UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________to _________

Commission file number 000-23877

Heritage Commerce Corp

(Exact name of Registrant as Specified in its Charter)

California	**77-0469558**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

150 Almaden Boulevard
San Jose, California 95113
(Address of Principal Executive Offices including Zip Code)

(408) 947-6900
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES [X] NO [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

The Registrant had 11,305,226 shares of Common Stock outstanding on July 31, 2003

HERITAGE
COMMERCE CORP

Heritage Commerce Corp and Subsidiaries
Quarterly Report on Form 10-Q
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Part I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HERITAGE COMMERCE CORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in thousands)	June 30, 2003	December 31, 2002
ASSETS		
Cash and due from banks	$ 49,506	$ 35,610
Interest bearing deposits in other financial institutions	8,459	7,022
Federal funds sold	75,500	44,000
Total cash and cash equivalents	133,465	86,632
Securities available-for-sale, at fair value	156,360	126,443
Loans held for sale, at lower of cost or market	27,871	28,084
Loans, net of deferred costs	637,563	673,907
Allowance for probable loan losses	(14,692)	(13,227)
Loans, net	622,871	660,680
Premises and equipment, net	4,643	5,194
Accrued interest receivable and other assets	24,668	24,549
Other investments	26,573	27,170
TOTAL	$ 996,451	$ 958,752
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits		
Demand, noninterest bearing	$ 275,950	$ 248,616
Demand, interest bearing	98,025	94,309
Savings and money market	307,715	290,417
Time deposits, under $100	43,057	46,341
Time deposits, $100 and over	101,125	114,613
Brokered deposits	22,033	47,640
Total deposits	847,905	841,936
Accrued interest payable and other liabilities	38,817	11,599
Mandatorily redeemable cumulative trust preferred securities of subsidiary grantor trust	23,000	23,000
Total liabilities	909,722	876,535
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 10,000,000 shares authorized; none outstanding	--	--
Common stock, no par value; 30,000,000 shares authorized; shares issued and outstanding: 11,296,868 at June 30, 2003 and 11,214,414 at December 31, 2002	64,798	64,002
Unallocated ESOP shares	(568)	(693)
Accumulated other comprehensive income, net of taxes	1,505	1,714
Retained earnings	20,994	17,194
Total shareholders' equity	86,729	82,217
TOTAL	$ 996,451	$ 958,752

See notes to condensed consolidated financial statements

HERITAGE COMMERCE CORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED INCOME STATEMENTS (UNAUDITED)

(Dollars in thousands, except per share data)	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Interest income:				
Loans, including fees	$ 10,799	$ 11,700	$ 21,983	$ 23,309
Securities, taxable	814	1,209	1,882	2,273
Securities, non-taxable	83	123	180	264
Interest bearing deposits in other financial institutions	18	21	35	48
Federal funds sold	159	237	241	467
Total interest income	11,873	13,290	24,321	26,361
Interest expense:				
Deposits	2,052	3,547	4,332	7,347
Mandatorily redeemable trust preferred securities	489	446	979	927
Other	19	13	31	36
Total interest expense	2,560	4,006	5,342	8,310
Net interest income before provision for probable loan losses	9,313	9,284	18,979	18,051
Provision for probable loan losses	600	640	1,900	1,315
Net interest income after provision for probable loan losses	8,713	8,644	17,079	16,736
Noninterest income:				
Gain on sale of loans	587	557	1,144	978
Servicing income	451	310	876	578
Service charges and other fees on deposit accounts	441	371	852	687
Other investments	303	277	637	551
Equipment leasing	310	--	619	--
Gain on sale of securities available-for-sale	33	138	458	425
Other	391	334	894	658
Total noninterest income	2,516	1,987	5,480	3,877
Noninterest expenses:				
Salaries and employee benefits	4,521	4,636	9,224	9,158
Occupancy	835	790	1,654	1,508
Furniture and equipment	367	327	758	683
Professional fees	419	347	690	572
Loan origination costs	360	308	677	598
Client services	225	282	475	440
Advertising and promotion	228	200	399	330
Stationery & supplies	57	110	163	186
Telephone	67	83	150	157
Other	1,399	1,222	2,779	2,362
Total noninterest expenses	8,478	8,305	16,969	15,994
Income before provision for income taxes	2,751	2,326	5,590	4,619
Provision for income taxes	880	765	1,790	1,545
Net income	$ 1,871	$ 1,561	$ 3,800	$ 3,074
Earnings per share:				
Basic	$ 0.17	$ 0.14	$ 0.34	$ 0.28
Diluted	$ 0.16	$ 0.14	$ 0.33	$ 0.27

See notes to condensed consolidated financial statements

HERITAGE COMMERCE CORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands)	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Cash flows from operating activities:		
Net income	$ 3,800	$ 3,074
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	844	753
Provision for probable loan losses	1,900	1,315
Gain on sale of securities available-for-sale	(458)	(425)
Net amortization of premiums / accretion of discounts	686	388
Gains on sales of loans held for sale	(1,144)	(978)
Proceeds from sales of loans held for sale	23,751	22,846
Originations of loans held for sale	(36,721)	(33,435)
Maturities of loans held for sale	14,327	7,229
Appreciation of corporate owned life insurance	(637)	(951)
Effect of changes in:		
Accrued interest receivable and other assets	(119)	(7,920)
Accrued interest payable and other liabilities	(1,242)	539
Net cash provided by (used in) operating activities	4,987	(7,565)
Cash flows from investing activities:		
Net decrease in loans	35,078	2,881
Loans transferred to other real estate owned	832	--
Purchases of securities available-for-sale	(82,904)	(33,194)
Maturities/paydowns/calls of securities available-for-sale	28,847	10,466
Proceeds from sales of securities available-for-sale	23,562	10,356
Maturities/paydowns/calls of securities held-to-maturity	--	2,146
Redemption (Purchases) of other investments	1,234	(165)
Purchases of premises and equipment	(293)	(567)
Net cash provided by (used in) investing activities	6,356	(8,077)
Cash flows from financing activities:		
Net increase in deposits	5,969	10,556
Net proceeds from issuance of common stock	921	354
Net change in other borrowings	28,600	--
Net cash provided by financing activities	35,490	10,910
Net increase (decrease) in cash and cash equivalents	46,833	(4,732)
Cash and cash equivalents, beginning of period	86,632	106,319
Cash and cash equivalents, end of period	$ 133,465	$ 101,587
Supplemental disclosures of cash paid during the period for:		
Interest	$ 5,919	$ 9,747
Income taxes	$ 1,570	$ 3,840

See notes to condensed consolidated financial statements

HERITAGE COMMERCE CORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2003
(Unaudited)

1) Basis of Presentation

The unaudited condensed consolidated financial statements of Heritage Commerce Corp (the "Company") and its wholly owned subsidiary: Heritage Bank of Commerce (HBC) have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and notes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements are not included herein. The interim statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2002. The Company has also established the following subsidiary trusts: Heritage Capital Trust I; Heritage Statutory Trust I; Heritage Statutory Trust II; and Heritage Commerce Corp Statutory Trust III which are Delaware Statutory business trusts formed for the exclusive purpose of issuing and selling trust preferred securities.

HBC is a commercial bank serving customers located in Santa Clara, Alameda, and Contra Costa counties of California. No customer accounts for more than 10 percent of revenue for HBC or the Company. Management evaluates the Company's performance as a whole and does not allocate resources based on the performance of different lending or transaction activities. Accordingly, the Company and its subsidiary operate as one business segment.

In the Company's opinion, all adjustments necessary for a fair presentation of these condensed consolidated financial statements have been included and are of a normal and recurring nature. Certain reclassifications have been made to prior year amounts to conform to current year presentation.

The results for the three months and six months ended June 30, 2003 are not necessarily indicative of the results expected for any subsequent period or for the entire year ending December 31, 2003.

2) Stock-Based Compensation

The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. No compensation expense has been recognized in the financial statements for employee stock arrangements, as the Company's stock option plan provides for the issuance of options at a price of no less than the fair market value at the date of the grant.

SFAS No. 123, Accounting for Stock-Based Compensation, requires the disclosure of pro forma net income and earnings per share had the Company adopted the fair value method at the grant date of all stock options. Under SFAS No. 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which differ significantly from the Company's stock option awards. Those models also require subjective assumptions, which greatly affect the calculated values. The Company's calculations were made using the Black-Scholes option pricing model with the following weighted average assumptions: expected life, 84 months; risk-free interest rate, 0.82% and 1.68% for the quarter and six month periods ended June 30, 2003 and 2002; stock volatility of 17% and 28% for the quarter and six month periods ended June 30, 2003 and 2002; and no dividends during the expected term. The Company's calculations are based on a multiple option valuation approach, and forfeitures are recognized as they occur.

Had compensation expense for the Company's stock option plan been determined under the requirements of SFAS No. 123 the Company's pro forma net income and earnings per common share would have been as follows:

(Amounts in thousands, except per share data)	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Net income				
As reported	$ 1,871	$ 1,561	$ 3,800	$ 3,074
Less: Compensation expense for amortization of fair value of stock awards, net of taxes	(191)	(180)	(379)	(354)
Pro forma	$ 1,680	$ 1,381	$ 3,421	$ 2,720
Net income per common share - basic				
As reported	$ 0.17	$ 0.14	$ 0.34	$ 0.28
Pro forma	$ 0.15	$ 0.13	$ 0.31	$ 0.25
Net income per common share - diluted				
As reported	$ 0.16	$ 0.14	$ 0.33	$ 0.27
Pro forma	$ 0.15	$ 0.12	$ 0.30	$ 0.24

3) Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average common shares outstanding. Diluted earnings per share reflects potential dilution from outstanding stock options, using the treasury stock method. For each of the periods presented, net income is the same for basic and diluted earnings per share. Reconciliation of weighted average shares used in computing basic and diluted earnings per share is as follows:

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Weighted average common shares outstanding - used in computing basic earnings per share	11,163,723	11,025,638	11,158,015	11,025,538
Dilutive effect of stock options outstanding, using the treasury stock method	385,108	346,292	329,616	301,935
Shares used in computing diluted earnings per share	11,548,831	11,371,930	11,487,631	11,327,473

4) Comprehensive Income

Comprehensive Income includes net income and other comprehensive income, which represents the change in the Company's net assets during the period from non-owner sources. The Company's sources of other comprehensive income are unrealized gains and losses on securities available-for-sale and I/O strips, which are treated like available-for-sale securities, and are presented net of tax. Reclassification adjustments resulting from gains or losses on investment securities that were realized and included in net income of the current period that also had been included in other comprehensive income as unrealized holding gains or losses in the period in which they arose are excluded from comprehensive income of the current period. The Company's total comprehensive income was as follows:

(Dollars in thousands)	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Net income	$ 1,871	$ 1,561	$ 3,800	$ 3,074
Other comprehensive income, net of tax:				
Net unrealized holding gain on available-for-sale securities and I/O strips during the period	165	702	102	527
Less: reclassification adjustment for realized gains on available-for-sale securities included in net income during the period	(22)	(93)	(311)	(283)
Other comprehensive income (loss)	143	609	(209)	244
Comprehensive income	$ 2,014	$ 2,170	$ 3,591	$ 3,318

5) Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

HBC is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its clients. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk, in excess of the amounts recognized in the balance sheets.

HBC's exposure to credit loss in the event of non-performance of the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. HBC uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Credit risk is the possibility that a loss may occur because a party to a transaction failed to perform according to the terms of the contract. HBC controls the credit risk of these transactions through credit approvals, limits, and monitoring procedures. Management does not anticipate any significant losses as a result of these transactions.

Commitments to extend credit as of June 30, were as follows:

(Dollars in thousands)	2003	2002
Commitments to extend credit	$ 277,936	$ 280,849
Standby letters of credit	2,339	3,749
	$ 280,275	$ 284,598

Commitments to extend credit are agreements to lend to a client as long as there is no violation of conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since some of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. HBC evaluates each client's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by HBC upon the extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies but may include cash, marketable securities, accounts receivable, inventory, property, plant and equipment, income-producing commercial properties, and/or residential properties. Fair value of these instruments is not material.

Standby letters of credit are written with conditional commitments issued by HBC to guaranty the performance of a client to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients.

6) Reclassifications

Certain amounts in the December 31, 2002 and June 30, 2002 financial statements have been reclassified to conform to the June 30, 2003 financial statement presentation.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Discussions of certain matters in this Report on Form 10-Q may constitute forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as such, may involve risks and uncertainties. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations, are generally identifiable by the use of words such as "believe", "expect", "intend", "anticipate", "estimate", "project", or similar expressions. These forward-looking statements relate to, among other things, expectations of the business environment in which the Company operates, projections of future performance, potential future performance, potential future credit experience, perceived opportunities in the market, and statements regarding the Company's mission and vision. The Company's actual results, performance, and achievements may differ materially from the results, performance, and achievements expressed or implied in such forward-looking statements due to a wide range of factors. The factors include, but are not limited to changes in interest rates, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the US Government, real estate valuations, competition in the financial services industry, and other risks. All of the Company's operations and most of its customers are located in California. During the past year, the availability of a sufficient supply of electrical power in California has been unreliable at times. In addition, other events, including those of September 11, 2001, have increased the uncertainty related to the national and California economic outlook and could have an effect on the future operations of the Company or its customers, including borrowers. The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

Heritage operates as the bank holding company for its subsidiary bank: Heritage Bank of Commerce ("HBC"). HBC is California state chartered bank, which offers a full range of commercial and personal banking services to residents and the business/professional community in Santa Clara, Contra Costa and Alameda Counties, California.

CRITICAL ACCOUNTING POLICIES

General

Heritage Commerce Corp's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The financial information contained within our financial statements is, to a significant extent, based on approximate measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. In certain instances, the Company uses the discount factor and prepayment assumptions to determine the present value of assets and liabilities. A change in the discount factor or prepayment spreads could increase or decrease the values of those assets and liabilities which would result in either a beneficial or adverse impact to the Company's financial results. The Company used historical loss experience as one factor in determining the inherent loss that may be present in the Company's loan portfolio. Actual losses could differ significantly from the historical factors that we use. Other estimates that the Company used are related to the expected useful lives of the Company's depreciable assets. In addition GAAP itself may change from one previously acceptable method to another method. Although the economics of the Company's transactions would be the same, the timing of events that would impact the Company's transactions could change.

Allowance for Probable Loan Losses

The allowance for probable loan losses is an estimate of the losses that may be sustained in the Company's loan portfolio. The allowance is based on two basic principles of accounting. (1) Statement of Financial Accounting Standards (SFAS) No. 5 "Accounting for Contingencies", which requires that losses be accrued when they are probable of occurring and estimable and (2) SFAS No. 114, "Accounting by Creditors for Impairment of a Loan", which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

The Company's allowance for probable loan losses has three basic components: the formula allowance, the specific allowance and the unallocated allowance. Each of these components is determined based upon estimates that can and do change when the actual events occur. The formula allowance uses an historical loss view as an indicator of future losses and as a result could differ from the losses incurred in the future. The specific allowance uses various techniques to arrive at an estimate of loss. Historical loss information, and fair market value of collateral are used to estimate those losses. The use of these values is inherently subjective and our actual losses could be greater or less than the estimates. The unallocated allowance captures losses that are attributable to various economic events, industry or geographic sectors whose impact on the portfolio have occurred but have yet to be recognized in either the formula or specific allowances. For further information regarding our allowance for credit losses, see Allowance for Probable Loan Losses on page 22.

Loan Sales and Servicing

The amounts of gains recorded on sales of loans and the initial recording of servicing assets and interest only strips is based on the estimated fair values of the respective components. In recording the initial value of the servicing assets and the fair value of the Interest-Only (I/O) strips receivable, the Company uses estimates which are made based on management's expectations of future prepayment and discount rates. For the quarter ended June 30, 2003, management's estimate of constant prepayment rate ("CPR") was 14% and the weighted average discount rate assumption was 10%. These prepayment and discount rates were based on current market conditions and historical performance of the various pools of loans. If actual prepayments with respect to sold loans occur more quickly than projected the carrying value of the servicing assets may have to be adjusted through a charge to earnings. Variations in prevailing interest rates on borrowed funds, changes in general economic conditions, among other factors, could cause changes in the prepayment experience. A corresponding decrease in the value of the I/O strip receivable would also be expected.

Stock Based Awards

The Company accounts for its stock based awards using the intrinsic value method in accordance with Accounting Principles Board ("APB") Opinion No. 25 and related interpretations. Since the Company's stock option plans provide for the issuance of options at a price of no less than the fair market value at the date of the grant, no compensation expense has been recognized in the financial statements at the date of grant.

RESULTS OF OPERATIONS

Overview

Net income for the three and six months ended June 30, 2003 was $1,871,000 and $3,800,000, up $310,000 and $726,000, or 20% and 24%, as compared to the three and six months ended June 30, 2002. Earnings per diluted share for the three and six months ended June 30, 2003 were $0.16 and $0.33, up 14% and 22% from $0.14 and $0.27 per diluted share for the three and six months ended June 30, 2002. Annualized return on average assets and return on average equity for the three months ended June 30, 2003 were 0.81% and 8.75%, up from 0.68% and 8.15%, for the same period in the prior year. Annualized return on average assets and return on average equity for the six months ended June 30, 2003 were 0.83% and 9.03%, up from 0.68% and 8.13%, for the same period in the prior year.

For the three and six months ended June 30, 2003, as compared with the same period in the prior year, net interest income increased to $9,313,000 and $18,979,000 from $9,284,000 and $18,051,000, an increase of $29,000, or less than 1% and $928,000, or 5%, respectively. The Company's net interest margin was 4.37% and 4.50% for the three and six months ended June 30, 2003, compared with 4.40% and 4.31% for the three and six months ended June 30, 2002.

Total assets as of June 30, 2003 were $996,451,000, an increase of $71,350,000, or 8%, from $925,101,000 as of June 30, 2002, and an increase of $37,699,000, or 4%, from total assets of $958,752,000 as of December 31, 2002. Total deposits as of June 30, 2003 were $847,905,000, an increase of $29,441,000, or 4%, from $818,464,000 as of June 30, 2002, and an increase of $5,969,000, or less than 1%, from total deposits of $841,936,000 as of December 31, 2002.

The total loan portfolio as of June 30, 2003 was $637,563,000, an increase of $8,140,000, or 1%, from $629,423,000 as of June 30, 2002 and a decrease of $36,344,000, or 5%, from $673,907,000 as of December 31, 2002. The Company's allowance for probable loan losses was $14,692,000, or 2.30%, of total loans at June 30, 2003. This compares with an allowance for probable loan losses of $11,856,000, or 1.88%, and $13,227,000, or 1.96% of total loans at June 30, 2002 and December 31, 2002. The increase in the allowance for probable loan losses was primarily due to the Company's concern for the continued weaknesses in the economy, particularly in the Company's primary market area.

The Company's shareholders' equity at June 30, 2003 was $86,729,000, up from $77,345,000 at June 30, 2002 and $82,217,000 as of December 31, 2002. The increase in shareholders' equity is a result of the income generated over the period and the exercise of common stock options offset by a decline in other comprehensive income from fair value changes. Book value per share increased to $7.68 at June 30, 2003, from $6.94 at June 30, 2002 and $7.33 at December 31, 2002. The Company's leverage capital ratio was 11.46% at June 30, 2003 compared to 10.34% at June 30, 2002 and 10.73% at December 31, 2002.

Net Interest Income and Net Interest Margin

The following table presents the Company's average balance sheet, net interest income and the resultant yields and rates paid for the period presented:

(Dollars in thousands)	For the Three Months Ended June 30, 2003 Average Balance	Interest Income/ Expense	Average Yield/ Rate	For the Three Months Ended June 30, 2002 Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Loans, gross	$ 672,717	$ 10,799	6.44%	$ 669,956	$ 11,700	7.00%
Investment securities	119,062	897	3.02%	113,548	1,332	4.71%
Interest bearing deposits in other financial institutions	8,151	18	0.89%	6,121	21	1.37%
Federal funds sold	54,025	159	1.18%	56,797	237	1.67%
Total interest earning assets	853,955	$ 11,873	5.58%	846,422	$ 13,290	6.30%
Cash and due from banks	39,016			36,934		
Premises and equipment, net	4,944			5,444		
Other assets	33,156			30,405		
Total assets	$ 931,071			$ 919,205		
Liabilities and shareholders' equity:						
Deposits:						
Demand, interest bearing	$ 96,564	$ 136	0.56%	$ 81,327	$ 167	0.82%
Savings and money market	303,219	933	1.23%	268,751	1,290	1.93%
Time deposits, under $100	44,530	220	1.98%	58,654	476	3.25%
Time deposits, $100 and over	103,542	491	1.90%	133,237	948	2.85%
Brokered deposits	26,592	272	4.10%	69,069	666	3.87%
Other borrowings	26,235	508	7.77%	20,245	459	9.09%
Total interest bearing liabilities	600,682	$ 2,560	1.71%	631,283	$ 4,006	2.55%
Demand, noninterest bearing	235,557			202,174		
Other liabilities	9,043			8,879		
Total liabilities	845,282			842,336		
Shareholders' equity	85,789			76,869		
Total liabilities and shareholders' equity	$ 931,071			$ 919,205		
Net interest income / margin		$ 9,313	4.37%		$ 9,284	4.40%

Note: Yields and amounts earned on loans include loan fees of $954,000 and $1,111,000 for the three month periods ended June 30, 2003 and 2002, respectively. Interest income is reflected on an actual basis, not a fully taxable equivalent basis, and does not include a fair value adjustment. Nonaccrual loans of $767,000 and $1,951,000 for the period ended June 30, 2003 and 2002, respectively, are included in the average balance calculation above.

(Dollars in thousands)	For the Six Months Ended June 30, 2003 Average Balance	Interest Income/ Expense	Average Yield/ Rate	For the Six Months Ended June 30, 2002 Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Loans, gross	$ 683,284	$ 21,983	6.49%	$ 671,530	$ 23,309	7.00%
Investment securities	117,991	2,062	3.52%	108,080	2,537	4.73%
Interest bearing deposits in other financial institutions	7,736	35	0.91%	7,084	48	1.37%
Federal funds sold	41,020	241	1.18%	57,075	467	1.65%
Total interest earning assets	850,031	$ 24,321	5.77%	843,769	$ 26,361	6.30%
Cash and due from banks	38,110			36,657		
Premises and equipment, net	5,079			5,563		
Other assets	33,449			28,998		
Total assets	$ 926,669			$ 914,987		
Liabilities and shareholders' equity:						
Deposits:						
Demand, interest bearing	$ 94,610	$ 283	0.60%	$ 81,597	$ 354	0.87%
Savings and money market	302,988	1,908	1.27%	255,098	2,428	1.92%
Time deposits, under $100	44,847	463	2.08%	63,056	1,112	3.55%
Time deposits, $100 and over	105,698	1,040	1.98%	138,244	2,123	3.10%
Brokered deposits	32,269	638	3.99%	68,554	1,330	3.91%
Other borrowings	25,475	1,010	8.00%	21,224	963	9.15%
Total interest bearing liabilities	605,887	$ 5,342	1.78%	627,773	$ 8,310	2.67%
Demand, noninterest bearing	226,595			201,092		
Other liabilities	9,319			9,853		
Total liabilities	841,801			838,718		
Shareholders' equity	84,868			76,269		
Total liabilities and shareholders' equity	$ 926,669			$ 914,987		
Net interest income / margin		$ 18,979	4.50%		$ 18,051	4.31%

Note: Yields and amounts earned on loans include loan fees of $2,055,000 and $2,252,000 for the six month periods ended June 30, 2003 and 2002, respectively. Interest income is reflected on an actual basis, not a fully taxable equivalent basis, and does not include a fair value adjustment. Nonaccrual loans of $767,000 and $1,951,000 for the period ended June 30, 2003 and 2002, respectively, are included in the average balance calculation above.

The Company's net interest income for the three and six months ended June 30, 2003 was $9,313,000 and $18,979,000, an increase of $29,000 or less than 1% and $928,000 or 5% over the same periods in the prior year. For the three and six months ended June 30, 2003 compared to the same periods in the prior year, average interest earning assets increased by $7,533,000, or 1% and $6,262,000, or 1%. For the three months ended June 30, 2003, the average yield on interest earning assets was 5.58%, down 72 basis points from 6.30% for the same period in 2002. Over the same period the rates paid on interest bearing liabilities declined 84 basis points to 1.71% from 2.55%. For the six months ended June 30, 2003, the average yield on interest earning assets was 5.77%, down 53 basis points from 6.30% for the same period in 2002. Over the same period the rates paid on interest bearing liabilities declined 89 basis points to 1.78% from 2.67%. As a result, the net interest margin decreased 3 basis points to 4.37% for the three months ended June 30, 2003 from 4.40% for the same period in the prior year but has increased 19 basis points to 4.50% for the six months ended June 30, 2003 from 4.31% for the same period in the prior year. The slight decrease in the second quarter and the increase for the six month period was primarily attributable to the increase in average earning assets and the change in mix as average loan and investment balances increased while average federal funds decreased, coupled with a decrease in average interest bearing liabilities, primarily in time and brokered deposits, resulting in a decrease in the cost of interest bearing liabilities. The continued low interest rate environment for the three and six months ended June 30, 2003 compared to the same period in 2002 resulted in a reduction in net interest income of $455,000 and $247,000. This was mitigated by the overall growth in the level of earning assets and a reduction in the level of interest bearing liabilities which added $484,000 and $1,175,000 to the net interest income for the three and six months ended June 30, 2003 compared to the same periods in 2002.

The following table sets forth an analysis of the changes in interest income resulting from changes in the average volume of interest earning assets and liabilities and changes in the average rates earned and paid. The total change is shown in the column designated "Net Change" and is allocated in the columns to the left, to the portions respectively attributable to volume changes and rate changes that occurred during the period indicated. Changes due to both volume and rate have been allocated to the change in volume.

	Three Months Ended June 30, 2003 vs. 2002		
	Increase (Decrease) Due to Change In:		
(Dollars in thousands)	Average Volume	Average Rate	Net Change
Interest earning assets			
Loans, gross	$ 44	$ (945)	$ (901)
Investments securities	42	(477)	(435)
Interest bearing deposits in other financial institutions	4	(7)	(3)
Federal funds sold	(8)	(70)	(78)
Total interest earning assets	$ 82	$ (1,499)	$ (1,417)
Interest bearing liabilities			
Demand, interest bearing	21	(52)	(31)
Savings and money market	106	(463)	(357)
Time deposits, under $100	(70)	(186)	(256)
Time deposits, $100 and over	(141)	(316)	(457)
Brokered Deposits	(434)	40	(394)
Other borrowings	116	(67)	49
Total interest bearing liabilities	$ (402)	$ (1,044)	$ (1,446)
Net interest income	$ 484	$ (455)	$ 29

(Dollars in thousands)	Six Months Ended June 30, 2003 vs. 2002 Increase (Decrease) Due to Change In: Average Volume	Average Rate	Net Change
Interest earning assets			
Loans, gross	$ 378	$ (1,704)	$ (1,326)
Investments securities	173	(648)	(475)
Interest bearing deposits in other financial institutions	3	(16)	(13)
Federal funds sold	(94)	(132)	(226)
Total interest earning assets	$ 460	$ (2,500)	$ (2,040)
Interest bearing liabilities			
Demand, interest bearing	$ 39	$ (110)	$ (71)
Savings and money market	302	(822)	(520)
Time deposits, under $100	(188)	(461)	(649)
Time deposits, $100 and over	(320)	(763)	(1,083)
Brokered Deposits	(717)	25	(692)
Other borrowings	169	(122)	47
Total interest bearing liabilities	$ (715)	$ (2,253)	$ (2,968)
Net interest income	$ 1,175	$ (247)	$ 928

Provision for Probable Loan Losses

The provision for probable loan losses represents the current period expense associated with maintaining an appropriate allowance for credit losses. The loan loss provision and level of allowance for each period is dependent upon many factors, including loan growth, net charge-offs, changes in the composition of the loan portfolio, delinquencies, management's assessment of the quality of the loan portfolio, the valuation of problem loans and the general economic conditions in the Company's market area. Periodic fluctuations in the provision for loan losses result from management's assessment of the adequacy of the allowance for probable loan losses; however, actual loan losses may vary from current estimates. For the three and six months ended June 30, 2003, the provision for probable loan losses was $600,000 and $1,900,000, down $40,000 and up $585,000, respectively, from $640,00 and $1,315,000 for the same periods in the prior year. See additional discussion at Allowance for Probable Loan Losses.

Noninterest Income

The following table sets forth the various components of the Company's noninterest income for the periods indicated:

	Three Months Ended June 30,		Increase (decrease) 2003 versus 2002	
(Dollars in thousands)	2003	2002	Amount	Percent
Gain on sale of loans	$ 587	$ 557	$ 30	5 %
Servicing income	451	310	141	45 %
Service charges and other fees on deposits accounts	441	371	70	19 %
Other investment	303	277	26	9 %
Equipment leasing	310	--	310	-- %
Gain on sale of securities available-for-sale	33	138	(105)	(76)%
Other	391	334	57	17 %
Total	$ 2,516	$ 1,987	$ 529	27 %

	Six Months Ended June 30,		Increase (decrease) 2003 versus 2002	
(Dollars in thousands)	2003	2002	Amount	Percent
Gain on sale of loans	$ 1,144	$ 978	$ 166	17 %
Servicing income	876	578	298	52 %
Service charges and other fees on deposits accounts	852	687	165	24 %
Other investment	637	551	86	16 %
Equipment leasing	619	--	619	-- %
Gain on sale of securities available-for-sale	458	425	33	8 %
Other	894	658	236	36 %
Total	$ 5,480	$ 3,877	$ 1,603	41 %

Noninterest income for the three and six months ended June 30, 2003 was $2,516,000 and $5,480,000, up 27% and 41% from $1,987,000 and $3,877,000 for the same periods in the prior year. The increases were primarily due to the increases in service charges and fees of $70,000 and $165,000 attributable to an increase in demand deposits which resulted in customers paying additional fees for services for the three and six month periods ended June 30, 2003 compared to the same periods in the prior year, increases in servicing income of $141,00 and $298,000, and increases in gain on sale of loans of $30,000 and $166,000 for the three and six month periods ended June 30, 2003 compared to the same in the prior year. The increase in servicing income and in gains on sales of loans was primarily the result of expansion of the SBA lending operation into additional geographic areas of California and the overall increase in the level of loans serviced. The three and six month periods ended June 30, 2003 also includes $310,000 and $619,000 from the leasing of medical equipment which the Company purchased in the fourth quarter of 2002. The purchase price of the leased equipment was $5,000,000.

Noninterest Expense

The following table sets forth the various components of the Company's noninterest expenses for the periods indicated:

(Dollars in thousands)	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Increase (decrease) 2003 versus 2002 Amount	Increase (decrease) 2003 versus 2002 Percent
Salaries and employee benefits	$ 4,521	$ 4,636	$ (115)	(2)%
Occupancy	835	790	45	6 %
Furniture and equipment	367	327	40	12 %
Professional fees	419	347	72	21 %
Loan origination costs	360	308	52	17 %
Client services	225	282	(57)	(20)%
Advertising and promotion	228	200	28	14 %
Stationery & supplies	57	110	(53)	(48)%
Telephone	67	83	(16)	(19)%
Other	1,399	1,222	177	14 %
Total	$ 8,478	$ 8,305	$ 173	2 %

(Dollars in thousands)	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002	Increase (decrease) 2003 versus 2002 Amount	Increase (decrease) 2003 versus 2002 Percent
Salaries and employee benefits	$ 9,224	$ 9,158	$ 66	1 %
Occupancy	1,654	1,508	146	10 %
Furniture and equipment	758	683	75	11 %
Professional fees	690	572	118	21 %
Loan origination costs	677	598	79	13 %
Client services	475	440	35	8 %
Advertising and promotion	399	330	69	21 %
Stationery & supplies	163	186	(23)	(12)%
Telephone	150	157	(7)	(4)%
Other	2,779	2,362	417	18 %
Total	$ 16,969	$ 15,994	$ 975	6 %

The following table indicates the percentage of noninterest expense in each category:

	For The Three Months Ended June 30,			
(Dollars in thousands)	2003	Percent of Total	2002	Percent of Total
Salaries and employee benefits	$ 4,521	53 %	$ 4,636	56 %
Occupancy	835	10 %	790	10 %
Furniture and equipment	367	4 %	327	4 %
Professional fees	419	5 %	347	4 %
Loan origination costs	360	4 %	308	4 %
Client services	225	3 %	282	3 %
Advertising and promotion	228	3 %	200	2 %
Stationery & supplies	57	1 %	110	1 %
Telephone	67	1 %	83	1 %
Other	1,399	17 %	1,222	15 %
Total	$ 8,478	100 %	$ 8,305	100 %

	For The Six Months Ended June 30,			
(Dollars in thousands)	2003	Percent of Total	2002	Percent of Total
Salaries and employee benefits	$ 9,224	54 %	$ 9,158	57 %
Occupancy	1,654	10 %	1,508	9 %
Furniture and equipment	758	5 %	683	4 %
Professional fees	690	4 %	572	4 %
Loan origination costs	677	4 %	598	4 %
Client services	475	3 %	440	3 %
Advertising and promotion	399	2 %	330	2 %
Stationery & supplies	163	1 %	186	1 %
Telephone	150	1 %	157	1 %
Other	2,779	16 %	2,362	15 %
Total	$ 16,969	100 %	$ 15,994	100 %

Noninterest expenses for the three and six months ended June 30, 2003 were $8,478,000 and $16,969,000, up $173,000 and $975,000, or 2% and 6%, from $8,305,000 and $15,994,000 for the same period in the prior year.

For the three months ended June 30, 2003, salaries and benefits decreased $115,000, or 2%, to $4,521,000, as compared to the same period in the prior year. The decreases were primarily due to the decreased number of employees to 212 as of June 30, 2003 compared to 234 as of June 30, 2002 attributable to the consolidation of the Company's subsidiaries in 2003. The impact of the merit raises and activity based commissions resulted in a slight increase in salaries and benefits of $66,000, or 1%, to $9,224,000 for the six months of 2003, as compared to the same period in the prior year.

For the comparative three month periods, occupancy increased by $45,000, or 6%, to $835,000, and for the six month periods the increase was $146,000, or 10%, to $1,654,000 primarily as a result of increased rental costs. Occupancy costs, as a percentage of total noninterest expenses remained fairly constant over the comparative three and six month periods.

For the comparative three month periods, professional fees increased $72,000, or 21%, to $419,000, and for the six month periods the increase was $118,000, or 21%, to $690,000 primarily due to increased costs from professional service providers. Professional fees, as a percentage of total noninterest expenses remained fairly constant over the comparative three and six month periods.

For the comparative three month periods, furniture and equipment increased by $40,000, or 12%, to $367,000, and for the six month periods the increase was $75,000, or 11%, to $758,000 primarily due to costs for the addition of new facilities. Furniture and equipment, as a percentage of total noninterest expenses remained fairly constant over the comparative three and six month periods.

For the comparative three month periods, loan origination costs increased by $52,000, or 17%, to $360,000, and for the six month periods the increase was $79,000, or 13%, to $677,000 primarily due to continued growth in the loan portfolio. Loan origination costs, as a percentage of total noninterest expenses remained fairly constant over the comparative three and six month periods.

For the comparative three month periods, client services decreased $57,000, or 20%, to $225,000, primarily due to a reduction in the level and pricing for certain of these services in 2003 compared to the same period in 2002, but for the six month periods increased $35,000, or 8%, to $475,000 primarily due to the increase in services fees charged to the Company from third party vendors in 2003 compared to the same period in 2002. Client services, as a percentage of total noninterest expenses remained fairly constant over the comparative three and six month periods.

For the comparative three month periods, advertising and promotion increased $28,000, or 14%, to $228,000, and for the six month periods the increase was $69,000, or 21%, to $399,000 primarily due to several new sponsorships in 2003. Advertising and promotion, as a percentage of total noninterest expenses remained fairly constant over the comparative three and six month periods.

For the comparative three month periods, stationery and supplies decreased by $53,000, or 48%, to $57,000, and for the six month periods the decrease was $23,000, or 12%, to $163,000, primarily due to the decrease in the number of employees in 2003. Stationery and supplies, as a percentage of total noninterest expenses remained fairly constant over the comparative three and six month periods.

For the comparative three month periods, telephone expense decreased by $16,000, or 19%, to $67,000, and for the six month periods the decrease was $7,000, or 4%, to $150,000, primarily due to the decrease in the number of employees in 2003. Telephone, as a percentage of total noninterest expenses remained fairly constant over the comparative three and six month periods.

For the comparative three month period, other noninterest expenses increased $177,000, or 14%, to $1,399,000, and for the six month periods in the increase was $417,000, or 18%, to $2,779,000, primarily in support of the overall growth of the Company and expenses related to the Company's investment in a low income housing project and leasing equipment.

Income Taxes

The provision for income taxes for the three and six months ended June 30, 2003 was $880,000 and $1,790,000, as compared to $765,000 and $1,545,000 for the same periods in the prior year. The following table shows the income tax rate for each period indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Income tax rate	31.99 %	32.89 %	32.02 %	33.45 %

The difference in the effective tax rate compared to the statutory tax rate of 42% is primarily the result of the Company's receipt of tax free distributions from certain life insurance contracts, low income housing tax credits, and the level of the Company's investments in municipal securities.

FINANCIAL CONDITION

Total assets increased $37,699,000, or 4%, to $996,451,000 at June 30, 2003 from $958,752,000 at December 31, 2002, and increased $71,350,000, or 8%, from $925,101,000 at June 30, 2002. Total loan portfolio decreased $36,344,000, or 5%, to $637,563,000 at June 30, 2003 from $673,907,000 at December 31, 2002, but increased $8,140,000, or 1%, from $629,423,000 at June 30, 2002. Total deposits increased $5,969,000 or 1% to $847,905,000 at June 30, 2003 from $841,936,000 at December 31, 2002, and increased $29,441,000, or 4%, from $818,464,000 at June 30, 2002. The growth of deposits was primarily in noninterest bearing demand deposits and savings and money market accounts coupled with a decline time and brokered deposits.

The Company had $28,600,000 in other borrowings at June 30, 2003, which was primarily used to fund the increases in the investment portfolio. The Company did not have any other borrowings at December 31, 2002 or June 30, 2002.

Securities Portfolio

The following table sets forth the carrying value of investment securities at the dates indicated:

	June 30,		December 31,
(Dollars in thousands)	2003	2002	2002
Securities available-for-sale (at fair value)			
U.S. Treasury	$ 4,617	$ 3,126	$ 4,740
U.S. Government Agencies	38,265	63,007	48,029
Mortgage-backed securities	81,628	17,120	44,774
Municipals	11,350	3,648	12,134
Corporate bonds	--	2,617	2,632
CMOs	20,500	14,799	14,134
Total securities available-for-sale	$ 156,360	$ 104,317	$ 126,443
Securities held-to-maturity (at amortized cost)			
Mortgage-backed securities	$ --	$ 3,588	$ --
CMOs	--	85	--
Municipals	--	9,491	--
Total securities held-to-maturity	$ --	$ 13,164	$ --

The following table summarizes the composition of the Company's investment securities and the weighted average yields at June 30, 2003:

	June 30, 2003 Maturity									
	Within One Year		After One and Within Five Years		After Five and Within Ten Years		After Ten Years		Total	
(Dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities available-for-sale:										
U.S. Treasury	$ 1,308	1.54 %	$ 3,309	2.09 %	$ --	-- %	$ --	-- %	$ 4,617	1.94 %
U.S. Government Agencies	10,371	3.82 %	27,894	2.78 %	--	-- %	--	-- %	38,265	3.06 %
Mortgage-backed securities	--	-- %	--	-- %	5,390	3.96 %	76,238	3.55 %	81,628	3.58 %
Municipals - taxable	--	-- %	556	6.45 %	--	-- %	--	-- %	556	6.45 %
Municipals - nontaxable	476	4.88 %	6,351	3.82 %	3,967	3.31 %	--	-- %	10,794	3.68 %
CMOs	--	-- %	--	-- %	1,616	2.98 %	18,884	2.27 %	20,500	2.33 %
Total available-for-sale	$ 12,155	3.62 %	$ 38,110	2.95 %	$ 10,973	3.58 %	$ 95,122	3.30 %	$ 156,360	3.26 %

Note: Yield on non-taxable municipal securities are not presented on a fully tax equivalent basis.

Loans

Total loans (exclusive of loans held for sale) decreased $36,344,000, or 5%, to $637,563,000 as of June 30, 2003 from $673,907,000 as of December 31, 2002, but increased $8,140,000, or 1%, from $629,423,000 as of June 30, 2002.

For the three and six months ended June 30, 2003, $18,380,000 and $36,721,000 in loans guaranteed by the U.S. Small Business Administration (SBA) were generated and held for sale, and $12,309,000 and $22,607,000 of SBA loans held for sale was sold into the secondary market.

At June 30, 2003 and December 31, 2002, the Company serviced SBA loans, which it had sold into the secondary market of approximately $100,967,000 and $83,008,000. At June 30, 2003 and December 31, 2002, the carrying amount of the servicing assets was $1,682,000 and $1,538,000, respectively. There was no valuation allowance as of June 30, 2003 or December 31, 2002. The carrying amount of Interest-Only (I/O) strip receivable at June 30, 2003 and December 31, 2002 was $2,529,000 and $2,839,000, respectively. These assets represent the servicing spread generated from the sold guaranteed portions of SBA loans. Servicing income from these loans was $451,000 and $876,000 for the quarter and six months ended June 30, 2003, compared to $310,000 and $573,000 for the same periods in 2002. Amortization of the related assets was $349,000 and $646,000 for the quarter and six months ended June 30, 2003, compared to $322,000 and $565,000 for the same periods in 2002. HBC is a preferred lender with the SBA, which allows the Company to grant certain SBA loans without the prior approval of the SBA.

The following table summarizes the composition of the Company's loan portfolio at the dates indicated:

	June 30,		December 31,	
(Dollars in thousands)	2003	Total	2002	Total
Commercial	$ 262,196	41 %	$ 263,144	39 %
Real estate - mortgage	253,125	40 %	259,974	38 %
Real estate - land and construction	118,887	18 %	147,822	22 %
Consumer	2,564	1 %	2,850	1 %
Total loans	636,772	100 %	673,790	100 %
Deferred loan costs	791		117	
Allowance for loan losses	(14,692)		(13,227)	
Loans, net	$ 622,871		$ 660,680	

The Company's loan portfolio is based on commercial (primarily to companies engaged in manufacturing, wholesale, and service businesses) and real estate lending, with the balance in consumer loans. While no specific industry concentration is considered significant, the Company's lending operations are dependent on the technology and real estate industries and their supporting companies located within the Company's market area. Thus, the Company's borrowers could be adversely impacted by a downturn in these sectors of the economy, which could reduce the demand for loans and adversely impact the borrowers' abilities to repay their loans.

The following table sets forth the maturity distribution of the Company's loans at June 30, 2003:

(Dollars in thousands)	Due in One Year or Less	Over One Year But Less Than Five Years	Over Five Years	Total
Commercial	$ 248,163	$ 11,308	$ 2,725	$ 262,196
Real estate - mortgage	195,396	48,160	9,569	253,125
Real estate - land and construction	118,887	--	--	118,887
Consumer	2,323	241	--	2,564
Total loans	$ 564,769	$ 59,709	$ 12,294	$ 636,772
Loans with variable interest rates	$ 546,784	$ 32,452	$ 2,073	$ 581,309
Loans with fixed interest rates	17,985	27,257	10,221	55,463
Total loans	$ 564,769	$ 59,709	$ 12,294	$ 636,772

The table above also shows the distribution of such loans between those loans with predetermined (fixed) interest rates and those with variable (floating) interest rates. Floating rates generally fluctuate with changes in the prime rate as reflected in the western edition of *The Wall Street Journal*. At June 30, 2003, approximately 91% of the Company's loan portfolio consisted of floating interest rate loans.

Nonperforming assets

Nonperforming assets consist of nonaccrual loans, loans past due 90 days and still accruing, troubled debt restructurings and other real estate owned. Management generally places loans on nonaccrual status when they become 90 days past due, unless they are well secured and in the process of collection. When a loan is placed on nonaccrual status, any interest previously accrued but not collected is generally reversed from income. Loans are charged off when management determines that collection has become unlikely. Restructured loans are those where HBC has granted a concession on the interest paid or original repayment terms due to financial difficulties of the borrower. Other real estate owned ("OREO") consists of real property acquired through foreclosure on the related underlying defaulted loans. The following table shows nonperforming assets at the dates indicated:

	June 30,		December 31,
(Dollars in thousands)	2003	2002	2002
Nonaccrual loans	$ 767	$ 1,951	$ 4,571
Loans 90 days past due and still accruing	1,032	415	--
Restructured loans	--	--	--
Total nonperforming loans	1,799	2,366	4,571
Other real estate owned	832	--	--
Total nonperforming assets	$ 2,631	$ 2,366	$ 4,571
Nonperforming assets as a percentage of period end loans plus other real estate owned	0.41 %	0.38 %	0.68 %

As of June 30, 2003, the Company had $767,000 loans on nonaccrual status, compared to $1,951,000 in the same period of the prior year, which were considered impaired loans. The impaired loans had a related valuation allowance of $289,000 at June 30, 2003 and $190,000 at June 30, 2002. The Company had $1,032,000 loans past due 90 days or more and still accruing interest, no restructured loans and $832,000 other real estate owned assets as of June 30, 2003, compared to $415,000 loans past due 90 days or more and still accruing interest, no restructured loans and no other real estate owned assets as of June 30, 2002. The Company had $4,571,000 loans on nonaccrual status as of December 31, 2002, which were considered impaired loans. The impaired loans had a related valuation allowance of $356,000 at December 31, 2002. The Company had no loans past due 90 days or more and still accruing interest, no restructured loans and no other real estate owned assets as of December 31, 2002. For the three and six months ended June 30, 2003, the Company had $102,000 and $208,000 foregone interest income on nonaccrual loans. The Company had no foregone interest income on nonaccrual loans as of December 31, 2002. For the three and six months ended June 30, 2003, the Company recognized zero and $41,000 in interest income for cash payments received on nonaccrual loans. The Company did not recognize any interest income for cash payments received on nonaccrual loans for the three and six months ended June 30, 2002.

The Company assigns a risk grade consistent with the system recommended by regulatory agencies to all of its loans. Grades range from "Pass" to "Loss" depending on credit quality, with "Pass" representing loans that involve an acceptable degree of risk. Management conducts a critical evaluation of the loan portfolio monthly. This evaluation includes periodic loan by loan review for certain loans to evaluate the level of impairment as well as detailed reviews of other loans (either individually or in pools) based on an assessment of the following factors: past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, collateral value, loan volumes and concentrations, size and complexity of the loans, recent loss experience in particular segments of the portfolio, bank regulatory examination results, and current economic conditions in the Company's marketplace, in particular the state of the technology industry and the real estate market.

This process attempts to assess the risk of loss inherent in the portfolio by segregating loans into four components for purposes of determining an appropriate level of the allowance: "watch," "special mention," "substandard" and "doubtful." Additionally, the Company maintains a program for regularly scheduled reviews of certain new and renewed loans by an outside loan review consultant. Any loans identified during an external review process that expose the Company to increased risk are appropriately downgraded and an increase in the allowance for loan losses is established for such loans. Further, the Company is examined periodically by the FDIC, FRB, and the California Department of Financial Institutions at which time a further review of loan quality is conducted.

Loans that demonstrate a weakness, for which there is a possibility of loss if the weakness is not corrected, are categorized as "classified." Classified loans include all loans graded substandard, doubtful and loss and may result from problems specific to a borrower's business or from economic downturns that affect the borrower's ability to repay or that cause a decline in the value of the underlying collateral (particularly real estate).

Allowance for Loan Losses

It is the policy of management to maintain the allowance for probable loan losses at a level adequate for risks inherent in the loan portfolio. Based on information currently available to analyze loan loss delinquency and a history of actual charge-offs, management believes that the loan loss allowance is adequate. However, the loan portfolio can be adversely affected if California economic conditions and the real estate market in the Company's market area were to continue to weaken. Additionally, any weakness of a prolonged nature in the technology industry would have a negative impact on the local market. The effect of such events although uncertain at this time, could result in an increase in the level of nonperforming loans and increased loan losses, which could adversely affect the Company's future growth and profitability. No assurance of the ultimate level of credit losses can be given with any certainty. Loans are charged against the allowance when management believes that the collectibility of the principal is unlikely.

The following table summarizes the Company's loan loss experience as well as provisions, charge-offs and recoveries to the allowance for loan losses and certain pertinent ratios for the periods indicated:

	Six Months Ended June 30,		For the Year Ended December 31,
(Dollars in thousands)	2003	2002	2002
Balance, beginning of period / year	$ 13,227	$ 11,154	$ 11,154
Net charge-offs	(435)	(613)	(590)
Provision for probable loan losses	1,900	1,315	2,663
Balance, end of period / year	$ 14,692	$ 11,856	$ 13,227
Ratios:			
Net charge-offs to average loans outstanding	0.13 %	0.19 %	0.09 %
Allowance for loan losses to average loans	2.25 %	1.86 %	2.07 %
Allowance for loan losses to total loans	2.30 %	1.88 %	1.96 %
Allowance for loan losses to non-performing assets	558 %	501 %	289 %

Charge-offs reflects the realization of losses in the portfolio that were recognized previously though provisions for probable loan losses. The net charge-offs for the six months ended June 30, 2003 were $435,000, compared to $613,000 for the six months ended June 30, 2002. Historical net charge-offs are not necessarily indicative of the amount of net charge-offs that the Company will realize in the future.

The following table summarizes the allocation of the allowance for loan losses (ALL) by loan type and the allocated allowance as a percent of loans outstanding in each loan category at the dates indicated:

	June 30, 2003		June 30, 2002		December 31, 2002	
(Dollars in thousands)	Amount	Percent of ALL by category to total loans by category	Amount	Percent of ALL by category to total loans by category	Amount	Percent of ALL by category to total loans by category
Commercial	$ 8,551	3.25 %	$ 5,834	2.72 %	$ 6,349	2.41 %
Real estate - mortgage	2,522	1.00 %	2,254	0.90 %	2,411	0.93 %
Real estate - land and construction	1,722	1.45 %	2,997	1.87 %	3,574	2.42 %
Consumer	60	2.36 %	101	2.39 %	47	1.63 %
Unallocated	1,837	-- %	670	-- %	846	-- %
Total	$ 14,692	2.30 %	$ 11,856	1.88 %	$ 13,227	1.96 %

The increase in the allowance for probable loan losses was primarily due the current mix in loans as commercial loans have increased as a percentage of total loans while land and construction loans have decreased and the Company's concern for the continued weaknesses in the economy, particularly in the Company's primary market area. Other than the loans already classified at June 30, 2003, the Company has not identified any potential problem loans.

Loans are charged against the allowance when management believes that the collectibility of the principal is doubtful. The Company's methodology for assessing the appropriateness of the allowance consists of several key elements, which include specific allowances, the formula allowance and the unallocated allowance.

Specific allowances are established in cases where management has identified significant conditions or circumstances related to a credit that management believes indicate the probability that a loss may be incurred in excess of the amount determined by the application of the formula allowance. As of June 30, 2003, nonperforming loans had a related specific valuation allowance of $289,000.

The formula allowance is calculated by applying loss factors to outstanding loans and certain unused commitments. Loss factors are based on management's experience and may be adjusted for significant factors that, in management's judgment, may affect the collectibility of the portfolio as of the evaluation date. Due to the Company's limited historical loss experience, management utilizes their prior industry experience to determine the loss factor for each category of loan. The formula allowance on June 30, 2003 was $12,566,000, compared to $12,381,000 on December 31, 2002. The increase was attributable to several factors, most notably the change in the mix of loans and an increase in certain factors used to estimate the reserve allocations.

The unallocated allowance is based upon management's evaluation of various conditions that are not directly measured in the determination of the formula and specific allowances. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific problem credits or portfolio segments. As of June 30, 2003, the Company's unallocated allowance was $1,837,000, compared to $846,000 on December 31, 2002. In evaluating the appropriateness of the unallocated allowance, management considered the changes in the trend of the volume and severity of past due and classified loans; and trends in the volume of nonaccrual loans, troubled debt restructurings and other loan modifications, changes in national and local economic and business conditions, trends, and developments, including the condition of various market segments, changes in underwriting standards and collection, charge-off, and recovery practices, and changes in the volume and mix of the loan portfolio and in credit concentrations particularly in commercial and real estate land and construction lending. There can be no assurance that the adverse impact of any of these conditions on the Bank will not be in excess of the range set forth above.

In addition, the current business, economic, and real estate markets along with the seasoning of the portfolio and the nature and duration of the current business cycle will affect the amount of unallocated reserve.

In an effort to improve its analysis of risk factors associated with its loan portfolio, the Company continues to monitor and to make appropriate changes to its internal loan policies. These efforts better enable the Company to assess risk factors prior to granting new loans and to assess the sufficiency of the allowance for loan losses.

Management believes that it has adequately provided an allowance for estimated probable losses in the credit portfolio. Significant deterioration in Northern California real property values or economic downturns could impact future operating results, liquidity or capital resources and require additional provisions to the allowance or cause losses in excess of the allowance.

Deposits

Deposits totaled $847,905,000 at June 30, 2003, up 1%, compared to deposits of $841,936,000 at December 31, 2002, and up 4%, compared to deposits of $818,464,000 at June 30, 2002. Compared to December 31, 2002, noninterest bearing demand deposits increased $27,334,000 or 11%, interest bearing demand deposits increased $3,716,000, or 4%, savings and money market deposits increased $17,298,000, or 6%, time deposits decreased $16,772,000, or 10%, and brokered deposits decreased $25,607,000, or 54%.

The following table summarizes the distribution of average deposits and the average rates paid for the periods indicated:

(Dollars in thousands)	Six Months Ended June 30, 2002 Average Balance	Six Months Ended June 30, 2002 Average Rate Paid	Year Ended December 31, 2002 Average Balance	Year Ended December 31, 2002 Average Rate Paid
Demand, noninterest bearing	$ 226,595	-- %	$ 211,195	-- %
Demand, interest bearing	94,610	0.60 %	81,011	0.89 %
Saving and money market	302,988	1.27 %	275,217	1.74 %
Time deposits, under $100	44,847	2.08 %	56,097	3.14 %
Time deposits, $100 and over	105,698	1.98 %	129,702	2.75 %
Brokered deposits	32,269	3.99 %	65,183	3.87 %
Total average deposits	$ 807,007	1.08 %	$ 818,405	1.63 %

Deposit Concentration and Deposit Volatility

The following table indicates the maturity schedule of the Company's time deposits of $100,000 or more as of June 30, 2003.

(Dollars in thousands)	Balance	% of Total
Three months or less	$ 57,441	47 %
Over three months through twelve months	46,320	37 %
Over twelve months	19,397	16 %
Total	$ 123,158	100 %

The Company focuses primarily on servicing business accounts that are frequently over $100,000 in average size. Certain types of accounts that the Company makes available are typically in excess of $100,000 in average balance per account, and certain types of business clients whom the Company serves typically carry deposits in excess of $100,000 on average. The account activity for some account types and client types necessitates appropriate liquidity management practices by the Company to ensure its ability to fund deposit withdrawals.

Return on Equity and Assets

The following table indicates the ratios on the annualized return on average assets and average equity and average equity to average assets for each indicated period.

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Return on average assets	0.81 %	0.68 %	0.83 %	0.68 %
Return on average equity	8.75 %	8.15 %	9.03 %	8.13 %
Average equity to average assets ratio	9.21 %	8.36 %	9.16 %	8.34 %

Annualized return on average assets and return on average equity for the quarter ended June 30, 2003 were 0.81% and 8.75%, respectively, compared with returns of 0.68% and 8.15%, respectively, for the same period in 2002. The equity to asset ratio for the quarter ended June 30, 2003 was 9.21%, compared to 8.34% for the same period in 2002.

Annualized return on average assets and return on average equity for the six months ended June 30, 2003 were 0.83% and 9.03%, respectively, compared with returns of 0.68% and 8.13%, respectively, for the same period in 2002. The equity to asset ratio for the six months ended June 30, 2003 was 9.16%, compared to 8.33% for the same period in 2002.

Interest Rate Risk

The planning of asset and liability maturities is an integral part of the management of an institution's net yield. To the extent maturities of assets and liabilities do not match in a changing interest rate environment, net yields may change over time. Even with perfectly matched repricing of assets and liabilities, risks remain in the form of prepayment of loans or investments or in the form of delays in the adjustment of rates of interest applying to either earning assets with floating rates or to interest bearing liabilities. The Company has generally been able to control its exposure to changing interest rates by maintaining primarily floating interest rate loans and a majority of its time certificates with relatively short maturities

The following table sets forth the interest rate sensitivity of the Company's interest-earning assets and interest-bearing liabilities at June 30, 2003, using the rate sensitivity gap ratio. For purposes of the following table, an asset or liability is considered rate-sensitive within a specified period when it can be repriced or when it is scheduled to mature within the specified time frame:

(Dollars in thousands)	Within Three Months	Due in Three to Twelve Months	Due After One to Five Years	Due After Five Years	Not Rate-Sensitive	Total
Interest earning assets:						
Federal funds sold	$ 75,500	$ --	$ --	$ --	$ --	$ 75,500
Interest bearing deposits in other financial Institutions	8,459	--	--	--	--	8,459
Securities	--	12,155	38,110	106,095	--	156,360
Total loans	514,176	79,255	59,709	12,294	--	665,434
Total interest earning assets	598,135	91,410	97,819	118,389	--	905,753
Cash and due from banks	--	--	--	--	49,506	49,506
Other assets	--	--	--	--	41,192	41,192
Total assets	$ 598,135	$ 91,410	$ 97,819	$ 118,389	$ 90,698	$ 996,451
Interest bearing liabilities:						
Demand, interest bearing	$ 98,025	$ --	$ --	$ --	$ --	$ 98,025
Savings and money market	307,715	--	--	--	--	307,715
Time deposits	74,454	66,484	25,277	--	--	166,215
Mandatorily Redeemable Cumulative Trust Preferred Securities	--	--	--	23,000	--	23,000
Total interest bearing liabilities	480,194	66,484	25,277	23,000	--	594,955
Noninterest demand deposits	110,757	--	--	--	165,193	275,950
Other liabilities	--	--	29,080	--	9,737	38,817
Shareholders' equity	--	--	--	--	86,729	86,729
Total liabilities and shareholders' equity	$ 590,951	$ 66,484	$ 54,357	$ 23,000	$ 261,659	$ 996,451
Interest rate sensitivity GAP	$ 7,184	$ 24,926	$ 43,462	$ 95,389	$ (170,961)	$ --
Cumulative interest rate sensitivity GAP	$ 7,184	$ 32,110	$ 75,572	$ 170,961	$ --	$ --
Cumulative interest rate sensitivity GAP ratio	0.72 %	3.22 %	6.61 %	17.21 %	-- %	--

The foregoing table demonstrates that the Company had a positive cumulative one year gap of $32,110,000, or 3.22% of total assets, at June 30, 2003. In theory, this would indicate that $32,110,000 more in assets than liabilities would reprice if there were a change in interest rates over the next year. If interest rates were to increase, the positive gap would tend to result in a higher net interest margin, conversely if interest rates were to decline, the positive gap would tend to result in a lower interest margin. However, changes in the mix of earning assets or supporting liabilities can either increase or decrease the net margin without affecting interest rate sensitivity. This characteristic is referred to as a basis risk and, generally, relates to the repricing characteristics of certain short-term funding sources.

Interest rate changes do not affect all categories of assets and liabilities equally or at the same time. Varying interest rate environments can create unexpected changes in prepayment levels of assets and liabilities, which may have a significant effect on the net interest margin and are not reflected in the interest sensitivity analysis table. Because of these factors, an interest sensitivity gap report may not provide a complete assessment of the exposure to changes in interest rates. To supplement traditional GAP analysis, the Company performs simulation modeling to estimate the potential effects of changing interest rate environments. The process allows the Company to explore the complex relationships within the GAP over time and various interest rate environments.

Liquidity risk represents the potential for loss as a result of limitations on the Company's ability to adjust for future cash flows, to meet the needs of depositors and borrowers, and to fund operations on a timely and cost-effective basis. The liquidity policy approved by the board of directors requires annual review of the Company's liquidity by the asset/liability committee, which is composed of senior executives, and the finance and investment committee of the board of directors.

The Company's internal asset/liability committee and the finance and investment committee of the board of directors each meet monthly to monitor the Company's investments, liquidity needs and to oversee its asset/liability management. The Company evaluates the rates offered on its deposit products on a weekly basis.

Liquidity and Liability Management

To meet liquidity needs, the Company maintains a portion of its funds in cash deposits in other banks, in Federal funds sold, and in investment securities. At June 30, 2003, the Company's primary liquidity ratio was 20.65% as a percentage of total unsecured deposits of $834,413,000, comprised of $52,303,000 in investment securities available-for-sale with maturities (or probable calls) of up to five years, less $13,492,000 of securities that were pledged to secure public and certain other deposits as required by law and contract; Federal funds sold of $75,500,000, and $57,965,000 in cash and due from banks.

Capital Resources

The following table summarizes risk-based capital, risk-weighted assets, and risk-based capital ratios of the Company:

	June 30,		December 31,	
(Dollars in thousands)	2003	2002	2002	
Capital components:				
Tier 1 Capital	$ 106,542	$ 94,159	$ 101,966	
Tier 2 Capital	10,106	9,921	10,563	
Total risk-based capital	$ 116,648	$ 104,080	$ 112,529	
Risk-weighted assets	$ 803,900	$ 793,424	$ 842,399	
Average assets	$ 929,905	$ 918,355	$ 950,091	
				Minimum Regulatory Requirements
Capital ratios:				
Total risk-based capital	14.5 %	13.1 %	13.4 %	8.0
Tier 1 risk-based capital	13.3 %	11.9 %	12.1 %	4.0
Leverage ratio (1)	11.5 %	10.3 %	10.7 %	4.0

(1) Tier 1 capital divided by average assets (excluding goodwill).

At June 30, 2003 and 2002, and December 31, 2002, the Company's capital met all minimum regulatory requirements. As of June 30, 2003, management believes that HBC was considered "Well Capitalized" under the Prompt Corrective Action Provisions.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

No material changes have occurred during the quarter to the Company's market risk profile or information. For further information refer to the Company's Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

(a) We carried out an evaluation under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as of the end of the period covered by this report, pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934. Based on their review of our disclosure controls and procedures, the principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us that is required to be included in our periodic SEC filings.

(b) There were no changes in our internal controls over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, such controls.

Part II — OTHER INFORMATION

ITEM 4. SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its 2003 Annual Meeting of Shareholders on May 22, 2003. There were 11,222,564 issued and outstanding shares of Company Common Stock on April 2, 2002, the Record Date for the 2003 Annual Meeting. Each of the shares voting at the meeting was entitled to one vote.

At the 2003 Annual Meeting, the following actions were taken:

Election of Directors

The Company's board is divided into three classes. At the 2003 Annual Meeting, four directors of the Company were elected. The following chart indicates the number of shares cast for each elected director:

Name of Director	Votes For	Votes Withheld
James R. Blair	9,034,951	147,562
Roy E. Lave	9,035,051	147,462
William J. Del Biaggio, Jr.	8,929,554	252,959
Jack L. Peckham	9,034,941	147,572

In addition to the above four individuals, the following previously elected directors' terms continued after the meeting:

Name of Director	Title
Frank G. Bisceglia	Director
Phillip R. Boyce	Director/Chairman of the Board

Richard L. Conniff	Director/Chief Operating Officer
Anneke Dury	Director
Louis [“Lon”] O. Normandin	Director
Humphrey P. Polanen	Director
Kirk M. Rossmann	Director
Brad L. Smith	Director/Chief Executive Officer
Charles J. Toeniskoetter	Director

Ratification of Deloitte & Touche, LLP as the Company’s auditors

The number of shares cast for and against the ratification of the Board of Directors’ selection of Deloitte & Touche, LLP to serve as the Company’s auditors for the fiscal year ending December 31, 2003 was as follows:

FOR	9,118,003
AGAINST	6,306
ABSTENTIONS	58,204

ITEM 6. - Exhibits and Reports on Form 8-K

(a) Exhibits included with this filing:

The exhibit list required by this item is incorporated by reference to the Exhibit Index filed as part of this report.

(b) Reports on Form 8-K

The Registrant furnished a Current Report on Form 8-K dated July 23, 2003 under item 9 and item 12 to report its second quarter ended June 30, 2003 financial results, and condensed consolidated financial information.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Heritage Commerce Corp (Registrant)
August 14, 2003 Date	/s/ Brad L. Smith Brad L. Smith, Chief Executive Officer
August 14, 2003 Date	/s/ Lawrence D. McGovern Lawrence D. McGovern, Chief Financial Officer

Exhibit Index

Exhibit	Description
31.1	Certification of Registrant's Chief Executive Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2003
31.2	Certification of Registrant's Chief Financial Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2003
32.1	Certification of Registrant's Chief Executive Officer Pursuant To 18 U.S.C. Section 1350
32.2	Certification of Registrant's Chief Financial Officer Pursuant To 18 U.S.C. Section 1350