116
Securities sold under agreements to repurchase	15,868	15,868	14,474	14,474
FHLB borrowings	17,000	17,799	24,600	25,228
Accrued interest payable	162	162	186	186

NOTE M - EMPLOYEE BENEFIT PLANS

401(k) Plan

The Bank has a 401(k) Plan in which substantially all employees are eligible to participate. The Bank makes matching contributions of up to four percent of an employee's compensation within the 401(k) Plan. Matching contributions vest to the employee immediately. For the years ended December 31, 2010 and 2009, expenses attributable to the 401(k) Plan amounted to \$47,000 and \$45,000, respectively.

Employment Agreements

The Bank has entered into employment agreements with its Chief Executive Officer and President and Chief Financial Officer with initial terms of three years each. Commencing with the first anniversary of each employment agreement and annually thereafter, following a performance evaluation, the terms of the employment agreements automatically extend for an additional period of 12 months, unless the Board directs otherwise.

In order to qualify to participate in the CPP, the Bank agreed, so long as the Treasury continues to hold debt or equity in the Bank, to take all necessary actions to ensure that the Bank's compensation arrangements and benefits plans with respect to its executive officers comply with the Emergency Economic Stabilization Act of 2008 ("EESA") and any related rules and regulations promulgated thereunder. Accordingly, to permit the Bank to participate in the CPP, the Bank's executive officers entered into agreements with the Bank amending their respective employment agreements to the extent necessary to comply with the EESA and any related rules and regulations. The executive officers also executed waivers waiving any claim against the Treasury or the Bank for any changes in their compensation or benefits required to comply with the EESA and any related rules and regulations.

The Bank has entered into a Supplemental Executive Retirement Plan ("SERP") with its two executive officers to provide a supplemental retirement benefit. Each participant in the SERP is provided a defined annual retirement benefit, effective upon the participant's termination of employment with the Bank after reaching retirement age. The expenses attributable to the SERP totaled \$111,000 and \$122,000 in 2010 and 2009, respectively. This amount was based on applying a discount rate of 6.00% to the defined annual retirement benefit for each participant. Upon the death of the executive prior to the commencement of payments, the executive's beneficiary shall not receive any benefit under the SERP but may be entitled to benefits under a Split Dollar Agreement. These Split Dollar Agreements provide that the Bank will pay the premiums on certain bank owned life insurance policies, during the employment period, the proceeds of which shall be divided between the Bank and the executive's beneficiaries.

Stock Option Plans

During 2007, the Bank adopted, with shareholder approval, the Bank of Commerce Employee Stock Option Plan ("2007 Employee Plan") and the Bank of Commerce Director Stock Option Plan ("2007 Director Plan"). Options to purchase 160,000 shares of the Bank's common stock may be awarded under each plan. Accordingly, 320,000 shares of the Bank's common stock have been reserved for issuance under the two plans. The options granted in 2010 under the 2007 Director Plan and the 2007 Employee Plan each vest over a four year period. All unexercised options expire ten years from the date of grant.

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

The fair market value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The Bank granted options to purchase 51,200 and 50,725 shares of common stock during the years ended December 31, 2010 and 2009, respectively, with fair values of \$1.95 and \$2.52 in 2010 and 2009, respectively, per option.

The risk-free interest rate is based upon a Treasury instrument with a life that is similar to the expected life of the option grant. Expected volatility is based upon the historical volatility of similar banks' common stock using the previous 12 months trading history. The expected term of the options is based upon the average of the vesting period and the expiration date. The expected dividend yield is based upon current yield on the date of the grant. The following table illustrates the assumptions for the Black-Scholes model used in determining the fair value of options granted in the years ended December 31, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
Dividend yield	-	-
Risk-free interest rate	2.27%	3.40%
Volatility	55.69%	43.59%
Expected life	7 years	7 years

A summary of options granted during the year and their weighted average grant date fair value for nonvested options is as follows:

	<u>Nonvested options</u>	
	Number outstanding	Average grant date fair value per share
At December 31, 2009	\$ 77,985	\$ 2.27
Options granted	51,200	1.77
Options vested	(32,035)	2.03
Options forfeited	<u>(7,800)</u>	<u>2.03</u>
At December 31, 2010	<u>\$ 89,350</u>	<u>\$ 2.21</u>

The approximate fair value of options vested during the years ended December 31, 2010 and 2009 was \$81,000 and \$85,000, respectively.

A summary of the option plans as of December 31, 2010 is presented as follows:

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE M - EMPLOYEE BENEFIT PLANS (Continued)

	Shares available for future grants	Outstanding options		Exercisable options	
		Number outstanding	Weighted average exercise price	Number outstanding	Weighted average exercise price
At December 31, 2009	137,525	182,475	\$ 9.03	104,490	\$ 10.20
Options granted/vesting	(51,200)	51,200	3.39	32,035	6.41
Options exercised	-	-	-	-	-
Options forfeited	13,500	(13,500)	8.76	(5,700)	9.67
At December 31, 2010	<u>99,825</u>	<u>220,175</u>	<u>\$ 7.47</u>	<u>130,825</u>	<u>\$ 8.82</u>

The weighted average remaining contractual life of options outstanding at December 31, 2010 and 2009 was 7.7 years and 8.4 years, respectively.

As of December 31, 2010 and 2009 there was \$166,000 and \$157,000, respectively, of total unrecognized compensation cost related to nonvested stock options granted under all of the Bank's stock option plans. That cost, as of December 31, 2010 and 2009, is expected to be recognized over a weighted average period of 2.7 years and 2.9 years, respectively.

Upon exercise of the options, the Bank issues authorized but unissued shares of common stock or may elect to purchase shares in the open market.

NOTE N - PARTICIPATION IN TREASURY CPP AND PRIVATE PLACEMENT OF PREFERRED STOCK

On January 16, 2009, the Bank completed the sale of \$3.0 million of preferred stock to the Treasury under the Treasury's CPP. The program was designed to attract broad participation by healthy banking institutions to help stabilize the financial system and increase lending for the benefit of the U.S. economy.

Under the terms of the stock purchase agreement, the Treasury (i) received 3,000 shares of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A with a liquidation preference of \$1,000 per share ("Series A Preferred Stock") and (ii) exercised a warrant to purchase 150 shares of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B, with a liquidation preference of \$1,000 per share ("Series B Preferred Stock") at \$0.01 per share.

The preferred stock qualifies as Tier 1 capital. The holder of the preferred stock shall be entitled to receive, as and when declared by the Board of Directors of the Bank, non-cumulative cash dividends (i) at a rate of 5% for the first five years and 9% thereafter for the Series A Preferred Stock; and (ii) at a rate of 9% for the Series B Preferred Stock.

BANK OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE N - PARTICIPATION IN TREASURY CPP AND PRIVATE PLACEMENT OF PREFERRED STOCK (Continued)

In order to determine the relative value of the preferred stock, the present value of the preferred stock cash flows, using a discount rate of 14%, was calculated as \$1.5 million. The following table shows the determination of the value attributed to the proceeds of \$3.0 million received for the Series A Preferred Stock and Series B Preferred Stock based on the relative values of each.

	<u>Fair value</u>	<u>Relative value</u>	<u>Relative value</u>
	(Dollars in thousands)		
Net present value of series A preferred stock (14% discount)	\$ 1,502	94.00%	\$ 2,819
Fair value of series B preferred stock (Black-Scholes)	<u>96</u>	<u>6.00%</u>	<u>181</u>
Total	<u>\$ 1,598</u>	<u>100.00%</u>	<u>\$ 3,000</u>

**BANK OF COMMERCE
BOARD OF DIRECTORS**

Earl D. Leake
Consultant
(Chair, Bank of Commerce Board)

Karen A. McIsaac
President
Project Managers, Inc.
(Vice Chair, Bank of Commerce Board)

James W. Allison
Partner
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G. Dixon Handshaw
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Handshaw, Inc.

N. Eric Laster
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Edifice, Inc.

John D. Scott
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Betty B. Trautwein
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Wesley W. Sturges
Chief Executive Officer & President
Bank of Commerce

Richard T. Williams
Sr. Vice President
Environmental Health & Safety
Duke Energy Corporation

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OFFICERS**

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&
President

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*Executive Vice President &
Chief Financial Officer; Secretary*

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*Sr. Vice President &
Chief Credit Officer*

Michael R. Bridges
*Vice President &
Commercial Banking Officer*

Richard W. Harris
*Vice President &
Loan Portfolio Manager*

Elizabeth K. Jameson
*Asst. Vice President & Asst. Secretary;
Loan Operations Manager*

Genise R. Harper
*Banking Officer &
Branch Manager*

Stuart L. Hester
*Sr. Vice President &
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Jennifer L. Horne
*Asst. Vice President &
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Michael C. Melvin
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Sharon C. Huss
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Regulatory and Securities Counsel

Brooks, Pierce, McLendon, Humphrey & Leonard, LLP
2000 Renaissance Plaza
Greensboro, North Carolina 27401

Stock Transfer Agent

Registrar and Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016
(800) 368-5948

Independent Auditors

Dixon Hughes Goodman LLP
6525 Morrison Blvd, Suite 500
Charlotte, North Carolina 28211-3563

Notice of Annual Shareholders Meeting

The Annual Meeting of the Shareholders of Bank of Commerce will be held at 5:30 PM on June 20, 2011 at Bank of Commerce, 100 Queens Road, Suite 100, Charlotte, North Carolina 28204.

Common Stock and Related Matters

The Bank's outstanding shares of common stock were held by approximately 378 holders of record as of December 31, 2010. As of December 31, 2010, the Bank had 1,600,000 shares of common stock outstanding. To date, the Bank has not paid any cash dividends on common stock. The Bank's common stock is quoted in the over-the-counter market through the OTC Bulletin Board under the symbol "BONC.OB."

This Annual Report serves as the annual financial disclosure statement furnished pursuant to the Federal Deposit Insurance Corporation's rules and regulations. This statement has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

BANK OF COMMERCE

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