

# HERITAGE COMMERCE CORP

2018 Notice of Annual Meeting of Shareholders  
2018 Annual Meeting Proxy Statement

# 2017

**Annual Report  
On Form 10-K**

## To Our Shareholders

April 16, 2018

Dear Fellow Shareholders:

On the heels of delivering our most profitable year in 2016, we continued to build momentum in 2017. We achieved record pre-tax earnings of \$50.3 million for the full year of 2017, up 14% over 2016. These pre-tax earnings included acquisition costs of \$671,000 related to the Tri-Valley Bank and United American Bank proposed mergers. Net income for the year ended December 31, 2017, was \$23.8 million, or \$0.62 per average diluted common share. Impacting 2017 net income was the remeasurement of our net deferred tax assets (“DTA”), which was recorded as an additional tax expense in the fourth quarter of 2017, as a result of the Tax Cuts and Jobs Act enacted on December 22, 2017. The remeasurement of the DTA reduced net income by \$7.1 million for the fourth quarter of 2017 and for the year ended December 31, 2017. Additionally, due to the Tax Act, we will benefit from a lower federal corporate tax rate in 2018 and beyond.

We are fortunate to operate in one of the most vibrant markets in the country. The San Francisco Bay Area continues to offer excellent opportunities for expansion. We expect to make additional investments to drive organic growth, as well as continue building our platform by seeking out potential mergers with smaller financial institutions. In the past four years, we have made two additional profitable acquisitions, including Bayview Funding in 2014 and Focus Business Bank in 2015. In December 2017, we agreed to acquire Tri-Valley Bank, expanding our presence in the San Francisco East Bay Area. In January 2018, we signed another agreement to acquire United American Bank, extending our footprint into San Mateo County, just south of San Francisco. We believe we have demonstrated that we offer a great platform for smaller institutions to join us.

We look forward to continuing to grow our franchise and creating added value for our customers, employees and shareholders. To that end, we raised our quarterly cash dividend 10% to \$0.11 per share in January 2018. This is the sixth consecutive year we have raised our quarterly cash dividend.

### 2017 Highlights:

- For the full year of 2017, net income was \$23.8 million, or \$0.62 per average diluted share. The DTA adjustment reduced earnings per share by (\$0.18) for both the fourth quarter of 2017 and for the year.
- Pre-tax income for the year increased 14% to \$50.3 million, compared to \$44.0 million for 2016. Acquisition costs related to the proposed mergers reduced pre-tax income by \$671,000.
- At year-end 2017, total assets increased 11%, total loans increased 5%, and total deposits increased 10%, compared to year-end 2016.
- Heritage Commerce Corp ended the year with a total risk-based capital ratio of 14.4%, Tier 1 risk-based capital ratio and common equity Tier 1 risk-based ratio of 11.4% and a leverage ratio of 8.0%. All capital ratios exceeded regulatory guidelines for a “well-capitalized” financial institution under the Basel III regulatory requirements.
- Early in 2017, we promoted Keith Wilton to President of Heritage Bank of Commerce. Keith joined us in 2014 and has shown tremendous intellect and business insight. He is a great asset to our institution and to our loyal customers.
- In June 2017, we were awarded the Community Bankers Cup by Raymond James & Associates for operating one of the top performing community banks in the country, based on sound asset quality, profitability and returns.
- We were also recognized by S&P Global Market Intelligence as a best-performing community bank with assets ranging from \$1 billion to \$10 billion in assets.

We are proud of our solid operating performance in 2017. We have created a foundation to generate long-term growth. As we continue to expand our franchise in the San Francisco Bay Area, we will work with our customers to help them achieve financial security and continue to participate in revitalizing the communities we serve. Our goal is to increase shareholder value. Our success in 2017 was a direct reflection of the efforts of employees working hard, with ethics and integrity, for our success. Thank you for your support, and please join us for our annual meeting on Thursday, May 24, 2018, at 1:00 p.m. at our corporate headquarter in San Jose.

Sincerely,



Jack W. Conner  
Chairman of the Board



Walter T. Kaczmarek  
President & 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 & Chief Executive Officer*

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

Michael E. Benito  
*Executive Vice President  
 Banking Division*

Margo G. Butsch  
*Executive Vice President  
 Chief Credit Officer*

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

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

**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

**Livermore**  
 1987 First Street  
 Livermore, CA 94550  
 925.791.4360

**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

**San Ramon** \*Closing on July 13, 2018  
 3160 Crow Canyon Road  
 Suite 160  
 San Ramon, CA 94583  
 925.791.4340

**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**

Equiniti Trust Company  
 EQ Shareowner Services  
 1110 Centre Pointe Curve, Suite 101  
 Mendota Heights, MN 55120  
 1.800.468.9716

**Independent Auditors**

Crowe Horwath LLP  
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 Sacramento, CA 95814  
 916.441.1000

**Corporate Counsel**

Buchalter  
 A Professional Corporation  
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 Los Angeles, CA 90017

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

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