

Heritage Commerce Corp Earns \$4.8 Million in Third Quarter 2011

San Jose, CA – October 27, 2011 – **Heritage Commerce Corp (Nasdaq: HTBK)**, the holding company (“the Company”) for Heritage Bank of Commerce (“the Bank”), today reported reported net income of \$4.8 million for the third quarter of 2011, compared to \$651,000 in the third quarter a year ago. After accrued dividends and discount accretion on preferred stock, the Company reported net income allocable to common shareholders of \$4.3 million, or \$0.13 per average diluted common share, for the third quarter of 2011, compared to a net income allocable to common shareholders of \$458,000, or \$0.01 per average diluted common share, for the third quarter a year ago. For the nine months ended September 30, 2011, net income allocable to common shareholders was \$6.8 million, or \$0.21 per average diluted common share. For the nine months ended September 30, 2010, the net loss allocable to common shareholders was (\$59.4) million, or (\$4.70) per average diluted common share, which included a \$43.2 million non-cash goodwill impairment charge. All results are unaudited.

“Our operating performance continues to build momentum as profitability, credit quality and capital ratios improve,” said Walt Kaczmarek, President and Chief Executive Officer. “Our credit quality metrics continue to improve each quarter which enables us to focus on strategic initiatives to build the franchise. In addition, our net interest margin continues to expand as a result of higher yields on earning assets and lower cost of deposits compared to the third quarter of 2010,” continued Mr. Kaczmarek.

Third Quarter 2011 Highlights (at or for the periods ended September 30, 2011, compared to September 30, 2010, and June 30, 2011) reflect solid operating results, expanded net interest margin, and improved capital metrics:

- ◆ The Company reported net income allocable to common shareholders of \$4.3 million, or \$0.13 per average diluted common share for the third quarter of 2011. Asset quality continued to improve as reflected in the following metrics:
 - The provision for loan losses was \$1.5 million in the third quarter of 2011, compared to \$2.1 million in the third quarter of 2010, and \$955,000 in the second quarter of 2011.
 - The allowance for loan losses at September 30, 2011 was \$21.0 million, or 2.71% of total loans, compared to \$25.3 million, or 2.85% of total loans at September 30, 2010, and \$23.2 million, or 2.96% of total loans at June 30, 2011.
 - The allowance for loan losses to total nonperforming loans, or coverage ratio, improved to 109.25% at September 30, 2011, compared to 51.62% at September 30, 2010, and 95.51% at June 30, 2011.
 - Nonperforming assets declined 59% year-over-year to \$20.5 million, or 1.64% of total assets at September 30, 2011, from \$49.7 million, or 3.73% of total assets at September 30, 2010, and declined 16% from \$24.5 million, or 1.94% of total assets at June 30, 2011.
 - Classified assets decreased to \$72.4 million at September 30, 2011, from \$116.5 million at September 30, 2010, and from \$76.1 million at June 30, 2011, which represented a decline of 38% and 5% respectively.
 - Classified assets to Tier 1 capital plus the allowance for loans losses at the holding company and the bank level were 33% and 37% at September 30, 2011, respectively, compared to 56% and 65% at September 30, 2010, and 35% and 39% at June 30, 2011.
- ◆ Noninterest-bearing demand deposits rose by 28% to \$344.5 million at September 30, 2011 from \$269.5 million at September 30, 2010, and by 3% from \$333.2 million at June 30, 2011.
- ◆ The total cost of deposits decreased 38 basis points to 0.34% for the third quarter of 2011 from 0.72% for the third quarter of 2010, and decreased 8 basis points from 0.42% for the second quarter of 2011, as a result of a reduction in higher-cost wholesale deposits and growth in noninterest-bearing demand deposits.
- ◆ The net interest margin increased 49 basis points to 4.01% in the third quarter of 2011, from 3.52% in the third quarter of 2010, and increased 6 basis points from 3.95% in the second quarter of 2011.
- ◆ Capital ratios substantially exceed regulatory requirements for a well-capitalized financial institution at both a holding company and bank level at September 30, 2011:

| Capital Ratios | Well-Capitalized Regulatory Guidelines | Heritage Commerce Corp | Heritage Bank of Commerce |
|-------------------|--|------------------------|---------------------------|
| Total Risk-Based | 10.0% | 22.3% | 19.9% |
| Tier 1 Risk-Based | 6.0% | 21.1% | 18.7% |
| Leverage | 5.0% | 16.0% | 14.2% |

During the third quarter of 2011, there were two significant events that impacted our results of operations:

- The Company had a \$3.7 million partial valuation allowance on deferred tax assets as of December 31, 2010 and June 30, 2011. The Company reduced the partial valuation allowance by \$3.0 million during the third quarter of 2011, based on the Company’s estimate that it is more likely than not that the remaining net deferred tax assets as of September 30, 2011 will be realized. The income tax benefit of \$2.5 million for the third quarter of 2011 and \$1.1 million for the nine months ended September 30, 2011, are net of the \$3.0 million reduction in the partial valuation allowance.
- The Company maintains life insurance policies for current and former directors and officers that are subject to split-dollar life insurance agreements. During the third quarter of 2011, participants in the split-dollar life insurance benefit plan agreed to amend their agreements. As a result of the amended agreements, the benefit plan liability was reduced from \$6.5 million as of June 30, 2011 to \$3.6 million as of September 30, 2011.

Balance Sheet Review, Credit Quality and Capital Management

Heritage Commerce Corp’s total assets decreased 6% to \$1.25 billion at September 30, 2011, from \$1.33 billion a year ago, and 1% from \$1.26 billion at June 30, 2011.

The investment securities portfolio totaled \$312.1 million at September 30, 2011, an increase of 180% from \$111.5 million at September 30, 2010, and an increase of 3% from \$303.0 million at June 30, 2011. At September 30, 2011, the investment portfolio was comprised of agency mortgage-backed securities, all of which were issued by U.S. Government sponsored entities.

“While we continue to revitalize our lending efforts to meet the demands of our customers and prospects, overall loan demand remains tepid,” said Mr. Kaczmarek. “And, until we see some material lending traction, we are allocating a greater proportion of our earning assets to the investment portfolio.”

The total loan portfolio remains well-diversified with commercial and industrial (“C&I”) loans accounting for 47% of the portfolio at September 30, 2011. Additionally, C&I loans increased by \$7.3 million, or 2%, at September 30, 2011 compared to June 30, 2011. Commercial and residential real estate loans accounted for 40% of the total loan portfolio, of which 52% were owner-occupied by businesses. Land and construction loans continued to decrease, accounting for only 5% of the total loan portfolio at September 30, 2011, compared to 10% at September 30, 2010, and remained relatively flat compared to the second quarter 2011. Consumer and home equity loans accounted for the remaining 8% of the total loan portfolio at September 30, 2011.

The yield on the loan portfolio was 5.29% in the third quarter of 2011, compared to 5.10% in the same period in 2010, and 5.31% for the second quarter of 2011. Loans, excluding loans held-for-sale, decreased 12% to \$776.7 million at September 30, 2011, from \$886.6 million a year ago, and decreased 1% from \$782.1 million at June 30, 2011.

The following table summarizes the allowance for loan losses:

| | For the Three Months Ended: | | |
|--|-----------------------------|------------------|-----------------------|
| | September 30, 2011 | June 30, 2011 | September 30, 2010 |
| ALLOWANCE FOR LOAN LOSSES | | | |
| (in \$000's, unaudited) | | | |
| Balance at beginning of quarter | \$ 23,167 | \$ 24,009 | \$ 26,753 |
| Provision for loan losses during the quarter | 1,515 | 955 | 2,058 |
| Net charge-offs during the quarter | (3,633) | (1,797) | (3,521) |
| Balance at end of quarter | <u>\$ 21,049</u> | <u>\$ 23,167</u> | <u>\$ 25,290</u> |
| Total loans | \$ 776,684 | \$ 782,080 | \$ 886,616 |
| Total nonperforming assets | \$ 20,495 | \$ 24,505 | \$ 49,653 |
| Allowance for loan losses to total loans | 2.71% | 2.96% | 2.85% |
| Allowance for loan losses to total nonperforming loans | 109.25% | 95.51% | 51.62% |

“Nonperforming assets have declined for each of the last six consecutive quarters,” said Mr. Kaczmarek. Nonperforming assets declined by \$29.2 million year-over-year to \$20.5 million, or 1.64% of total assets at September 30, 2011, from \$49.7 million, or 3.73% of total assets at September 30, 2010. At June 30, 2011, nonperforming assets totaled \$24.5 million or 1.94% of total assets. The following is a breakout of nonperforming assets at September 30, 2011: 33% land and construction loans; 27% SBA loans; 15% commercial and industrial loans; 6% commercial real estate loans; 13% restructured and loans over 90 days past due and still accruing; and 6% other real estate owned (“OREO”). At September 30, 2011, the \$20.5 million of nonperforming assets included \$816,000 of loans guaranteed by the SBA and \$2.2 million of restructured loans still accruing interest income. Total OREO was \$1.2 million at September 30, 2011, compared to \$657,000 at September 30, 2010, and \$248,000 at June 30, 2011.

Total deposits were \$1.0 billion at September 30, 2011, compared to \$1.1 billion at September 30, 2010, and \$998.6 million at June 30, 2011. Noninterest-bearing demand deposits increased \$75.0 million to \$344.5 million at September 30, 2011, compared to \$269.5 million a year ago, and increased \$11.3 million compared to \$333.2 million at June 30, 2011. At September 30, 2011, brokered deposits declined 29% to \$93.7 million, from \$132.4 million at September 30, 2010, and declined 1% from \$94.6 million at June 30, 2011. Deposits, excluding brokered deposits, were \$912.4 million at September 30, 2011, compared to \$932.7 million at September 30, 2010, and \$903.9 million at June 30, 2011. The total cost of deposits decreased 38 basis points to 0.34% for the third quarter of 2011 from 0.72% for the third quarter of 2010, and decreased 8 basis points from 0.42% for the second quarter of 2011, primarily as a result of a reduction in higher-cost wholesale deposits and higher noninterest-bearing demand deposit balances.

“Our deposit mix is excellent with noninterest-bearing demand deposits representing 34% of total deposits at quarter end,” added Mr. Kaczmarek.

Tangible equity was \$194.4 million at September 30, 2011, compared to \$181.9 million at September 30, 2010, and \$184.7 million at June 30, 2011. Tangible book value per common share was \$5.17 at September 30, 2011, compared to \$4.72 at September 30, 2010, and \$4.81 at June 30, 2011. In the per common share data attached, the Company details the pro forma tangible book value per share, assuming the Company’s outstanding Series C Preferred Stock issued in June 2010 was converted into common stock. There were 21,004 shares of Series C Preferred Stock outstanding at September 30, 2011 and the Series C Preferred Stock is convertible into an aggregate of 5.6 million shares of common stock at a conversion price of \$3.75, upon a transfer of the Series C Preferred Stock in a widely dispersed offering.

The Company’s accumulated other comprehensive income was \$2.7 million at September 30, 2011, compared to a loss of (\$1.3) million a year ago, and a loss of (\$2.3) million at June 30, 2011. The components of accumulated other comprehensive income at September 30, 2011 include the following balances, net of deferred taxes: a \$5.0 million unrealized gain on available-for-sale securities; a (\$2.0) million unrealized loss on the supplemental executive retirement plan; a (\$1.5) million unrealized loss on the split-dollar life insurance benefit plan; and a \$1.2 million unrealized gain on interest-only strip from SBA loans.

Operating Results

Net interest income, before the provision for loan losses, increased 8% to \$11.7 million in the third quarter of 2011, from \$10.8 million in the third quarter a year ago, and increased 2% from \$11.5 million in the second quarter of 2011. Net interest income for the nine months ended September 30, 2011 was \$34.4 million, compared to \$33.6 million for the nine months ended September 30, 2010. The increase in net interest income was primarily due to an increase in the average balance of investment securities, partially offset by a decrease in average loans and a decrease in average interest-bearing liabilities.

The net interest margin (“NIM”) improved 49 basis points to 4.01% for the third quarter of 2011, compared to 3.52% for the third quarter a year ago, and increased 6 basis points from 3.95% from the second quarter of 2011, principally due to a higher yield on loans from a year ago, a lower cost of deposits as a result of higher noninterest-bearing demand deposit balances, and a lower level of nonaccrual loans. The NIM increased to 3.97% for the first nine months of 2011, compared to 3.72% for the first nine months of 2010. “We have a strategic initiative to continue to improve the net interest margin and we are pleased with the steady improvement during this period of low interest rates,” said Mr. Kaczmarek.

The Company's provision for loan losses was \$1.5 million for the third quarter of 2011, compared to \$2.1 million in the third quarter of 2010, and \$955,000 in the second quarter of 2011. The provision for loan losses was \$3.2 million for the nine months ended September 30, 2011, and \$25.8 million for the nine months ended September 30, 2010.

Noninterest income was \$1.9 million for the third quarter of 2011, compared to \$2.7 million for the third quarter of 2010 and \$2.2 million for the second quarter of 2011. In the first nine months of 2011, noninterest income was \$6.0 million, compared to \$6.3 million in the first nine months a year ago. Noninterest income in the third quarter of 2010 included a \$1.5 million gain on the sale of securities, which was partially offset by an \$887,000 loss on sale of other loans. Noninterest income in the second quarter of 2011 included a deferred gain of \$192,000 from loan sales in the first quarter of 2011.

Noninterest expense in the third quarter of 2011 declined 13% to \$9.8 million, compared to \$11.2 million in the third quarter of 2010, primarily due to a \$1.1 million write-down on loan held-for-sale in the third quarter of 2010, a decrease in salaries and benefits expense, lower professional fees and lower FDIC insurance premiums. This was partially offset by an increase in investment losses on the Company's low income housing investments to \$617,000 in the third quarter of 2011, compared to \$214,000 in the third quarter of 2010. The Company has investments in low-income housing funds ("LIHFs") that earn tax credits and tax benefits, which reduces the Company's effective tax rate compared to statutory tax rates. Based on the projected future operating results of the LIHFs, the Company recognized additional LIHF investment losses in the third quarter of 2011. Noninterest expense in the third quarter of 2011 increased 4% from \$9.5 million in the second quarter of 2011, mainly the result of the \$617,000 of investment losses on the LIHFs, compared to \$41,000 in the second quarter of 2011. Noninterest expense in the first nine months of 2011 declined 15% to \$29.7 million, compared to \$34.8 million (excluding the \$43.2 million impairment of goodwill) in the first nine months of 2010. The decrease in noninterest expense for the first nine months of 2011 was primarily due to the \$1.1 million write-down on loan held-for-sale included in the first nine months of 2010, and a decrease in salaries and benefits expense, lower professional fees and lower FDIC insurance premiums. This was partially offset by an increase in investment losses on the LIHFs to \$820,000 in the first nine months of 2011, compared to \$572,000 in the first nine months of 2010.

The income tax benefit for the quarter ended September 30, 2011 was \$2.5 million, compared to an income tax benefit of \$398,000 in the third quarter a year ago, and income tax expense of \$1.1 million in the second quarter of 2011. In the first nine months of 2011, the income tax benefit was \$1.1 million, compared to an income tax benefit of \$6.3 million in the first nine months a year ago. The income tax benefit for the third quarter and first nine months of 2011 included the \$3.0 million reduction of the partial valuation allowance for deferred tax. The difference in the effective tax rate compared to the combined federal and state statutory tax rate of 42% is primarily the result of the Company's investment in life insurance policies whose earnings are not subject to taxes, and tax credits related to investments in low income housing limited partnerships.

The efficiency ratio was 72.06% for the third quarter of 2011, compared to 82.96% for the third quarter of 2010 and 69.43% in the second quarter of 2011. The efficiency ratio improved to 73.60% for the first nine months of 2011. The efficiency ratio (excluding the \$43.2 million impairment of goodwill) was 87.22% for the first nine months of 2010.

Heritage Commerce Corp., a bank holding company established in February 1998, is the parent company of Heritage Bank of Commerce, established in 1994 and headquartered in San Jose with full-service branches in Danville, Fremont, Gilroy, Los Altos, Los Gatos, Morgan Hill, Mountain View, Pleasanton, and Walnut Creek. Heritage Bank of Commerce is an SBA Preferred Lender with an additional Loan Production Office in Santa Rosa, California. For more information, please visit www.heritagecommercecorp.com.

Forward Looking Statement Disclaimer

Forward-looking statements are based on management's knowledge and belief as of today and include information concerning the Company's possible or assumed future financial condition, and its results of operations, business and earnings outlook. These forward-looking statements are subject to risks and uncertainties. A number of factors, some of which are beyond the Company's ability to control or predict, could cause future results to differ materially from those contemplated by such forward-looking statements. The forward-looking statements could be affected by many factors, including but not limited to: (1) competition for loans and deposits and failure to attract or retain deposits and loans; (2) local, regional, and national economic conditions and events and the impact they may have on us and our customers, and our assessment of that impact on our estimates including but not limited to the allowance for loan losses; (3) risks associated with concentrations in real estate related loans; (4) changes in the level of nonperforming assets and charge-offs and other credit quality measures, and their impact on the adequacy of the Company's allowance for loan losses and the Company's provision for loan losses; (5) the effects of and changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the Federal Open Market Committee of the Federal Reserve Board; (6) stability of funding sources and continued availability of borrowings; (7) the effect of changes in laws and regulations with which the Company and Heritage Bank of Commerce must comply, including, but not limited to any increase in FDIC insurance premiums; (8) our ability to raise capital or incur debt on reasonable terms; (9) legal limits on Heritage Bank of Commerce's ability to pay dividends to the Company; (10) future legislative or administrative changes to the U.S. Treasury Capital Purchase Program enacted under the Emergency Economic Stabilization Act of 2008; (11) the impact of the Emergency Economic Stabilization Act of 2008 and the American Recovery and Reinvestment Act of 2009 and related rules and regulations on our business operations and competitiveness, including the impact of executive compensation restrictions, which may affect our ability to retain and recruit executives in competition with other firms who do not operate under those restrictions; (12) the impact of the Dodd Frank Wall Street Reform and Consumer Protection Act signed by President Obama on July 21, 2010; (13) the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters; (14) changes in the deferred tax asset valuation allowance in future quarters; (15) the costs and effects of legal and regulatory developments, including resolution of legal proceedings or regulatory or other governmental inquiries, and the results of regulatory examinations or reviews; (16) the ability to increase market share and control expenses; and (17) our success in managing the risks involved in the foregoing items. For a discussion of factors which could cause results to differ, please see the Company's reports on Forms 10-K and 10-Q as filed with the Securities and Exchange Commission and the Company's press releases. Readers should not place undue reliance on the forward-looking statements, which reflect management's view only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

Member FDIC

| CONSOLIDATED STATEMENTS OF OPERATIONS (in \$'000's, unaudited) | For the Three Months Ended: | | | Percent Change From: | | For the Nine Months Ended: | | |
|--|-----------------------------|------------------|-----------------------|----------------------|-----------------------|----------------------------|-----------------------|-------------------|
| | September 30, 2011 | June 30, 2011 | September 30, 2010 | June 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 | Percent Change |
| Interest income | \$ 13,020 | \$ 13,015 | \$ 13,361 | 0% | -3% | \$ 39,021 | \$ 41,920 | -7% |
| Interest expense | 1,320 | 1,543 | 2,530 | -14% | -48% | 4,653 | 8,292 | -44% |
| Net interest income before provision for loan losses | 11,700 | 11,472 | 10,831 | 2% | 8% | 34,368 | 33,628 | 2% |
| Provision for loan losses | 1,515 | 955 | 2,058 | 59% | -26% | 3,239 | 25,754 | -87% |
| Net interest income after provision for loan losses | 10,185 | 10,517 | 8,773 | -3% | 16% | 31,129 | 7,874 | 295% |
| Noninterest income: | | | | | | | | |
| Service charges and fees on deposit accounts | 605 | 587 | 536 | 3% | 13% | 1,759 | 1,664 | 6% |
| Servicing income | 434 | 435 | 442 | 0% | -2% | 1,280 | 1,288 | -1% |
| Increase in cash surrender value of life insurance | 426 | 419 | 428 | 2% | 0% | 1,270 | 1,249 | 2% |
| Gain on sales of SBA loans | 268 | 476 | 429 | -44% | -38% | 1,124 | 707 | 59% |
| Gain on sale of securities | - | - | 1,492 | N/A | -100% | - | 1,492 | -100% |
| Loss on sale of other loans | - | - | (887) | N/A | -100% | - | (887) | -100% |
| Other | 179 | 253 | 288 | -29% | -38% | 566 | 777 | -27% |
| Total noninterest income | 1,912 | 2,170 | 2,728 | -12% | -30% | 5,999 | 6,290 | -5% |
| Noninterest expense: | | | | | | | | |
| Salaries and employee benefits | 5,000 | 5,111 | 5,272 | -2% | -5% | 15,504 | 16,645 | -7% |
| Occupancy and equipment | 1,012 | 1,031 | 1,081 | -2% | -6% | 3,082 | 3,023 | 2% |
| Professional fees | 707 | 456 | 780 | 55% | -9% | 2,002 | 3,202 | -37% |
| Low income housing investment losses | 617 | 41 | 214 | 1405% | 188% | 820 | 572 | 43% |
| FDIC deposit insurance premiums | 167 | 383 | 849 | -56% | -80% | 1,074 | 3,059 | -65% |
| Writedown of loans held-for-sale | - | - | 1,080 | N/A | -100% | - | 1,080 | -100% |
| Impairment of goodwill | - | - | - | N/A | N/A | - | 43,181 | -100% |
| Other | 2,306 | 2,450 | 1,972 | -6% | 17% | 7,230 | 7,236 | 0% |
| Total noninterest expense | 9,809 | 9,472 | 11,248 | 4% | -13% | 29,712 | 77,998 | -62% |
| Income (loss) before income taxes | 2,288 | 3,215 | 253 | -29% | 804% | 7,416 | (63,834) | 112% |
| Income tax expense (benefit) | (2,529) | 1,129 | (398) | -324% | -535% | (1,068) | (6,272) | 83% |
| Net income (loss) | 4,817 | 2,086 | 651 | 131% | 640% | 8,484 | (57,562) | 115% |
| Dividends and discount accretion on preferred stock | (532) | (604) | (193) | -12% | 176% | (1,732) | (1,792) | -3% |
| Net income (loss) allocable to common shareholders | \$ 4,285 | \$ 1,482 | \$ 458 | 189% | 836% | \$ 6,752 | \$ (59,354) | 111% |
| PER COMMON SHARE DATA | | | | | | | | |
| (unaudited) | | | | | | | | |
| Basic earnings (loss) per share | \$ 0.13 | \$ 0.05 | \$ 0.01 | 160% | 1200% | \$ 0.21 | \$ (4.70) | 104% |
| Diluted earnings (loss) per share | \$ 0.13 | \$ 0.05 | \$ 0.01 | 160% | 1200% | \$ 0.21 | \$ (4.70) | 104% |
| Common shares outstanding at period-end | 26,295,001 | 26,295,001 | 26,233,001 | 0% | 0% | 26,295,001 | 26,233,001 | 0% |
| Pro forma common shares outstanding at period-end, assuming Series C preferred stock was converted into common stock | 31,896,001 | 31,896,001 | 31,834,001 | 0% | 0% | 31,896,001 | 26,233,001 | 22% |
| Book value per share | \$ 5.27 | \$ 4.91 | \$ 4.84 | 7% | 9% | \$ 5.27 | \$ 4.84 | 9% |
| Tangible book value per share | \$ 5.17 | \$ 4.81 | \$ 4.72 | 7% | 10% | \$ 5.17 | \$ 4.72 | 10% |
| Pro forma tangible book value per share, assuming Series C preferred stock was converted into common stock | \$ 4.88 | \$ 4.57 | \$ 4.51 | 7% | 8% | \$ 4.88 | \$ 4.51 | 8% |
| KEY FINANCIAL RATIOS | | | | | | | | |
| (unaudited) | | | | | | | | |
| Annualized return (loss) on average equity | 10.02% | 4.50% | 1.38% | 123% | 626% | 6.09% | -42.78% | 114% |
| Annualized return (loss) on average tangible equity | 10.17% | 4.57% | 1.40% | 123% | 626% | 6.18% | -51.99% | 112% |
| Annualized return (loss) on average assets | 1.52% | 0.66% | 0.20% | 130% | 660% | 0.90% | -5.76% | 116% |
| Annualized return (loss) on average tangible assets | 1.52% | 0.66% | 0.20% | 130% | 660% | 0.90% | -5.90% | 115% |
| Net interest margin | 4.01% | 3.95% | 3.52% | 2% | 14% | 3.97% | 3.72% | 7% |
| Efficiency ratio, excluding impairment of goodwill | 72.06% | 69.43% | 82.96% | 4% | -13% | 73.60% | 87.22% | -16% |
| AVERAGE BALANCES | | | | | | | | |
| (in \$'000's, unaudited) | | | | | | | | |
| Average assets | \$ 1,258,084 | \$ 1,266,147 | \$ 1,322,259 | -1% | -5% | \$ 1,257,557 | \$ 1,336,269 | -6% |
| Average tangible assets | \$ 1,255,386 | \$ 1,263,318 | \$ 1,319,010 | -1% | -5% | \$ 1,254,729 | \$ 1,304,411 | -4% |
| Average earning assets | \$ 1,158,587 | \$ 1,163,684 | \$ 1,219,429 | 0% | -5% | \$ 1,157,475 | \$ 1,207,144 | -4% |
| Average loans held-for-sale | \$ 4,385 | \$ 7,611 | \$ 24,696 | -42% | -82% | \$ 7,355 | \$ 16,052 | -54% |
| Average total loans | \$ 784,993 | \$ 799,228 | \$ 912,221 | -2% | -14% | \$ 805,777 | \$ 984,739 | -18% |
| Average deposits | \$ 1,008,904 | \$ 1,012,992 | \$ 1,056,905 | 0% | -5% | \$ 1,007,065 | \$ 1,067,186 | -6% |
| Average demand deposits - noninterest-bearing | \$ 340,023 | \$ 332,535 | \$ 266,190 | 2% | 28% | \$ 328,302 | \$ 259,879 | 26% |
| Average interest-bearing deposits | \$ 668,881 | \$ 680,457 | \$ 790,715 | -2% | -15% | \$ 678,763 | \$ 807,307 | -16% |
| Average interest-bearing liabilities | \$ 692,583 | \$ 705,164 | \$ 835,681 | -2% | -17% | \$ 704,653 | \$ 860,986 | -18% |
| Average equity | \$ 190,637 | \$ 185,911 | \$ 187,594 | 3% | 2% | \$ 186,363 | \$ 179,900 | 4% |
| Average tangible equity | \$ 187,939 | \$ 183,082 | \$ 184,345 | 3% | 2% | \$ 183,535 | \$ 148,042 | 24% |

| CONSOLIDATED BALANCE SHEETS (in \$000's, unaudited) | End of Period: | | | Percent Change From: | |
|--|-----------------------|---------------------|-----------------------|----------------------|-----------------------|
| | September 30, 2011 | June 30, 2011 | September 30, 2010 | June 30, 2011 | September 30, 2010 |
| ASSETS | | | | | |
| Cash and due from banks | \$ 23,720 | \$ 20,334 | \$ 19,552 | 17% | 21% |
| Federal funds sold and interest-bearing deposits in other financial institutions | 52,058 | 67,928 | 211,003 | -23% | -75% |
| Securities available-for-sale, at fair value | 312,125 | 302,968 | 111,459 | 3% | 180% |
| Loans held-for-sale - SBA, including deferred costs | 3,391 | 3,657 | 7,967 | -7% | -57% |
| Loans held-for-sale - other, including deferred costs | 421 | 435 | 4,788 | -3% | -91% |
| Loans: | | | | | |
| Commercial | 365,532 | 358,227 | 370,939 | 2% | -1% |
| Real estate: | | | | | |
| Commercial and residential | 310,722 | 315,426 | 353,565 | -1% | -12% |
| Land and construction | 36,357 | 41,987 | 91,706 | -13% | -60% |
| Home equity | 51,668 | 52,621 | 53,772 | -2% | -4% |
| Consumer | 11,829 | 13,040 | 15,793 | -9% | -25% |
| Loans | 776,108 | 781,301 | 885,775 | -1% | -12% |
| Deferred loan costs, net | 576 | 779 | 841 | -26% | -32% |
| Total loans, including deferred costs | 776,684 | 782,080 | 886,616 | -1% | -12% |
| Allowance for loan losses | (21,049) | (23,167) | (25,290) | -9% | -17% |
| Loans, net | 755,635 | 758,913 | 861,326 | 0% | -12% |
| Company owned life insurance | 45,202 | 44,776 | 43,255 | 1% | 5% |
| Premises and equipment, net | 8,019 | 8,086 | 8,577 | -1% | -7% |
| Intangible assets | 2,622 | 2,753 | 3,158 | -5% | -17% |
| Accrued interest receivable and other assets | 49,507 | 52,219 | 59,785 | -5% | -17% |
| Total assets | \$ 1,252,700 | \$ 1,262,069 | \$ 1,330,870 | -1% | -6% |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Liabilities: | | | | | |
| Deposits: | | | | | |
| Demand, noninterest-bearing | \$ 344,470 | \$ 333,199 | \$ 269,482 | 3% | 28% |
| Demand, interest-bearing | 132,987 | 128,464 | 156,912 | 4% | -15% |
| Savings and money market | 274,489 | 276,538 | 318,221 | -1% | -14% |
| Time deposits - under \$100 | 30,858 | 30,676 | 38,909 | 1% | -21% |
| Time deposits - \$100 and over | 119,429 | 114,208 | 132,862 | 5% | -10% |
| Time deposits - CDARS | 10,216 | 20,839 | 16,297 | -51% | -37% |
| Time deposits - brokered | 93,685 | 94,631 | 132,435 | -1% | -29% |
| Total deposits | 1,006,134 | 998,555 | 1,065,118 | 1% | -6% |
| Securities sold under agreement to repurchase | - | - | 15,000 | N/A | -100% |
| Subordinated debt | 23,702 | 23,702 | 23,702 | 0% | 0% |
| Short-term borrowings | - | - | 4,315 | N/A | -100% |
| Accrued interest payable and other liabilities | 25,801 | 52,333 | 37,635 | -51% | -31% |
| Total liabilities | 1,055,637 | 1,074,590 | 1,145,770 | -2% | -8% |
| Shareholders' Equity: | | | | | |
| Series A preferred stock, net | 38,912 | 38,813 | 38,524 | 0% | 1% |
| Series C preferred stock, net | 19,519 | 19,519 | 19,538 | 0% | 0% |
| Common stock | 131,015 | 130,836 | 131,329 | 0% | 0% |
| Retained earnings / (Accumulated deficit) | 4,886 | 601 | (2,965) | 713% | 265% |
| Accumulated other comprehensive income (loss) | 2,731 | (2,290) | (1,326) | 219% | 306% |
| Total shareholders' equity | 197,063 | 187,479 | 185,100 | 5% | 6% |
| Total liabilities and shareholders' equity | \$ 1,252,700 | \$ 1,262,069 | \$ 1,330,870 | -1% | -6% |

| | End of Period: | | | Percent Change From: | |
|--|-----------------------|------------------|-----------------------|----------------------|-----------------------|
| | September 30, 2011 | June 30, 2011 | September 30, 2010 | June 30, 2011 | September 30, 2010 |
| CREDIT QUALITY DATA | | | | | |
| (in \$000's, unaudited) | | | | | |
| Nonaccrual loans - held-for-sale | \$ 191 | \$ 202 | \$ 4,552 | -5% | -96% |
| Nonaccrual loans - held-for-investment | 16,419 | 21,607 | 41,757 | -24% | -61% |
| Restructured and loans over 90 days past due and still accruing | 2,656 | 2,448 | 2,687 | 8% | -1% |
| Total nonperforming loans | 19,266 | 24,257 | 48,996 | -21% | -61% |
| Other real estate owned | 1,229 | 248 | 657 | 396% | 87% |
| Total nonperforming assets | \$ 20,495 | \$ 24,505 | \$ 49,653 | -16% | -59% |
| Net charge-offs during the quarter | \$ 3,633 | \$ 1,797 | \$ 3,521 | 102% | 3% |
| Provision for loan losses during the quarter | \$ 1,515 | \$ 955 | \$ 2,058 | 59% | -26% |
| Allowance for loan losses | \$ 21,049 | \$ 23,167 | \$ 25,290 | -9% | -17% |
| Classified assets | \$ 72,386 | \$ 76,142 | \$ 116,518 | -5% | -38% |
| Allowance for loan losses to total loans | 2.71% | 2.96% | 2.85% | -8% | -5% |
| Allowance for loan losses to total nonperforming loans | 109.25% | 95.51% | 51.62% | 14% | 112% |
| Allowance for loan losses to total nonperforming loans, excluding nonaccrual loans - held-for-sale | 110.35% | 96.31% | 56.90% | 15% | 94% |
| Nonperforming assets to total assets | 1.64% | 1.94% | 3.73% | -15% | -56% |
| Nonperforming loans to total loans plus nonaccrual loans - held-for-sale | 2.48% | 3.10% | 5.50% | -20% | -55% |
| OTHER PERIOD-END STATISTICS | | | | | |
| (in \$000's, unaudited) | | | | | |
| Heritage Commerce Corp: | | | | | |
| Tangible equity | \$ 194,441 | \$ 184,726 | \$ 181,942 | 5% | 7% |
| Tangible common equity | \$ 136,010 | \$ 126,394 | \$ 123,880 | 8% | 10% |
| Shareholders' equity / total assets | 15.73% | 14.85% | 13.91% | 6% | 13% |
| Tangible equity / tangible assets | 15.55% | 14.67% | 13.70% | 6% | 14% |
| Tangible common equity / tangible assets | 10.88% | 10.04% | 9.33% | 8% | 17% |
| Loan to deposit ratio | 77.19% | 78.32% | 83.24% | -1% | -7% |
| Noninterest-bearing deposits / total deposits | 34.24% | 33.37% | 25.30% | 3% | 35% |
| Total risk-based capital ratio | 22.3% | 22.0% | 20.1% | 1% | 11% |
| Tier 1 risk-based capital ratio | 21.1% | 20.8% | 18.8% | 1% | 12% |
| Leverage ratio | 16.0% | 15.5% | 14.2% | 3% | 13% |
| Heritage Bank of Commerce: | | | | | |
| Total risk-based capital ratio | 19.9% | 19.5% | 17.2% | 2% | 16% |
| Tier 1 risk-based capital ratio | 18.7% | 18.2% | 15.9% | 3% | 18% |
| Leverage ratio | 14.2% | 13.6% | 12.0% | 4% | 18% |

| NET INTEREST INCOME AND NET INTEREST MARGIN (in \$000's, unaudited) | For the Three Months Ended September 30, 2011 | | | For the Three Months Ended September 30, 2010 | | |
|--|--|--------------------------------|---------------------------|--|--------------------------------|---------------------------|
| | Average Balance | Interest Income/ Expense | Average Yield/ Rate | Average Balance | Interest Income/ Expense | Average Yield/ Rate |
| Assets: | | | | | | |
| Loans, gross* | \$ 789,378 | \$ 10,530 | 5.29% | \$ 936,917 | \$ 12,041 | 5.10% |
| Securities | 317,908 | 2,457 | 3.07% | 146,061 | 1,246 | 3.38% |
| Federal funds sold and interest-bearing deposits in other financial institutions | 51,301 | 33 | 0.26% | 136,451 | 74 | 0.22% |
| Total interest earning assets | 1,158,587 | 13,020 | 4.46% | 1,219,429 | 13,361 | 4.35% |
| Cash and due from banks | 21,662 | | | 21,434 | | |
| Premises and equipment, net | 8,053 | | | 8,677 | | |
| Goodwill and other intangible assets | 2,698 | | | 3,249 | | |
| Other assets | 67,084 | | | 69,470 | | |
| Total assets | <u>\$ 1,258,084</u> | | | <u>\$ 1,322,259</u> | | |
| Liabilities and shareholders' equity: | | | | | | |
| Deposits: | | | | | | |
| Demand, noninterest-bearing | \$ 340,023 | | | \$ 266,190 | | |
| Demand, interest-bearing | 131,667 | 57 | 0.17% | 157,501 | 87 | 0.22% |
| Savings and money market | 282,368 | 195 | 0.27% | 290,711 | 343 | 0.47% |
| Time deposits - under \$100 | 31,270 | 54 | 0.69% | 38,316 | 125 | 1.29% |
| Time deposits - \$100 and over | 115,617 | 272 | 0.93% | 135,204 | 470 | 1.38% |
| Time deposits - CDARS | 14,293 | 13 | 0.36% | 17,624 | 32 | 0.72% |
| Time deposits - brokered | 93,666 | 261 | 1.11% | 151,359 | 872 | 2.29% |
| Total interest-bearing deposits | 668,881 | 852 | 0.51% | 790,715 | 1,929 | 0.97% |
| Total deposits | 1,008,904 | 852 | 0.34% | 1,056,905 | 1,929 | 0.72% |
| Subordinated debt | 23,702 | 468 | 7.83% | 23,702 | 473 | 7.92% |
| Securities sold under agreement to repurchase | - | - | N/A | 17,663 | 97 | 2.18% |
| Short-term borrowings | - | - | N/A | 3,601 | 31 | 3.42% |
| Total interest-bearing liabilities | 692,583 | 1,320 | 0.76% | 835,681 | 2,530 | 1.20% |
| Total interest-bearing liabilities and demand, noninterest-bearing / cost of funds | 1,032,606 | 1,320 | 0.51% | 1,101,871 | 2,530 | 0.91% |
| Other liabilities | 34,841 | | | 32,794 | | |
| Total liabilities | 1,067,447 | | | 1,134,665 | | |
| Shareholders' equity | 190,637 | | | 187,594 | | |
| Total liabilities and shareholders' equity | <u>\$ 1,258,084</u> | | | <u>\$ 1,322,259</u> | | |
| Net interest income / margin | | <u>\$ 11,700</u> | 4.01% | | <u>\$ 10,831</u> | 3.52% |

| | For the Nine Months Ended September 30, 2011 | | | For the Nine Months Ended September 30, 2010 | | |
|--|---|--------------------------------|---------------------------|---|--------------------------------|---------------------------|
| | Average Balance | Interest Income/ Expense | Average Yield/ Rate | Average Balance | Interest Income/ Expense | Average Yield/ Rate |
| Assets: | | | | | | |
| Loans, gross* | \$ 813,132 | \$ 32,205 | 5.30% | \$ 1,000,791 | \$ 37,952 | 5.07% |
| Securities | 281,156 | 6,697 | 3.18% | 140,843 | 3,868 | 3.67% |
| Federal funds sold and interest-bearing deposits in other financial institutions | 63,187 | 119 | 0.25% | 65,510 | 100 | 0.20% |
| Total interest earning assets | 1,157,475 | 39,021 | 4.51% | 1,207,144 | 41,920 | 4.64% |
| Cash and due from banks | 21,052 | | | 21,148 | | |
| Premises and equipment, net | 8,180 | | | 8,818 | | |
| Goodwill and other intangible assets | 2,828 | | | 31,858 | | |
| Other assets | 68,022 | | | 67,301 | | |
| Total assets | <u>\$ 1,257,557</u> | | | <u>\$ 1,336,269</u> | | |
| Liabilities and shareholders' equity: | | | | | | |
| Deposits: | | | | | | |
| Demand, noninterest-bearing | \$ 328,302 | | | \$ 259,879 | | |
| Demand, interest-bearing | 133,153 | 189 | 0.19% | 152,505 | 256 | 0.22% |
| Savings and money market | 277,049 | 721 | 0.35% | 295,617 | 1,105 | 0.50% |
| Time deposits - under \$100 | 32,216 | 186 | 0.77% | 38,794 | 407 | 1.40% |
| Time deposits - \$100 and Over | 123,732 | 1,033 | 1.12% | 133,223 | 1,438 | 1.44% |
| Time deposits - CDARS | 18,998 | 62 | 0.44% | 18,609 | 133 | 0.96% |
| Time deposits - brokered | 93,615 | 1,000 | 1.43% | 168,559 | 3,112 | 2.47% |
| Total interest-bearing deposits | 678,763 | 3,191 | 0.63% | 807,307 | 6,451 | 1.07% |
| Total deposits | 1,007,065 | 3,191 | 0.42% | 1,067,186 | 6,451 | 0.81% |
| Subordinated debt | 23,702 | 1,400 | 7.90% | 23,702 | 1,407 | 7.94% |
| Securities sold under agreement to repurchase | 952 | 24 | 3.37% | 20,110 | 341 | 2.27% |
| Short-term borrowings | 1,236 | 38 | 4.11% | 9,867 | 93 | 1.26% |
| Total interest-bearing liabilities | 704,653 | 4,653 | 0.88% | 860,986 | 8,292 | 1.29% |
| Total interest-bearing liabilities and demand, noninterest-bearing / cost of funds | 1,032,955 | 4,653 | 0.60% | 1,120,865 | 8,292 | 0.99% |
| Other liabilities | 38,239 | | | 35,504 | | |
| Total liabilities | 1,071,194 | | | 1,156,369 | | |
| Shareholders' equity | 186,363 | | | 179,900 | | |
| Total liabilities and shareholders' equity | <u>\$ 1,257,557</u> | | | <u>\$ 1,336,269</u> | | |
| Net interest income / margin | | <u>\$ 34,368</u> | 3.97% | | <u>\$ 33,628</u> | 3.72% |

*Includes loans held-for-sale. Yield amounts earned on loans include loan fees and costs. Nonaccrual loans are included in average balance.