

HERITAGE
COMMERCE CORP

2016 ANNUAL REPORT | ON FORM 10-K

2017 Notice of Annual Meeting of Shareholders
2017 Annual Meeting Proxy Statement

2016
annual report

To Our Shareholders

April 19, 2017

Dear Fellow Shareholders:

2016 was a strong year for Heritage Commerce Corp. We delivered the most profitable year since we opened our doors in 1994. Net income was a record \$27.4 million, a 66% increase over 2015. Total assets exceeded \$2.57 billion at year end, the return on average tangible assets was 1.15%, and the return on average tangible equity was 13.55%, for full year 2016. We made important investments in our long-term growth strategy achieving robust deposit and loan increases while maintaining solid credit quality. Our outstanding financial performance was a direct result of the tremendous efforts of our experienced management team and banking professionals who work diligently with our customers to help them achieve their financial goals.

2016 Highlights:

- Our net income grew 66% for the year to \$27.4 million, or \$0.72 per diluted share.
- Total revenue was higher by 21% from 2015, reflecting solid earning asset growth.
- In the first quarter of 2016, we raised our quarterly cash dividend 12.5% to \$0.09 per share and continued to pay \$0.09 per share each consecutive quarter for the remainder of the year. The quarterly cash dividend was raised an additional 11% to \$0.10 per share in January 2017.
- In April 2016, Heritage Commerce Corp was named one of the top performing banks for 2015, by S&P Global Market Intelligence, measured by six core financial performance metrics that focus on profitability, asset quality and growth for the 12-month period ended December 31, 2015. We are delighted to have continued that momentum throughout 2016.
- We generated robust deposit growth for the year, increasing deposits 10% over 2015, with noninterest-bearing deposits increasing 12%. As a result of focusing on relationship banking, we have established a loyal customer base with stable deposits.
- In addition, we had solid loan growth with loans, excluding loans held-for-sale, increasing 11% for the year. Our specialization in a variety of business lines including dental, nonprofit organizations, contractors, education, churches, and homeowner associations has led to sustained loan and deposit growth over the years.
- Our credit metrics continued to improve with nonperforming assets decreasing 51% from December 31, 2015, to \$3.3 million, or 0.13% of total assets, at year end. We believe our allowance for loan losses at 1.27% of total loans, remains sufficient.
- Heritage Commerce Corp ended the year with a total risk-based capital ratio of 12.5%, Tier 1 risk-based capital ratio and common equity Tier 1 risk-based ratio of 11.5%, and a leverage ratio of 8.5%. All capital ratios exceeded regulatory guidelines for a “well-capitalized” financial institution under the Basel III regulatory requirements.

Additionally, we support our communities by investing financially and with time/effort of our employees in many nonprofit entities that benefit those areas. In 2016, we invested approximately \$700,000 into our communities through nonprofits and our employees volunteered over 2,500 hours. We are extremely proud of our employees who work hard to create value for our customers, communities, and shareholders.

We had an exceptional year, and our fundamentals are solid. With a strong core funding base, we are well positioned for growth as we enter 2017. We will continue providing quality products and services to our customers and offer exceptional value to our shareholders from a position of strength and stability. Please join us for our annual meeting on Thursday, May 25, 2017, at 1:00 p.m. at our corporate headquarters in San Jose.

Sincerely,



Jack W. Conner
Chairman of the Board



Walter T. Kaczmarek
President and Chief Executive Officer

Board of Directors

Jack W. Conner, Chairman
Julianne Biagini-Komas
Frank G. Bisceglia
J. Philip DiNapoli
Steven L. Hallgrimson
Walter T. Kaczmarek
Robert T. Moles
Laura Roden
Ranson W. Webster

Executive Management

Walter T. Kaczmarek
President and Chief Executive Officer

Keith A. Wilton
*President, Heritage Bank of Commerce
Chief Operating Officer*

Michael E. Benito
*Executive Vice President
Banking Division*

William J. Del Biaggio, Jr.
*Executive Vice President
Marketing & Community Relations*

Robert P. Gionfriddo
*Executive Vice President
Director of Business Development*

Lawrence D. McGovern
*Executive Vice President
Chief Financial Officer*

David E. Porter
*Executive Vice President
Chief Credit Officer*

Teresa L. Powell
*Executive Vice President
Director of HOA & Deposit Services*

Deborah K. Reuter
*Executive Vice President
Chief Risk Officer & Corporate Secretary*

Larry G. St. Regis
*Executive Vice President
Chief Technology Officer*

May K.Y. Wong
*Executive Vice President
Controllor*

Subsidiary Bank Offices Heritage Bank of Commerce

San Jose Main
150 Almaden Boulevard
San Jose, CA 95113
408.947.6900

Danville
387 Diablo Road
Danville, CA 94526
925.314.2851

Fremont
3137 Stevenson Boulevard
Fremont, CA 94538
510.445.0400

Gilroy
7598 Monterey Street
Suite 110
Gilroy, CA 95020
408.842.8310

Hollister
351 Tres Pinos Road
Suite 102A
Hollister, CA 95023
831.637.2152

Los Altos
419 S. San Antonio Road
Los Altos, CA 94022
650.941.9300

Los Gatos
15575 Los Gatos Boulevard
Building B
Los Gatos, CA 95032
408.356.6190

Morgan Hill
18625 Sutter Boulevard
Suite 100
Morgan Hill, CA 95037
408.778.2320

Pleasanton
300 Main Street
Pleasanton, CA 94566
925.314.2876

Sunnyvale
333 W. El Camino Real
Suite 150
Sunnyvale, CA 94087
650.919.2159

Walnut Creek
101 Ygnacio Valley Road
Suite 100
Walnut Creek, CA 94596
925.930.9287

Bay View Funding
Administrative Office
2933 Bunker Hill Lane
Suite 210
Santa Clara, CA 95054
650.294.6600

Heritage Commerce Corp Investor Relations Contact

Deborah K. Reuter
*Executive Vice President
Chief Risk Officer & Corporate Secretary*

Transfer Agent
Wells Fargo Bank, N.A.
Shareowner Services
1110 Centre Pointe Curve
Suite 101
Mendota Heights, MN 55120
1.800.468.9716

Independent Auditors

Crowe Horwath LLP
400 Capitol Mall
Suite 1400
Sacramento, CA 95814
916.441.1000

Corporate Counsel

Buchalter
A Professional Corporation
1000 Wilshire Boulevard
Suite 1500
Los Angeles, CA 90017
213.891.0700

To get further information on Heritage Commerce Corp, or to receive regular financial updates, please visit our web site at HeritageCommerceCorp.com and click on "Information Request."

Member FDIC

HERITAGE
COMMERCE CORP

150 Almaden Boulevard / San Jose, California 95113 / 408.947.6900

HERITAGECOMMERCECORP.COM