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**HERITAGE
COMMERCE CORP**

2009 Notice of Annual Meeting
of Shareholders, May 28, 2009

2009 Proxy Statement of
Heritage Commerce Corp

2008 Annual Report on Form 10-K

Filings Services
APR 24 2009
SNL Financial, LC
1-800-969-4121

To our Shareholders

April 20, 2009

Dear Fellow Shareholders,

It was a year for the record books, and the pundits will no doubt be writing about the historic events of 2008 for years to come. While no one can predict the magnitude of this recession, there is no doubt the United States is facing a serious economic situation. While Heritage Commerce Corp and its subsidiary, Heritage Bank of Commerce, are certainly not immune to the turmoil in the financial markets, we have maintained a solid capital position and steady market growth. In 2008 we earned \$1.8 million, or \$0.13 per diluted common share, which was well below 2007's profits of \$14.1 million, or \$1.12 per diluted common share. There were two primary reasons for the lower level of profits in 2008 compared to 2007. First, the prime rate was reduced by 500 basis points—8.25% to 3.25%—from September 18, 2007, through December 31, 2008, resulting in margin compression. Second, the allowance for loan losses on our balance sheet doubled to \$25 million or 2.00% of total loans, with the 2008 provision for loan losses totaling \$15.5 million and net charge-offs of \$2.7 million.

The initiatives we launched in 2007 proved their worth in 2008. The acquisition of Diablo Valley Bank, the expansion into Walnut Creek and the rebuilding and expansion of our lending teams were all important contributors to our growth in 2008. Overall, we grew our loan portfolio by 20% and our deposit base by 8% year-over-year. Loan demand remains solid although, with lower real estate values and reduced net worth of many loan applicants, there are fewer qualified borrowers today than there were before.

The economic downturn has negatively impacted the asset quality of our loan portfolio, particularly for land and construction loans that make up about 21% of our total loans. Our SBA portfolio is performing in line with the general economy. Nonperforming assets were 2.74% of total assets at year end and, as a result, we are staying focused on loan quality.

In November, we were approved for the U.S. Treasury's Capital Purchase Program and we raised \$40 million in new capital through the placement of preferred shares. As a well-capitalized institution, both before and after receiving these funds, we chose to participate in this program to provide the additional capital base to increase our ability to meet the needs of the customers and communities we serve. Until we fully understand the length and depth of this recession, we felt it prudent to accept the government's investment. Healthier community banks were key recipients of the funds.

We began deploying these funds almost immediately and from November 21, 2008, to December 31, 2008, we made more than \$32 million (or 80% of CPP money) in new loan commitments and \$46 million in renewed loan commitments.

In an effort to preserve capital in these difficult economic times and maintain our ability to lend money to local businesses, we decided to reduce the dividend paid on our common stock. Our commitment to our shareholders, customers, and communities is to deploy the capital wisely and to continue to build a strong and vibrant franchise in our markets.

We are working hard to prudently manage your Company through these disconcerting economic times. We are extremely proud of our employees. As our 2008 growth demonstrates, everyone on our team has gone the extra mile to be more efficient and diligent, and has worked hard not to be distracted by industry turmoil. In an effort to ensure we control our costs appropriately, the executive management team will not receive any bonuses for 2008 performance or salary raises for 2009.

We will be celebrating our 15th anniversary this year, although in a different way than in years past. The wonderful anniversary party we have hosted each of the past 14 years will not be held this year. Instead, we will save a portion of the cost to conserve capital and we will use a portion of the savings to make significant contributions to several local charities to help those less fortunate in our community. We believe that being a good corporate citizen is more important than ever.

As we renew our commitment to our loyal shareholders, employees, customers, and local communities, we invite you to join our management team in recognizing the accomplishments we have achieved at our upcoming annual shareholders' meeting on May 28, 2009, at 1:00 p.m. We look forward to seeing you there.

We thank you for your banking business and for your investment in Heritage Commerce Corp. We know that times are difficult right now, and all indications are that these challenges will remain for all or most of 2009. Nevertheless, we believe that our future is bright and that together, we can persevere and emerge from these challenging times. In closing, we leave you with the words of wisdom that Warren Buffet penned in his shareholder letter this year:

"Though the path has not been smooth, our economic system has worked extraordinarily well over time. It has unleashed human potential as no other system has, and it will continue to do so. America's best days lie ahead."

Sincerely,



Jack W. Conner
Chairman of the Board



Walter T. Kaczmarek
President and Chief Executive Officer

Corporate Information

Board of Directors

Jack W. Conner, Chairman
Frank G. Bisceglia
James R. Blair
John J. Hounslow
Walter T. Kaczmarek
Mark E. Lefanowicz
Robert T. Moles
Louis ("Lon") O. Normandin
Humphrey P. Polanen
Charles J. Toeniskoetter
Ranson W. Webster

Executive Management

Walter T. Kaczmarek
President
Chief Executive Officer

William J. Del Biaggio, Jr.
Executive Vice President
Founding Chairman

James A. Mayer
Executive Vice President
East Bay Division

Lawrence D. McGovern
Executive Vice President
Chief Financial Officer

Michael R. Ong
Executive Vice President
Chief Credit Officer

Raymond Parker
Executive Vice President
Banking Division

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San Jose, CA 95113
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Danville

387 Diablo Road
Danville, CA 94526
925.314.2851

Fremont

3077 Stevenson Boulevard
Fremont, CA 94538
510.445.0400

Gilroy

7598 Monterey Street
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Gilroy, CA 95020
408.842.8310

Los Altos

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

Los Gatos

15575 Los Gatos Boulevard
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Morgan Hill

Cochrane Business Ranch
18625 Sutter Boulevard
Morgan Hill, CA 95037
408.778.2320

Mountain View

175 East El Camino Real
Mountain View, CA 94040
650.941.9300

Pleasanton

300 Main Street
Pleasanton, CA 94566
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Walnut Creek

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General Counsel / Corporate Secretary

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

