

HERITAGE COMMERCE CORP

**For Immediate
Release:**

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Heritage Commerce Corp reports Financial Results for the Second Quarter ended June 30, 2002

Heritage Commerce Corp (the "Company") (Nasdaq: HTBK) today reported consolidated operating results for the second quarter of 2002. Consolidated net income was \$1,561,000, or \$0.14 per diluted share, compared to \$1,890,000, or \$0.17 per diluted share, for the second quarter of 2001 and compared to \$1,513,000, or \$0.13 per diluted share for the first quarter of 2002. The decline in earnings from the second quarter of 2001 was attributed to a lower net interest margin, related to significant short term interest rate reductions during 2001, partially offset by increases in the level of earning assets and interest bearing liabilities. The increase in earnings from the first quarter of 2002 was primarily due to an increase in net interest income and noninterest income offset by increased salary and employee benefit expenses and other noninterest expenses. Annualized return on average assets and return on average equity for the second quarter of 2002 were 0.68% and 8.15%, respectively, compared with returns of 0.88% and 10.74%, respectively, for the second quarter of 2001 and returns of 0.67% and 8.11%, respectively, for the first quarter of 2002. Annualized return on average assets and return on average equity for the six months ended June 30, 2002 were 0.68% and 8.13%, respectively, compared with returns of 0.95% and 11.89%, respectively, for the six months ended June 30, 2001. The Company's net interest margin was 4.41% for the second quarter of 2002, compared with 5.35% for the second quarter of 2001 and 4.23% for the first quarter of 2002, reflecting both the significant reduction in interest rates that took place in 2001 and the stabilization of interest rates during 2002.

Noninterest income was \$1,987,000 for the second quarter of 2002, compared with \$1,691,000 for the second quarter of 2001 and \$1,890,000 for the first quarter of 2002. The increase in the second quarter of 2002 compared to the second quarter of 2001 was primarily due to an increase in service charges and other fees of \$143,000 and an increase in gains on sales of SBA loans of \$279,000 and servicing income of \$148,000, offset by a decrease in gains on sales of securities of \$271,000. The increases in SBA gains on sale and loan servicing were primarily the result of increased activity in the origination of SBA loans. The increase in service charges and other fees was primarily the result of higher activity relative to growth of the Company and price increases for certain services.

Noninterest expense for the second quarter of 2002 was \$8,317,000, compared with \$8,669,000 for the second quarter of 2001 and \$7,701,000 for the first quarter of 2002. The decrease in noninterest expense in the second quarter of 2002 of \$352,000, or 4%, compared to the second quarter in 2001 was due to decreases in other expenses including client services costs of \$365,000, advertising and promotion expenses of \$159,000, and loan origination costs of \$56,000, offset by increases in professional fees of \$82,000. Salaries and employee benefits remained constant for the second quarter of 2002 compared to the second quarter of 2001. Occupancy and equipment expenses increased \$70,000, or 7%, from \$1,047,000 for the second quarter of 2001 to \$1,117,000 for the second quarter of 2002.

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As of June 30, 2002, the Company's total assets were \$927,692,000, an increase of \$60,061,000 or 7%, from \$867,631,000 as of June 30, 2001 and an increase of \$14,962,000, or 2%, from \$912,730,000 as of December 31, 2001. Total loans were \$629,423,000 as of June 30, 2002, up 4% from \$605,132,000 as of June 30, 2001 and down slightly from \$632,917,000 as of December 31, 2001. Total deposits were \$818,464,000 as of June 30, 2002, up 6% from \$770,168,000 as of June 30, 2001 and up 1% from \$807,908,000 as of December 31, 2001.

The Company's allowance for loan losses was \$11,856,000, or 1.88% of total loans, as of June 30, 2002, compared to \$10,347,000, or 1.71% of total loans, as of June 30, 2001 and compared to \$11,154,000, or 1.76% of total loans, as of December 31, 2001. The increase in the allowance for loan losses was due to continued weakness in certain national and regional economic measures. The Company's nonperforming assets (NPA's) were \$1,951,000 as of June 30, 2002, compared to \$66,000 as of June 30, 2001. There were no NPA's as of December 31, 2001.

Shareholders' equity as of June 30, 2002 was \$78,098,000 compared with \$70,967,000 as of June 30, 2001 and \$74,574,000 as of December 31, 2001. Book value per share increased to \$7.00 as of June 30, 2002, from \$6.39 as of June 30, 2001 and \$6.71 as of December 31, 2001. The Company's leverage capital ratio was 10.34% as of June 30, 2002, up from 9.78% as of June 30, 2001 and 10.20% as of December 31, 2001. All of the Company's subsidiary bank capital ratios continue to be above the well-capitalized guidelines established by the bank regulatory agencies.

Heritage Commerce Corp, a bank holding company, is the parent company of four financial institutions: **Heritage Bank of Commerce**, a commercial bank headquartered in the city of San Jose, with Loan Production offices in San Jose, Fresno, Santa Cruz, Elk Grove, Watsonville, Glendale, Chico and Pittsburg, CA; **Heritage Bank East Bay**, a commercial bank headquartered in the city of Fremont, with an office in Danville; **Heritage Bank South Valley**, a commercial bank headquartered in the city of Morgan Hill, with an office in Gilroy; and **Bank of Los Altos**, with two offices in Los Altos and an office in Mountain View.

The Company's common stock is listed on the Nasdaq National Market under the symbol "HTBK."

Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including the *Annual Report* on Form 10-K for the year ended December 31, 2001 and the *Quarterly Reports* on Form 10-Q filed by the Company in fiscal 2002.

For further information about the Company's financial performance, contact Brad L. Smith, *Chairman and Chief Executive Officer*, at (408) 947-6900 or visit the Company's web site at www.HeritageCommerceCorp.com.

Forward Looking Statement Disclaimer

This release may contain forward-looking statements that are subject to risks and uncertainties. Such risks and uncertainties may include but are not necessarily limited to fluctuations in interest rates, inflation, government regulations and general economic conditions, and competition within the business areas in which the Company is conducting its operations, including the real estate market in California and other factors beyond the Company's control. Such risks and uncertainties could cause results for subsequent interim periods or for the entire year to differ materially from those indicated. 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.

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HERITAGE

COMMERCE CORP

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Condensed Consolidated Financial Information — (Unaudited)

(Dollars in thousands, except Per Share amounts)

	<u>At and For the Three Months Ended</u>			<u>Percent Change From</u>		<u>At and For the Six Months Ended</u>		
	<u>June 30,</u> <u>2002</u>	<u>March 31,</u> <u>2002</u>	<u>June 30,</u> <u>2001</u>	<u>March 31,</u> <u>2002</u>	<u>June 30,</u> <u>2001</u>	<u>June 30,</u> <u>2002</u>	<u>June 30,</u> <u>2001</u>	<u>Percent</u> <u>Change</u>
<i>Per Share Data</i>								
Earnings Per Share (EPS):								
Basic EPS	\$ 0.14	\$ 0.14	\$ 0.17	0%	(18)%	\$ 0.28	\$ 0.37	(24)%
Diluted EPS	\$ 0.14	\$ 0.13	\$ 0.17	8%	(18)%	\$ 0.27	\$ 0.36	(25)%
End of Period (EOP) Book Value	\$ 7.00	\$ 6.82	\$ 6.39	3%	10%	\$ 7.00	\$ 6.39	10%
EOP Shares Outstanding	11,150,017	11,132,462	11,104,574	0%	0%	11,150,017	11,104,574	0%
Weighted Avg. Basic Shares Outstanding	11,139,219	11,122,179	11,096,230	0%	0%	11,130,699	11,053,894	1%
Weighted Avg. Diluted Shares Outstanding	11,485,511	11,394,723	11,400,038	1%	1%	11,432,634	11,370,308	1%
<i>Income Statement Data</i>								
Interest Income	\$ 13,290	\$ 13,071	\$ 16,807	2%	(21)%	\$ 26,361	\$ 34,952	(25)%
Interest Expense	3,994	4,292	6,231	(7)%	(36)%	8,286	13,313	(38)%
Net Interest Income	9,296	8,779	10,576	6%	(12)%	18,075	21,639	(16)%
Loan Loss Provision	640	675	528	(5)%	21%	1,315	1,055	25%
<i>Noninterest Income:</i>								
Service Charges and Other Fees	371	316	228	17%	63%	687	436	58%
Gain on Sale of Loans	557	421	278	32%	100%	978	551	77%
Gain on Sales of Securities Available-For-Sale	138	287	409	(52)%	(66)%	425	551	(23)%
Servicing Income	310	268	162	16%	91%	578	293	97%
Other Noninterest Income	611	598	614	2%	0%	1,209	1,098	10%
Total Noninterest Income	1,987	1,890	1,691	5%	18%	3,877	2,929	32%
<i>Noninterest Expense:</i>								
Salaries & Employee Benefits	4,648	4,534	4,638	3%	0%	9,182	9,456	(3)%
Occupancy & Equipment	1,117	1,074	1,047	4%	7%	2,191	2,077	5%
Other Noninterest Expense	2,552	2,093	2,984	22%	(14)%	4,645	5,403	(14)%
Total Noninterest Expense	8,317	7,701	8,669	8%	(4)%	16,018	16,936	(5)%
Income Before Taxes	2,326	2,293	3,070	1%	(24)%	4,619	6,577	(30)%
Income Taxes	765	780	1,180	(2)%	(35)%	1,545	2,506	(38)%
Net Income	\$ 1,561	\$ 1,513	\$ 1,890	3%	(17)%	\$ 3,074	\$ 4,071	(24)%

<i>Average Balances</i>	At and For the Three Months Ended			Percent Change From		At and For the Six Months Ended		
	June 30, 2002	March 31, 2002	June 30, 2001	March 31, 2002	June 30, 2001	June 30, 2002	June 30, 2001	Percent Change
Average Loans	\$ 669,956	\$ 673,105	\$ 633,886	0%	6%	\$ 671,530	\$ 630,570	6%
Average Other Earning Assets	\$ 176,466	\$ 168,022	\$ 159,554	5%	11%	\$ 172,239	\$ 162,150	6%
Average Earning Assets	\$ 846,422	\$ 841,127	\$ 793,440	1%	7%	\$ 843,769	\$ 792,720	6%
Average Assets	\$ 921,319	\$ 914,839	\$ 857,210	1%	7%	\$ 918,079	\$ 858,641	7%
Average Interest Bearing Funds	\$ 611,038	\$ 602,060	\$ 549,520	1%	11%	\$ 606,549	\$ 555,531	9%
Average Equity	\$ 76,869	\$ 75,669	\$ 70,582	2%	9%	\$ 76,269	\$ 69,058	10%
Average Deposits	\$ 813,212	\$ 802,070	\$ 759,291	1%	7%	\$ 807,641	\$ 759,693	6%

End of Period Balances

EOP Loans:

Real Estate – Land and Construction	\$ 160,368	\$ 160,939	\$ 165,468	0%	(3)%	\$ 160,368	\$ 165,468	(3)%
Real Estate – Mortgage	250,658	253,418	231,712	(1)%	8%	250,658	231,712	8%
Commercial	214,160	215,509	202,133	(1)%	6%	214,160	202,133	6%
Consumer	4,237	4,318	5,819	(2)%	(27)%	4,237	5,819	(27)%
Total EOP Loans	\$629,423	\$634,184	\$605,132	(1)%	4%	\$629,423	\$605,132	4%

EOP Assets

EOP Assets	\$927,692	\$930,143	\$867,631	0%	7%	\$927,692	\$867,631	7%
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EOP Deposits:

Demand Deposits – Noninterest Bearing	\$ 216,467	\$ 216,534	\$ 234,125	0%	(8)%	\$ 216,467	\$ 234,125	(8)%
Demand Deposits – Interest Bearing	91,761	86,901	66,063	6%	39%	91,761	66,063	39%
Savings/Money Market	266,032	250,026	201,341	6%	32%	266,032	201,341	32%
Time Deposits	244,204	270,578	268,639	(10)%	(9)%	244,204	268,639	(9)%
Total EOP Deposits	\$818,464	\$824,039	\$770,168	(1)%	6%	\$818,464	\$770,168	6%

EOP Equity

EOP Equity	\$ 78,098	\$ 75,891	\$ 70,967	3%	10%	\$ 78,098	\$ 70,967	10%
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Credit Quality Data

EOP Non-Accrual Loans	\$ 1,951	\$ 1,026	\$ 66	90%	2,856%	\$ 1,951	\$ 66	2,856%
EOP Total Non-Performing Assets	\$ 1,951	\$ 1,026	\$ 66	90%	2,856%	\$ 1,951	\$ 66	2,856%
EOP 90-day Past Due Loans and Still Accruing	\$ 415	\$ 0	\$ 0	N/A	N/A	\$ 415	\$ 0	N/A
EOP Net Charge-Offs	\$ 613	\$ 310	\$ 359	98%	71%	\$ 613	\$ 359	71%
EOP Loan Loss Reserves	\$ 11,856	\$ 11,519	\$ 10,347	3%	15%	\$ 11,856	\$ 10,347	15%

Ratios

Annualized ROA	0.68%	0.67%	0.88%	1%	(23)%	0.68%	0.95%	(28)%
Annualized ROE	8.15%	8.11%	10.74%	0%	(24)%	8.13%	11.89%	(32)%
Efficiency Ratio	73.71%	72.18%	70.67%	2%	4%	72.97%	68.94%	6%
Noninterest expense as percent of Average Assets	3.62%	3.41%	4.06%	6%	(11)%	3.52%	3.98%	(12)%
Net Interest Margin	4.41%	4.23%	5.35%	4%	(18)%	4.32%	5.50%	(21)%
Allowance for Loan Losses:								
to Total Loans	1.88%	1.82%	1.71%	3%	10%	1.88%	1.71%	10%
to Non-Performing Loans	608%	1,123%	15,677%	(46)%	(96)%	608%	15,677%	(96)%
Leverage Ratio	10.34%	10.22%	9.78%	1%	6%	10.34%	9.78%	6%