

## **Heritage Commerce Corp Earns \$2.2 Million for the First Quarter of 2013, Posting its Eleventh Consecutive Quarter of Profitability**

San Jose, CA – April 25, 2013 – **Heritage Commerce Corp (Nasdaq: HTBK)**, the holding company (the “Company”) for Heritage Bank of Commerce (the “Bank”), today reported net income of \$2.2 million for the first quarter of 2013, or \$0.07 per average diluted common share, driven by lower credit costs and net recoveries from prior period loan losses. There were no dividends or discount accretion on preferred stock in the first quarter of 2013. By comparison, net income available to common shareholders for the first quarter of 2012 was \$869,000, or \$0.03 per average diluted common share, after deducting dividends and discount accretion on preferred stock of \$1.2 million. All results are unaudited.

“The Company’s first quarter financial results demonstrate that the momentum we established over the past several years continued to drive performance into 2013,” said Walter Kaczmarek, President and Chief Executive Officer. “The steady economic recovery in Northern California contributed to strong improvements in credit quality, with net recoveries totaling \$315,000 in the first quarter of 2013. As a result of the decline in nonperforming assets and classified assets from the fourth quarter of 2012, a provision for loan losses was not needed for the first quarter of 2013. In addition, we posted our eleventh consecutive quarter of profitability. We look forward to the future with confidence, as we continue to create value for our shareholders by developing strong relationships with our customers, communities and employees.”

### **First Quarter 2013 Highlights (as of, or for the period ended March 31, 2013, except as noted):**

- ◆ Net income available to common shareholders increased 151% to \$2.2 million for the first quarter of 2013, from \$869,000 at March 31, 2012 (after deducting dividends and discount accretion on preferred stock of \$1.2 million).
- ◆ Pre-tax income was \$3.0 million for the first quarter of 2013, the same as the first quarter a year ago. Pre-tax income for the fourth quarter of 2012 was \$3.8 million.
- ◆ Deposits increased 6% (excluding the \$24.3 million of short-term demand deposits from one customer) at March 31, 2013, compared to March 31, 2012, and decreased 5% (excluding the \$271.9 million of short-term demand deposits from one customer) from December 31, 2012.
  - As previously reported, the Company received significantly large demand deposits totaling \$467.5 million from one customer for specific transactions late in the fourth quarter of 2012. Of this amount, \$195.6 million was withdrawn prior to year end, for a net outstanding balance of \$271.9 million at December 31, 2012. The outstanding balance of these deposits was \$24.3 million at March 31, 2013. Because of the short-term nature of these funds, the excess liquidity was placed in low-interest earning deposits at the Federal Reserve Bank.
  - Noninterest-bearing deposits increased 5% to \$372.9 million (excluding the \$24.3 million of short-term demand deposits from one customer) at March 31, 2013, from \$356.6 million at March 31, 2012, and decreased 18% from \$455.8 million (excluding the \$271.9 million of short-term demand deposits from one customer) at December 31, 2012.
  - Interest-bearing demand deposits increased 18% to \$169.7 million at March 31, 2013, from \$144.0 million at March 31, 2012, and increased 9% from \$156.0 million at December 31, 2012.
- ◆ The cost of deposits declined 6 basis points to 0.21% for the first quarter of 2013, compared to 0.27% for the first quarter of 2012, and declined 1 basis point from 0.22% for the fourth quarter of 2012.
- ◆ Loans (excluding loans-held-for-sale) increased 6% to \$801.9 million at March 31, 2013, compared to \$756.9 million at March 31, 2012, and decreased 1% from \$812.3 million at December 31, 2012.
- ◆ Nonperforming assets decreased 11% to \$17.4 million at March 31, 2013, compared to \$19.5 million at March 31, 2012 and December 31, 2012.
- ◆ Classified assets, net of Small Business Administration (“SBA”) guarantees, decreased 42% to \$31.2 million at March 31, 2013, from \$54.2 million at the same period a year ago, and decreased 15% from \$36.8 million at December 31, 2012.
- ◆ Net recoveries totaled \$315,000 for the first quarter of 2013, compared to net charge-offs of \$494,000 for the first quarter of 2012, and net charge-offs of \$766,000 for the fourth quarter of 2012.
- ◆ There was no provision for loan losses for the first quarter of 2013, compared to a \$100,000 provision for loan losses for the first quarter of 2012, and a \$669,000 provision for loan losses for the fourth quarter of 2012.

- ◆ The allowance for loan losses (“ALLL”) declined 5% to \$19.3 million at March 31, 2013, from \$20.3 million at March 31, 2012, and increased 2% from \$19.0 million at December 31, 2012. The ALLL was 2.41% of total loans at March 31, 2013, compared to 2.68% at March 31, 2012, and 2.34% at December 31, 2012.
- ◆ Capital ratios exceeded regulatory requirements for a well-capitalized financial institution on a holding company and bank level at March 31, 2013:

| <b>Capital Ratios</b> | <b>Heritage Commerce Corp</b> | <b>Heritage Bank of Commerce</b> | <b>Well-Capitalized Financial Institution Regulatory Guidelines</b> |
|-----------------------|-------------------------------|----------------------------------|---|
| Total Risk-Based      | 16.7%                         | 15.9%                            | 10.0%   |
| Tier 1 Risk-Based     | 15.5%                         | 14.6%                            | 6.0%  |
| Leverage              | 11.5%                         | 10.9%                            | 5.0%  |

## Operating Results

Net interest income declined slightly to \$12.2 million in the first quarter of 2013, compared to \$12.3 million in the first quarter a year ago, primarily due to a lower net interest margin. Net interest income for the fourth quarter of 2012 was \$12.2 million.

The net interest margin was 3.71% for the first quarter of 2013, compared to 4.06% for the first quarter of 2012, and 3.74% for the fourth quarter of 2012. The decline in the net interest margin in the first quarter of 2013 was primarily due to the increased short term deposits at the Federal Reserve Bank as a result of the aforementioned short-term demand deposits of one customer. Excluding the impact to the net interest margin as a result of the large short-term demand deposits from one customer, and favorable benefit on the repayment of interest income from paid-off nonaccrual loans, the net interest margin was 3.78% for the first quarter of 2013, and 3.85% for the fourth quarter of 2012. The net interest margin in the first quarter of 2013, compared to the first quarter of 2012, was also impacted by a decline in loan and security yields, partially offset by a lower cost of funds.

The Company did not record a provision for loan losses in the first quarter of 2013 because of the net loan recoveries during the period and the reduction in nonperforming assets and classified assets. The provision for loan losses for the first quarter a year ago was \$100,000, compared to \$669,000 for the fourth quarter of 2012.

Noninterest income was \$1.7 million for the first quarter of 2013, and for the first quarter a year ago, compared to \$2.1 million for the fourth quarter of 2012. Noninterest income declined on a linked quarter basis primarily due to a lower gain on sales of securities, partially offset by a higher gain on sales of SBA loans.

Total noninterest expense for the first quarter of 2013 was \$10.8 million, a decrease from \$10.9 million for the first quarter of 2012, and an increase from \$9.8 million for the fourth quarter of 2012. The increase in noninterest expense from the preceding quarter was primarily due to increased compensation expenses, which is consistent with cyclical salary and employee benefits expense in prior years.

Income tax expense for the first quarter of 2013 was \$855,000, compared to \$951,000 for the first quarter of 2012, and \$1.2 million for the fourth quarter of 2012. The effective tax rate for the first quarter of 2013 decreased to 28%, compared to 31% for the first quarter of 2012 and the fourth quarter of 2012, due to the impact of tax-exempt interest income earned on municipal bonds. The difference in the effective tax rate compared to the combined Federal and state statutory tax rate of 42% in this and past quarters 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 for the first quarter of 2013 was 78.03%, compared to 77.64% for the first quarter of 2012, and 68.45% for the fourth quarter of 2012. The increase in the efficiency ratio in the first quarter of 2013 compared to the fourth quarter of 2012 was primarily due to higher salary and benefits expense and professional fees, and lower gains on sales of securities.

## Balance Sheet Review, Capital Management and Credit Quality

The Company's total assets increased 6% to \$1.38 billion at March 31, 2013, from \$1.31 billion a year ago, and decreased 18% from \$1.69 billion at December 31, 2012. Total assets decreased 4% at March 31, 2013, compared to December 31, 2012, excluding the short-term deposits of \$24.3 million and \$271.9 million, respectively, at the Federal Reserve Bank offsetting the short-term demand deposits from one customer.

The investment securities available-for-sale portfolio totaled \$346.8 million at March 31, 2013, compared to \$385.8 million at March 31, 2012, and \$367.9 million at December 31, 2012. At March 31, 2013, the securities available-for-sale portfolio was comprised of \$271.1 million agency mortgage-backed securities (all issued by U.S. Government sponsored entities), \$54.9 million of corporate bonds, and \$20.8 million of single entity issue trust preferred securities.

At March 31, 2013, investment securities held-to-maturity totaled \$68.3 million, compared to no investment securities held-to-maturity at March 31, 2012, and \$51.5 million at December 31, 2012. At March 31, 2013, the securities held-to-maturity portfolio, at amortized cost, was comprised of \$53.1 million tax-exempt municipal bonds and \$15.2 million agency mortgage-backed securities.

Loans, excluding loans held-for-sale, totaled \$801.9 million at March 31, 2013, an increase of 6% from \$756.9 million at March 31, 2012, and a decrease of 1% from \$812.3 million at December 31, 2012. The loan portfolio remains well-diversified with commercial and industrial ("C&I") loans accounting for 44% of the portfolio at March 31, 2013. Commercial and residential real estate loans accounted for 45% of the total loan portfolio, of which 51% were owner-occupied by businesses. Consumer and home equity loans accounted for 8% of total loans, and land and construction loans accounted for the remaining 3% of total loans at March 31, 2013.

The yield on the loan portfolio was 5.13% for the first quarter of 2013, compared to 5.41% for the same period in 2012, and 5.00% for the fourth quarter of 2012.

Nonperforming assets ("NPAs") were \$17.4 million, or 1.26% of total assets, at March 31, 2013, compared to \$19.5 million, or 1.49% of total assets, a year ago. NPAs were \$19.5 million, or 1.15% of total assets at December 31, 2012. The following is a detail of NPAs at March 31, 2013 and December 31, 2012:

|   | March 31, 2013   |             | December 31, 2012 |             |
|---|------------------|-------------|-------------------|-------------|
|   | Balance          | % of Total  | Balance           | % of Total  |
| Commercial and industrial loans                           | \$ 3,252         | 19%         | \$ 4,870          | 25%         |
| Commercial real estate loans                              | 5,503            | 32%         | 4,676             | 24%         |
| SBA loans   | 2,611            | 15%         | 2,982             | 15%         |
| Home equity and consumer loans                            | 2,572            | 15%         | 2,584             | 13%         |
| Land and construction loans                               | 2,177            | 12%         | 2,223             | 12%         |
| Foreclosed assets   | 738              | 4%          | 1,270             | 7%          |
| Restructured and loans over 90 days past due and accruing | 549              | 3%          | 859               | 4%          |
|   | <u>\$ 17,402</u> | <u>100%</u> | <u>\$ 19,464</u>  | <u>100%</u> |

At March 31, 2013, the \$17.4 million of NPAs included \$569,000 of loans guaranteed by the SBA and \$549,000 of restructured loans still accruing interest income. Foreclosed assets were \$738,000 at March 31, 2013, compared to \$3.2 million at March 31, 2012, and \$1.3 million at December 31, 2012.

Classified assets (net of SBA guarantees) decreased to \$31.2 million at March 31, 2013, from \$54.2 million at March 31, 2012, and \$36.8 million at December 31, 2012.

The following table summarizes the allowance for loan losses:

|  | For the Quarter Ended: |                   |                  |
|--|------------------------|-------------------|------------------|
|  | March 31, 2013         | December 31, 2012 | March 31, 2012   |
| <b>ALLOWANCE FOR LOAN LOSSES</b>   |                        |                   |                  |
| <b>(in \$000's, unaudited)</b>   |                        |                   |                  |
| Balance at beginning of quarter  | \$ 19,027              | \$ 19,124         | \$ 20,700        |
| Provision for loan losses during the quarter   | -                      | 669               | 100              |
| Net charge-offs during the quarter   | 315                    | (766)             | (494)            |
| Balance at end of quarter  | <u>\$ 19,342</u>       | <u>\$ 19,027</u>  | <u>\$ 20,306</u> |
| Total loans  | \$ 801,925             | \$ 812,213        | \$ 756,894       |
| Total nonperforming loans  | \$ 16,664              | \$ 18,194         | \$ 16,344        |
| Allowance for loan losses to total loans   | 2.41%                  | 2.34%             | 2.68%            |
| Allowance for loan losses to total nonperforming loans, excluding nonaccrual loans - held-for-sale | 116.07%                | 104.58%           | 125.66%          |

The decrease in the allowance for loan losses at March 31, 2013, compared to March 31, 2012, was primarily due to improved risk grading and credit metrics on non-impaired real estate loans, as well as a decline in historical charge-off levels. Net recoveries totaled \$315,000 for the first quarter of 2013, compared to net charge-offs of \$494,000 for the first quarter of 2012, and net charge-offs of \$766,000 for the fourth quarter of 2012.

Deposits totaled \$1.17 billion at March 31, 2013, compared to \$1.08 billion at March 31, 2012, and \$1.48 billion at December 31, 2012,

which included the aforementioned short-term demand deposits from one customer of \$24.3 million at March 31, 2013 and \$271.9 million at December 31, 2012. Total deposits, excluding brokered deposits and the short-term demand deposits from one customer, were \$1.06 billion at March 31, 2013, compared to \$995.5 million at March 31, 2012, and \$1.11 billion at December 31, 2012. At March 31, 2013, brokered deposits decreased 1% to \$83.8 million, from \$84.7 million at March 31, 2012, and decreased 14% from \$97.8 million at December 31, 2012.

The total cost of deposits decreased 6 basis points to 0.21% during the first quarter of 2013, from 0.27% during the first quarter of 2012, and decreased 1 basis point from 0.22% during the fourth quarter of 2012.

Subordinated debt decreased to \$9.3 million at March 31, 2013, compared to \$23.7 million at March 31, 2012, as a result of the redemption of \$14 million fixed-rate subordinated debt during the third quarter of 2012. Subordinated debt was also \$9.3 million at December 31, 2012.

Tangible equity was \$169.0 million at March 31, 2013, compared to \$157.5 million at March 31, 2012 and \$167.7 million at December 31, 2012. Tangible book value per common share was \$5.67 at March 31, 2013, compared to \$5.25 a year ago, and \$5.63 at December 31, 2012. There were 21,004 shares of Series C Preferred Stock outstanding at March 31, 2013, March 31, 2012, and December 31, 2012, 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. Pro forma tangible book value per common share, assuming the Company's outstanding Series C Preferred Stock was converted into common stock, was \$5.29 at March 31, 2013, compared to \$4.94 a year ago, and \$5.25 at December 31, 2012.

Accumulated other comprehensive income was \$1.4 million at March 31, 2013, compared to \$1.2 million a year ago, and \$2.7 million at December 31, 2012. The components of other comprehensive income, net of taxes, at March 31, 2013 include the following: an unrealized gain on available-for-sale securities of \$6.1 million; a liability adjustment on split dollar insurance contracts of (\$2.3) million; a liability adjustment on the supplemental executive retirement plan of (\$3.4) million; and an unrealized gain on interest-only strip from SBA loans of \$1.0 million.

### **Annual Meeting of Shareholders**

Heritage Commerce Corp will hold its Annual Meeting of Shareholders at its Company Headquarters in San Jose, California, on May 23, 2013, at 1:00 p.m. (PDT).

**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 Los Gatos, Fremont, Danville, Pleasanton, Walnut Creek, Morgan Hill, Gilroy, Mountain View, and Los Altos. 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](http://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, 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) our ability to raise capital or incur debt on reasonable terms; (8) regulatory limits on Heritage Bank of Commerce's ability to pay dividends to the Company; (9) continued volatility in credit and equity markets and its effect on the global economy; (10) the impact of reputational risk on such matters as business generation and retention, funding and liquidity; (11) oversupply of inventory and continued deterioration in values of California commercial real estate; (12) a prolonged slowdown in construction activity; (13) the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities, and executive compensation) which we must comply, including but not limited to, the Dodd-Frank Act of 2010; (14) the effects of security breaches and computer viruses that may affect our computer systems; (15) changes in consumer spending, borrowings and saving habits; (16) changes in the competitive environment among financial or bank holding companies and other financial service providers; (17) 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; (18) 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; (19) the ability to increase market share and control expenses; and (20) 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.

| CONSOLIDATED INCOME STATEMENTS<br>(in \$000's, unaudited)  | For the Quarter Ended: |                      |                   | Percent Change From: |                   |
|--|------------------------|----------------------|-------------------|----------------------|-------------------|
|  | March 31,<br>2013      | December 31,<br>2012 | March 31,<br>2012 | December 31,<br>2012 | March 31,<br>2012 |
| Interest income  | \$ 12,867              | \$ 12,958            | \$ 13,449         | -1%                  | -4%               |
| Interest expense   | 714                    | 747                  | 1,190             | -4%                  | -40%              |
| Net interest income before provision for loan losses   | 12,153                 | 12,211               | 12,259            | 0%                   | -1%               |
| Provision for loan losses  | -                      | 669                  | 100               | -100%                | -100%             |
| Net interest income after provision for loan losses  | 12,153                 | 11,542               | 12,159            | 5%                   | 0%                |
| Noninterest income:  |                        |                      |                   |                      |                   |
| Service charges and fees on deposit accounts   | 577                    | 567                  | 590               | 2%                   | -2%               |
| Increase in cash surrender value of life insurance   | 417                    | 428                  | 429               | -3%                  | -3%               |
| Servicing income   | 365                    | 407                  | 460               | -10%                 | -21%              |
| Gain on sales of SBA loans   | 136                    | 69                   | 36                | 97%                  | 278%              |
| Gain on sales of securities  | 31                     | 396                  | 27                | -92%                 | 15%               |
| Other  | 137                    | 237                  | 181               | -42%                 | -24%              |
| Total noninterest income   | 1,663                  | 2,104                | 1,723             | -21%                 | -3%               |
| Noninterest expense:   |                        |                      |                   |                      |                   |
| Salaries and employee benefits   | 6,011                  | 5,342                | 5,667             | 13%                  | 6%                |
| Occupancy and equipment  | 1,068                  | 993                  | 996               | 8%                   | 7%                |
| Professional fees  | 982                    | 608                  | 1,211             | 62%                  | -19%              |
| Other  | 2,720                  | 2,856                | 2,982             | -5%                  | -9%               |
| Total noninterest expense  | 10,781                 | 9,799                | 10,856            | 10%                  | -1%               |
| Income before income taxes   | 3,035                  | 3,847                | 3,026             | -21%                 | 0%                |
| Income tax expense   | 855                    | 1,178                | 951               | -27%                 | -10%              |
| Net income   | 2,180                  | 2,669                | 2,075             | -18%                 | 5%                |
| Dividends and discount accretion on preferred stock  | -                      | -                    | (1,206)           | N/A                  | -100%             |
| Net income available to common shareholders  | \$ 2,180               | \$ 2,669             | \$ 869            | -18%                 | 151%              |
| PER COMMON SHARE DATA  |                        |                      |                   |                      |                   |
| (unaudited)  |                        |                      |                   |                      |                   |
| Basic earnings per share   | \$ 0.07                | \$ 0.08              | \$ 0.03           | -13%                 | 133%              |
| Diluted earnings per share   | \$ 0.07                | \$ 0.08              | \$ 0.03           | -13%                 | 133%              |
| Common shares outstanding at period-end  | 26,333,368             | 26,322,147           | 26,286,501        | 0%                   | 0%                |
| Pro forma common shares outstanding at period-end, assuming Series C preferred stock was converted into common stock | 31,934,368             | 31,923,147           | 31,887,501        | 0%                   | 0%                |
| Book value per share   | \$ 5.75                | \$ 5.71              | \$ 5.34           | 1%                   | 8%                |
| Tangible book value per share  | \$ 5.67                | \$ 5.63              | \$ 5.25           | 1%                   | 8%                |
| Pro forma tangible book value per share, assuming Series C preferred stock was converted into common stock           | \$ 5.29                | \$ 5.25              | \$ 4.94           | 1%                   | 7%                |
| KEY FINANCIAL RATIOS   |                        |                      |                   |                      |                   |
| (unaudited)  |                        |                      |                   |                      |                   |
| Annualized return on average equity  | 5.20%                  | 6.25%                | 4.43%             | -17%                 | 17%               |
| Annualized return on average tangible equity   | 5.26%                  | 6.32%                | 4.48%             | -17%                 | 17%               |
| Annualized return on average assets  | 0.61%                  | 0.75%                | 0.64%             | -19%                 | -5%               |
| Annualized return on average tangible assets   | 0.61%                  | 0.75%                | 0.64%             | -19%                 | -5%               |
| Net interest margin  | 3.71%                  | 3.74%                | 4.06%             | -1%                  | -9%               |
| Efficiency ratio   | 78.03%                 | 68.45%               | 77.64%            | 14%                  | 1%                |
| AVERAGE BALANCES   |                        |                      |                   |                      |                   |
| (in \$000's, unaudited)  |                        |                      |                   |                      |                   |
| Average assets   | \$ 1,442,928           | \$ 1,409,298         | \$ 1,311,985      | 2%                   | 10%               |
| Average tangible assets  | \$ 1,440,974           | \$ 1,407,222         | \$ 1,309,544      | 2%                   | 10%               |
| Average earning assets   | \$ 1,341,337           | \$ 1,305,332         | \$ 1,213,198      | 3%                   | 11%               |
| Average loans held-for-sale  | \$ 3,255               | \$ 1,793             | \$ 1,356          | 82%                  | 140%              |
| Average total loans  | \$ 794,876             | \$ 797,288           | \$ 764,264        | 0%                   | 4%                |
| Average deposits   | \$ 1,227,146           | \$ 1,191,895         | \$ 1,067,052      | 3%                   | 15%               |
| Average demand deposits - noninterest-bearing  | \$ 461,108             | \$ 457,214           | \$ 347,291        | 1%                   | 33%               |
| Average interest-bearing deposits  | \$ 766,038             | \$ 734,681           | \$ 719,761        | 4%                   | 6%                |
| Average interest-bearing liabilities   | \$ 775,402             | \$ 745,067           | \$ 743,502        | 4%                   | 4%                |
| Average equity   | \$ 169,883             | \$ 170,004           | \$ 188,521        | 0%                   | -10%              |
| Average tangible equity  | \$ 167,929             | \$ 167,928           | \$ 186,080        | 0%                   | -10%              |

| CONSOLIDATED BALANCE SHEETS<br>(in \$000's, unaudited)                           | End of Period:      |                      |                     | Percent Change From: |                   |
|--|---------------------|----------------------|---------------------|----------------------|-------------------|
|  | March 31,<br>2013   | December 31,<br>2012 | March 31,<br>2012   | December 31,<br>2012 | March 31,<br>2012 |
| <b>ASSETS</b>  |                     |                      |                     |                      |                   |
| Cash and due from banks  | \$ 19,779           | \$ 16,520            | \$ 20,450           | 20%                  | -3%               |
| Federal funds sold and interest-bearing deposits in other financial institutions | 57,090              | 357,045              | 48,215              | -84%                 | 18%               |
| Securities available-for-sale, at fair value                                     | 346,800             | 367,912              | 385,826             | -6%                  | -10%              |
| Securities held-to-maturity, at amortized cost                                   | 68,283              | 51,472               | -                   | 33%                  | N/A               |
| Loans held-for-sale - SBA, including deferred costs                              | 4,394               | 3,409                | 4,778               | 29%                  | -8%               |
| Loans held-for-sale - other, including deferred costs                            | -                   | -                    | 184                 | N/A                  | -100%             |
| Loans:   |                     |                      |                     |                      |                   |
| Commercial   | 356,688             | 375,469              | 357,906             | -5%                  | 0%                |
| Real estate:   |                     |                      |                     |                      |                   |
| Commercial and residential   | 361,340             | 354,934              | 319,914             | 2%                   | 13%               |
| Land and construction  | 24,611              | 22,352               | 18,583              | 10%                  | 32%               |
| Home equity  | 45,347              | 43,865               | 48,444              | 3%                   | -6%               |
| Consumer   | 14,036              | 15,714               | 11,810              | -11%                 | 19%               |
| Loans  | 802,022             | 812,334              | 756,657             | -1%                  | 6%                |
| Deferred loan (fees) costs, net  | (97)                | (21)                 | 237                 | -362%                | -141%             |
| Total loans, including deferred fees and costs                                   | 801,925             | 812,313              | 756,894             | -1%                  | 6%                |
| Allowance for loan losses  | (19,342)            | (19,027)             | (20,306)            | 2%                   | -5%               |
| Loans, net   | 782,583             | 793,286              | 736,588             | -1%                  | 6%                |
| Company owned life insurance   | 48,774              | 48,358               | 47,067              | 1%                   | 4%                |
| Premises and equipment, net  | 7,632               | 7,469                | 7,883               | 2%                   | -3%               |
| Intangible assets  | 1,882               | 2,000                | 2,368               | -6%                  | -21%              |
| Accrued interest receivable and other assets                                     | 46,347              | 45,841               | 51,939              | 1%                   | -11%              |
| <b>Total assets</b>  | <b>\$ 1,383,564</b> | <b>\$ 1,693,312</b>  | <b>\$ 1,305,298</b> | <b>-18%</b>          | <b>6%</b>         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                      |                     |                      |                     |                      |                   |
| <b>Liabilities:</b>  |                     |                      |                     |                      |                   |
| Deposits:  |                     |                      |                     |                      |                   |
| Demand, noninterest-bearing  | \$ 397,198          | \$ 727,684           | \$ 356,618          | -45%                 | 11%               |
| Demand, interest-bearing   | 169,681             | 155,951              | 144,022             | 9%                   | 18%               |
| Savings and money market   | 286,784             | 272,047              | 292,009             | 5%                   | -2%               |
| Time deposits - under \$100  | 23,835              | 25,157               | 27,949              | -5%                  | -15%              |
| Time deposits - \$100 and over   | 189,779             | 190,502              | 168,726             | 0%                   | 12%               |
| Time deposits - brokered   | 83,763              | 97,807               | 84,728              | -14%                 | -1%               |
| CDARS - money market and time deposits   | 15,850              | 10,220               | 6,198               | 55%                  | 156%              |
| Total deposits   | 1,166,890           | 1,479,368            | 1,080,250           | -21%                 | 8%                |
| Subordinated debt  | 9,279               | 9,279                | 23,702              | 0%                   | -61%              |
| Accrued interest payable and other liabilities                                   | 36,560              | 34,924               | 41,450              | 5%                   | -12%              |
| Total liabilities  | 1,212,729           | 1,523,571            | 1,145,402           | -20%                 | 6%                |
| <b>Shareholders' Equity:</b>   |                     |                      |                     |                      |                   |
| Series C preferred stock, net  | 19,519              | 19,519               | 19,519              | 0%                   | 0%                |
| Common stock   | 131,998             | 131,820              | 131,302             | 0%                   | 1%                |
| Retained earnings  | 17,901              | 15,721               | 7,887               | 14%                  | 127%              |
| Accumulated other comprehensive income   | 1,417               | 2,681                | 1,188               | -47%                 | 19%               |
| Total shareholders' equity   | 170,835             | 169,741              | 159,896             | 1%                   | 7%                |
| <b>Total liabilities and shareholders' equity</b>                                | <b>\$ 1,383,564</b> | <b>\$ 1,693,312</b>  | <b>\$ 1,305,298</b> | <b>-18%</b>          | <b>6%</b>         |

|   | End of Period:    |                      |                   | Percent Change From: |                   |
|---|-------------------|----------------------|-------------------|----------------------|-------------------|
|   | March 31,<br>2013 | December 31,<br>2012 | March 31,<br>2012 | December 31,<br>2012 | March 31,<br>2012 |
| <b>CREDIT QUALITY DATA</b>  |                   |                      |                   |                      |                   |
| <b>(in \$000's, unaudited)</b>  |                   |                      |                   |                      |                   |
| Nonaccrual loans - held-for-sale  | \$ -              | \$ -                 | \$ 184            | N/A                  | -100%             |
| Nonaccrual loans - held-for-investment  | 16,115            | 17,335               | 14,005            | -7%                  | 15%               |
| Restructured and loans over 90 days past due and still accruing                                       | 549               | 859                  | 2,155             | -36%                 | -75%              |
| Total nonperforming loans   | 16,664            | 18,194               | 16,344            | -8%                  | 2%                |
| Foreclosed assets   | 738               | 1,270                | 3,167             | -42%                 | -77%              |
| <b>Total nonperforming assets</b>   | <b>\$ 17,402</b>  | <b>\$ 19,464</b>     | <b>\$ 19,511</b>  | -11%                 | -11%              |
| Other restructured loans still accruing   | \$ 1,717          | \$ 1,450             | \$ 431            | 18%                  | 298%              |
| Net (recoveries) charge-offs during the quarter   | \$ (315)          | \$ 766               | \$ 494            | -141%                | -164%             |
| Provision for loan losses during the quarter  | \$ -              | \$ 669               | \$ 100            | -100%                | -100%             |
| Allowance for loan losses   | \$ 19,342         | \$ 19,027            | \$ 20,306         | 2%                   | -5%               |
| Classified assets*  | \$ 31,228         | \$ 36,810            | \$ 54,196         | -15%                 | -42%              |
| Allowance for loan losses to total assets   | 2.41%             | 2.34%                | 2.68%             | 3%                   | -10%              |
| Allowance for loan losses to total nonperforming loans  | 116.07%           | 104.58%              | 124.24%           | 11%                  | -7%               |
| Allowance for loan losses to total nonperforming loans,<br>excluding nonaccrual loans - held-for-sale | 116.07%           | 104.58%              | 125.66%           | 11%                  | -8%               |
| Nonperforming assets to total assets  | 1.26%             | 1.15%                | 1.49%             | 10%                  | -15%              |
| Nonperforming loans to total loans plus<br>nonaccrual loans - held-for-sale                           | 2.08%             | 2.24%                | 2.16%             | -7%                  | -4%               |
| Classified assets* to Heritage Commerce Corp Tier 1<br>capital plus allowance for loan losses         | 17%               | 21%                  | 30%               | -19%                 | -43%              |
| Classified assets* to Heritage Bank of Commerce Tier 1<br>capital plus allowance for loan losses      | 18%               | 22%                  | 31%               | -18%                 | -42%              |
| <b>OTHER PERIOD-END STATISTICS</b>  |                   |                      |                   |                      |                   |
| <b>(in \$000's, unaudited)</b>  |                   |                      |                   |                      |                   |
| Heritage Commerce Corp:   |                   |                      |                   |                      |                   |
| Tangible equity   | \$ 168,953        | \$ 167,741           | \$ 157,528        | 1%                   | 7%                |
| Tangible common equity  | \$ 149,434        | \$ 148,222           | \$ 138,009        | 1%                   | 8%                |
| Shareholders' equity / total assets   | 12.35%            | 10.02%               | 12.25%            | 23%                  | 1%                |
| Tangible equity / tangible assets   | 12.23%            | 9.92%                | 12.09%            | 23%                  | 1%                |
| Tangible common equity / tangible assets  | 10.82%            | 8.76%                | 10.59%            | 24%                  | 2%                |
| Loan to deposit ratio   | 68.72%            | 54.91%               | 70.07%            | 25%                  | -2%               |
| Noninterest-bearing deposits / total deposits   | 34.04%            | 49.19%               | 33.01%            | -31%                 | 3%                |
| Total risk-based capital ratio  | 16.7%             | 16.2%                | 17.9%             | 3%                   | -7%               |
| Tier 1 risk-based capital ratio   | 15.5%             | 15.0%                | 16.6%             | 3%                   | -7%               |
| Leverage ratio  | 11.5%             | 11.5%                | 12.7%             | 0%                   | -9%               |
| Heritage Bank of Commerce:  |                   |                      |                   |                      |                   |
| Total risk-based capital ratio  | 15.9%             | 15.3%                | 16.9%             | 4%                   | -6%               |
| Tier 1 risk-based capital ratio   | 14.6%             | 14.0%                | 15.6%             | 4%                   | -6%               |
| Leverage ratio  | 10.9%             | 10.7%                | 11.9%             | 2%                   | -8%               |

\*Net of SBA guarantees

| NET INTEREST INCOME AND NET INTEREST MARGIN<br>(in \$000's, unaudited)                | For the Quarter Ended<br>March 31, 2013 |                                |                           | For the Quarter Ended<br>March 31, 2012 |                                |                           |
|---|---|--------------------------------|---------------------------|---|--------------------------------|---------------------------|
|   | Average<br>Balance                      | Interest<br>Income/<br>Expense | Average<br>Yield/<br>Rate | Average<br>Balance                      | Interest<br>Income/<br>Expense | Average<br>Yield/<br>Rate |
| <b>Assets:</b>  |   |                                |                           |   |                                |                           |
| Loans, gross <sup>(1)</sup>   | \$ 798,131                              | \$ 10,089                      | 5.13%                     | \$ 767,288                              | \$ 10,316                      | 5.41%                     |
| Securities - taxable  | 385,707                                 | 2,462                          | 2.59%                     | 389,919                                 | 3,097                          | 3.19%                     |
| Securities - tax exempt <sup>(2)</sup>  | 40,552                                  | 382                            | 3.82%                     | -                                       | -                              | -                         |
| Federal funds sold and interest-bearing<br>deposits in other financial institutions   | 116,947                                 | 68                             | 0.24%                     | 55,991                                  | 36                             | 0.26%                     |
| Total interest earning assets <sup>(2)</sup>  | 1,341,337                               | 13,001                         | 3.93%                     | 1,213,198                               | 13,449                         | 4.46%                     |
| Cash and due from banks   | 23,555                                  |                                |                           | 20,987                                  |                                |                           |
| Premises and equipment, net   | 7,521                                   |                                |                           | 7,978                                   |                                |                           |
| Intangible assets   | 1,954                                   |                                |                           | 2,441                                   |                                |                           |
| Other assets  | 68,561                                  |                                |                           | 67,381                                  |                                |                           |
| Total assets  | <u>\$ 1,442,928</u>                     |                                |                           | <u>\$ 1,311,985</u>                     |                                |                           |
| <b>Liabilities and shareholders' equity:</b>  |   |                                |                           |   |                                |                           |
| Deposits:   |   |                                |                           |   |                                |                           |
| Demand, noninterest-bearing   | \$ 461,108                              |                                |                           | \$ 347,291                              |                                |                           |
| Demand, interest-bearing  | 164,402                                 | 59                             | 0.15%                     | 142,650                                 | 52                             | 0.15%                     |
| Savings and money market  | 283,229                                 | 120                            | 0.17%                     | 288,202                                 | 166                            | 0.23%                     |
| Time deposits - under \$100   | 24,596                                  | 23                             | 0.38%                     | 28,223                                  | 38                             | 0.54%                     |
| Time deposits - \$100 and over  | 190,273                                 | 203                            | 0.43%                     | 169,694                                 | 256                            | 0.61%                     |
| Time deposits - brokered  | 92,063                                  | 219                            | 0.96%                     | 6,262                                   | 3                              | 0.19%                     |
| CDARS - money market and time deposits  | 11,475                                  | 1                              | 0.04%                     | 84,730                                  | 201                            | 0.95%                     |
| Total interest-bearing deposits   | 766,038                                 | 625                            | 0.33%                     | 719,761                                 | 716                            | 0.40%                     |
| Total deposits  | 1,227,146                               | 625                            | 0.21%                     | 1,067,052                               | 716                            | 0.27%                     |
| Subordinated debt   | 9,279                                   | 88                             | 3.85%                     | 23,702                                  | 474                            | 8.04%                     |
| Short-term borrowings   | 85                                      | 1                              | 4.77%                     | 39                                      | -                              | N/A                       |
| Total interest-bearing liabilities  | 775,402                                 | 714                            | 0.37%                     | 743,502                                 | 1,190                          | 0.64%                     |
| Total interest-bearing liabilities and demand,<br>noninterest-bearing / cost of funds | 1,236,510                               | 714                            | 0.23%                     | 1,090,793                               | 1,190                          | 0.44%                     |
| Other liabilities   | 36,535                                  |                                |                           | 32,671                                  |                                |                           |
| Total liabilities   | 1,273,045                               |                                |                           | 1,123,464                               |                                |                           |
| Shareholders' equity  | 169,883                                 |                                |                           | 188,521                                 |                                |                           |
| Total liabilities and shareholders' equity  | <u>\$ 1,442,928</u>                     |                                |                           | <u>\$ 1,311,985</u>                     |                                |                           |
| Net interest income <sup>(2)</sup> / margin   |   | 12,287                         | 3.71%                     |   | 12,259                         | 4.06%                     |
| Less tax equivalent adjustment <sup>(2)</sup>   |   | (134)                          |                           |   | -                              |                           |
| Net interest income   |   | <u>\$ 12,153</u>               |                           |   | <u>\$ 12,259</u>               |                           |

<sup>(1)</sup>Includes loans held-for-sale. Yield amounts earned on loans include loan fees and costs. Nonaccrual loans are included in average balance.

<sup>(2)</sup>Reflects tax equivalent adjustment for tax exempt income based on a 35% tax rate.