



HERITAGE  
COMMERCE CORP

March 3, 2009

## Forward Looking Statement Disclaimer

Forward-looking statements are based on management's knowledge and belief as of today and include information concerning the company's possible or assumed future financial condition, and its results of operations, business and earnings outlook. These forward-looking statements are subject to risks and uncertainties. A number of factors, some of which are beyond the company's ability to control or predict, could cause future results to differ materially from those contemplated by such forward-looking statements. These factors include (1) difficult and adverse conditions in the global and domestic capital and credit markets, (2) continued volatility and further deterioration of the capital and credit markets, (3) significant changes in banking laws or regulations, including, without limitation, as a result of the Emergency Economic Stabilization Act and the creation of and possible amendments to the Troubled Asset Relief Program (TARP), including the Capital Purchase Program and related executive compensation requirements, (4) continued uncertainty about the impact of TARP and other recent federal programs on the financial markets including levels of volatility and credit availability, (5) a more adverse than expected decline or continued weakness in general business and economic conditions, either nationally, regionally or locally in areas where the company conducts its business, which may affect, among other things, the level of nonperforming assets, charge-offs and provision expense, (6) changes in interest rates, reducing interest rate margins or increasing interest rate risks, (7) changes in market liquidity which may reduce interest margins and impact funding sources, (8) increased competition in the company's markets, (9) changes in the financial performance and/or condition of the company's borrowers, (10) current and further deterioration in the housing and commercial real estate markets particularly in California, and (11) increases in Federal Deposit Insurance Corporation premiums due to market developments and regulatory changes. For a discussion of factors which could cause results to differ, please see the Company's reports on *Forms 10-K* and *10-Q* as filed with the Securities and Exchange Commission and the Company's press releases. Readers should not place undue reliance on the forward-looking statements, which reflect management's view only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

# Community Business Banking

- **Core Clientele:**
  - Closely held businesses
  - Middle market and small businesses
  - Professionals
  - High net worth individuals
  
- **Specialty Expertise**
  - SBA lending
  - Interim construction lending
  - Cash management



# Bay Area Franchise – 10 Branches

## ■ Contra Costa County

- Danville
- Walnut Creek

## ■ Alameda County

- Fremont
- Pleasanton

## ■ Santa Clara County

- Gilroy
- Los Altos
- Los Gatos
- Morgan Hill
- Mountain View
- San Jose (Headquarters)



# Heritage Financial Summary

## ■ Profits

- Strong growth in profits from 2003 to mid 2007
- Drop in the second half of 2007 and 2008 due to:
  - Margin compression
  - New hire costs
  - Diablo Valley Bank merger costs
  - Credit costs due to loan growth and market conditions
  - \$5.1 million reserve for a large problem loan
  - SBA loan hold vs. sale strategy

## ■ Credit Quality at December 31, 2008

- 2.74% NPA/Assets
- 0.59% Net charge-offs
- 2.00% Allowance for loan losses/total loans
- \$15.5 million provision for loan losses in 2008

# Heritage Financial Summary (continued)

## ■ Balance Sheet Growth in 2008

- 20% Loan growth
- Internally generated

## ■ Capital at December 31, 2008

- 11.03% Leverage ratio
- 12.29% Equity/Assets
- 10.23% Average Common Equity/Average assets
- Issued \$40 million preferred stock to U.S. Treasury



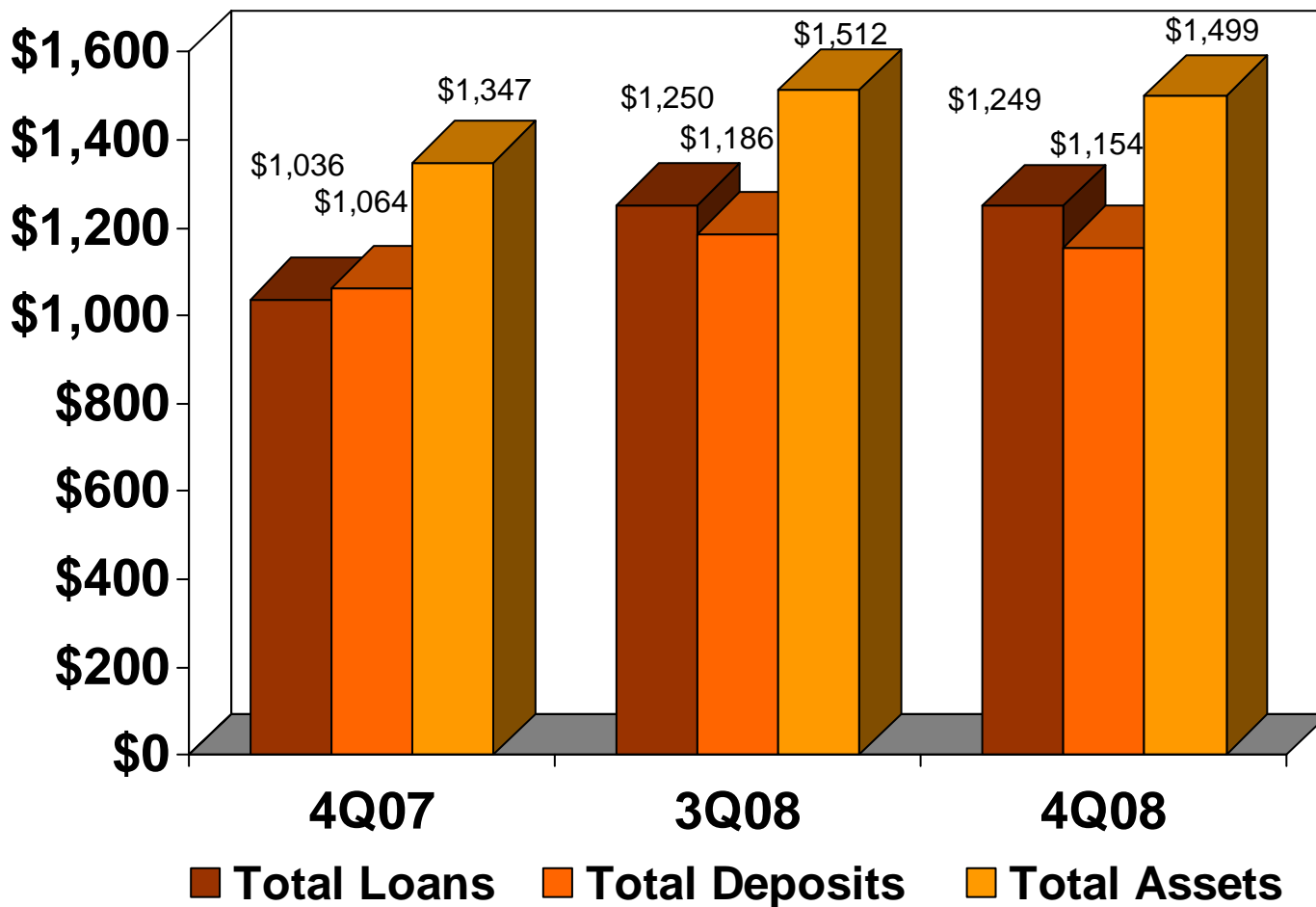
# Heritage Bank Strengths

- Capital position
- Management depth
- Highly experienced relationship managers
- Strong locations
- Brand recognition in the Santa Clara County
- Growing brand recognition in the East Bay
- Strong service levels



# Balance Sheet

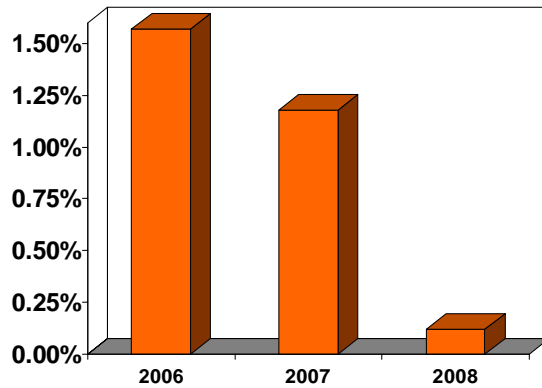
(\$ in millions)



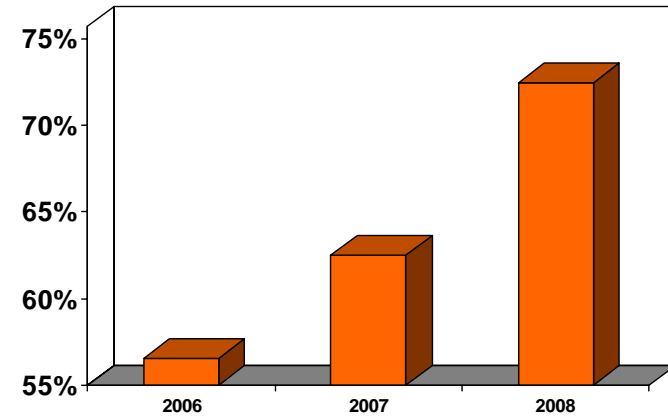


# Financial Results

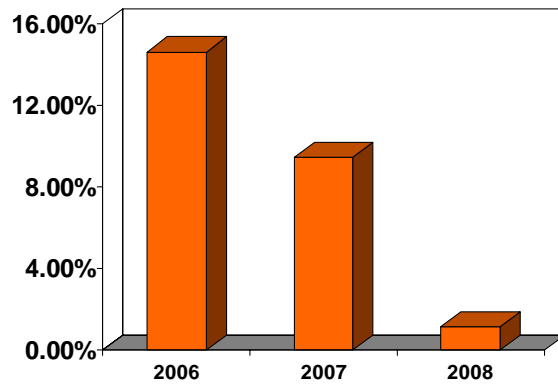
## ROA



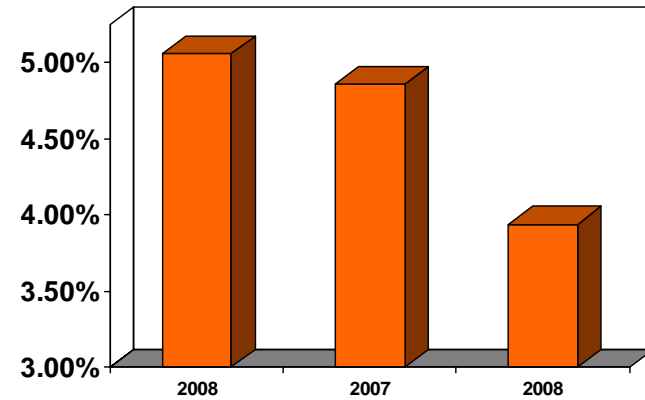
## Efficiency Ratio



## ROE

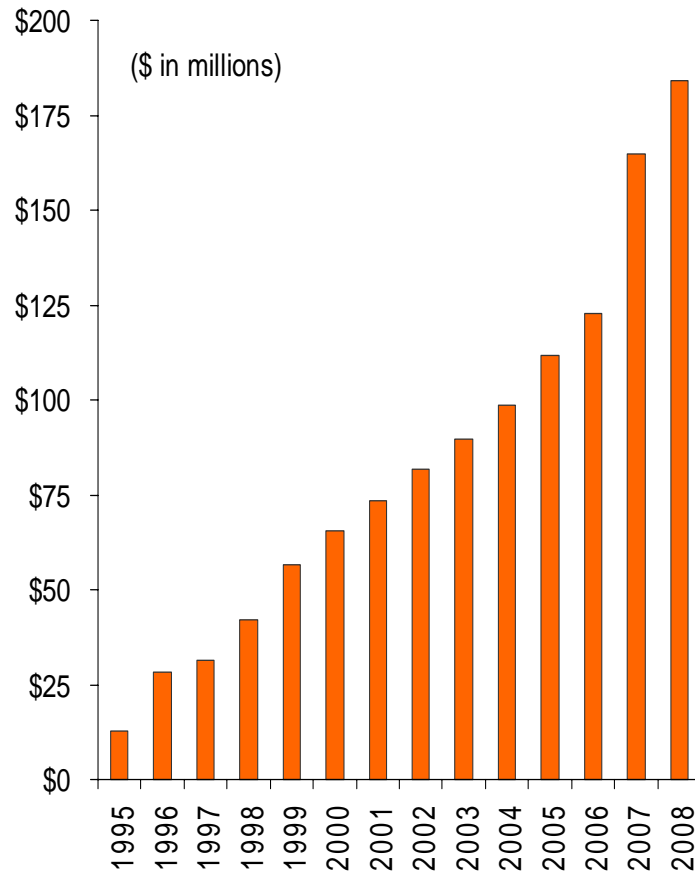


## Net Interest Margin



# Solid Capital Base

Shareholders' Equity

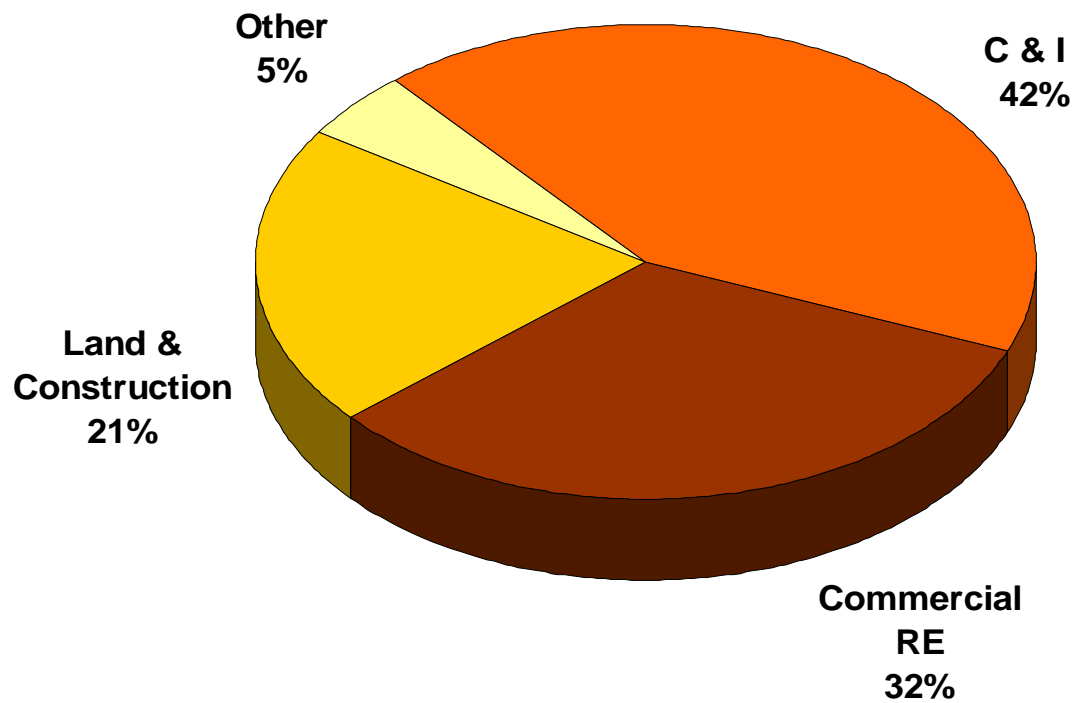


- 11.03% Leverage Ratio
- 12.29% Equity/Assets
- Issued \$40 million Preferred Stock to U.S. Treasury

# Loan Portfolio

\$1,248,631,000

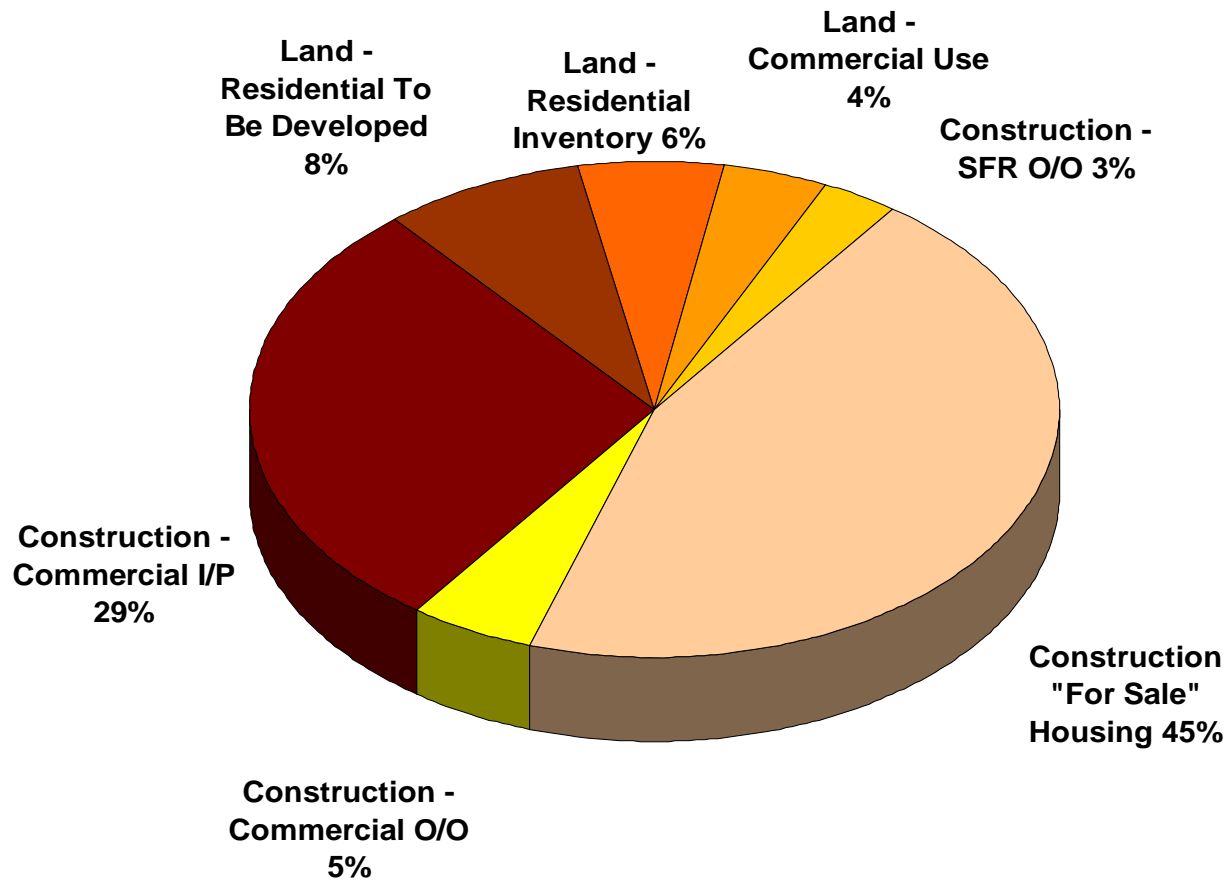
*As of December 31, 2008*



# Land & Construction Portfolio

\$256,567,000

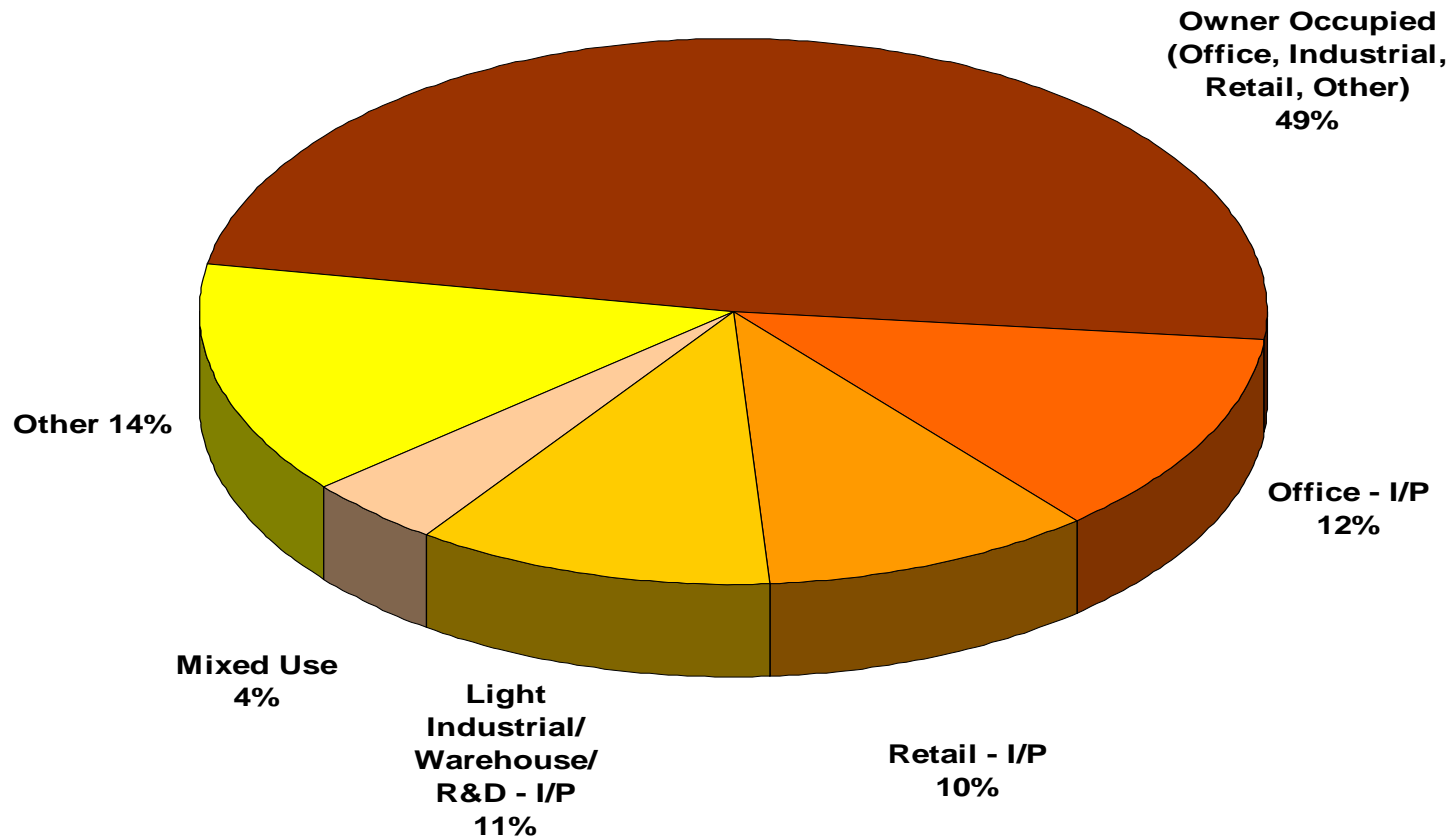
*As of December 31, 2008*



# Commercial Real Estate Portfolio

\$405,530,000

*As of December 31, 2008*

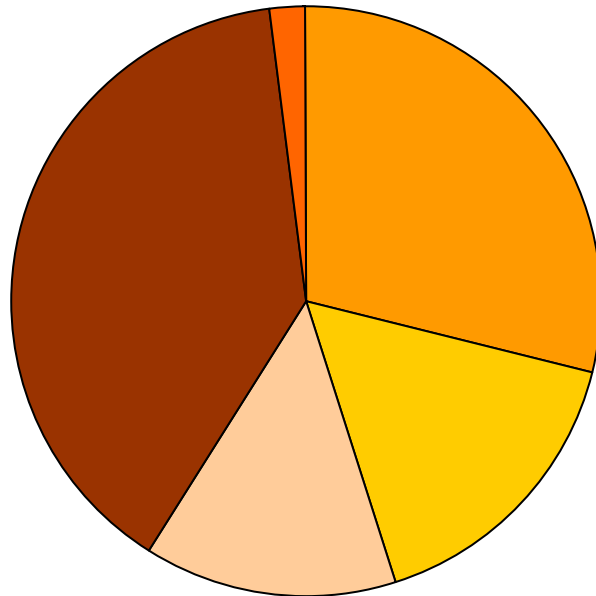


# Credit Quality

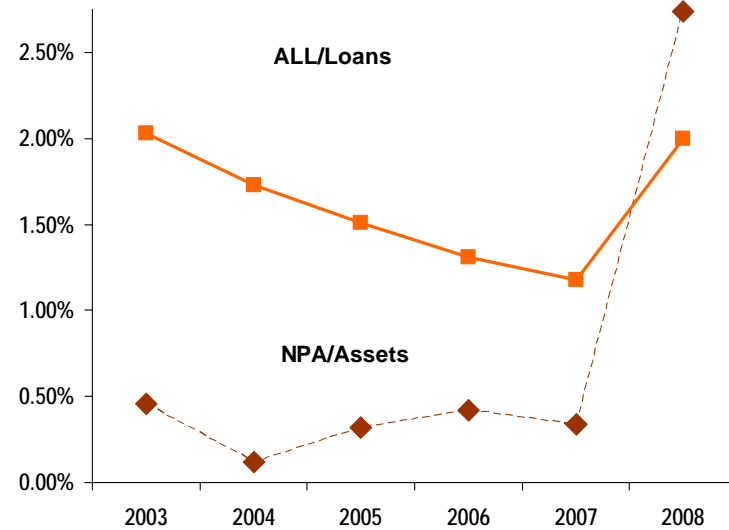
## Nonperforming Assets

\$41,101,000

As of December 31, 2008



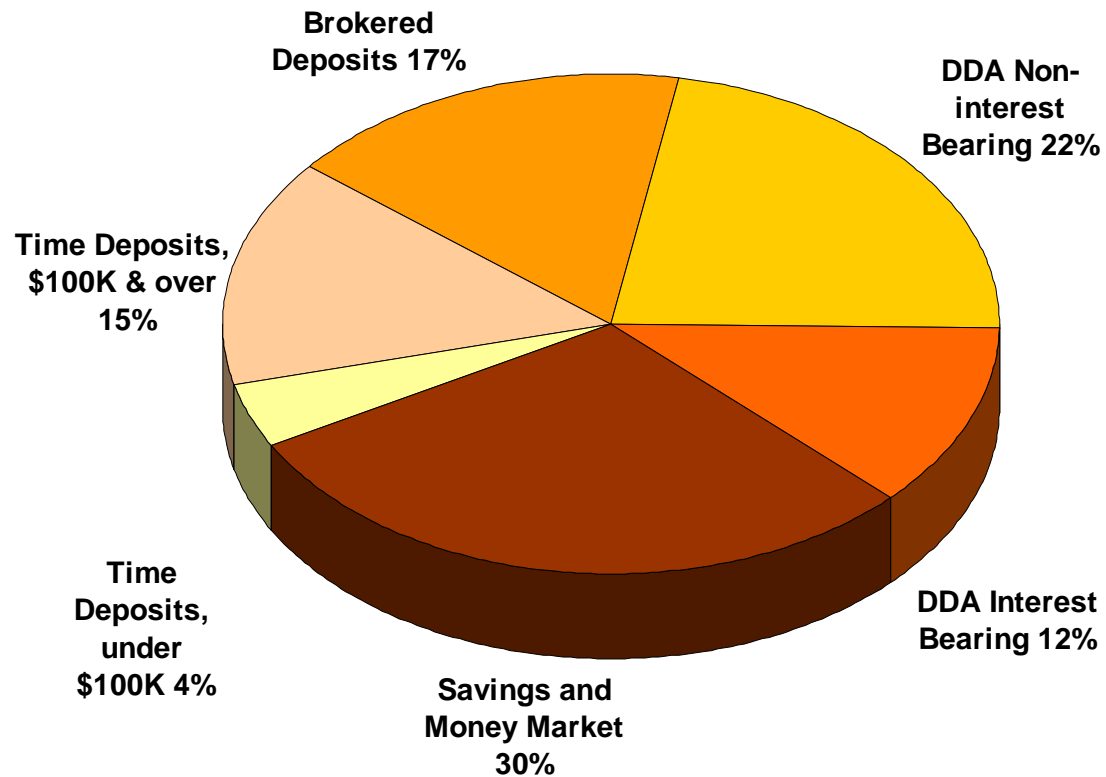
- C & I 29%
- CRE 16%
- SBA 14%
- Land & Construction 39%
- OREO 2%



# Deposit Mix by Type

\$1,154,050,000

*As of December 31, 2008*



# Strategy:

## Position Bank for Return to Top Quartile Performance in 2010

### ■ Focus on Credit Quality

- Reduce CRE and construction & land loan levels
- Few new real estate deals
- Enhanced diligence in monitoring existing portfolios
- Add Special Assets staff
- Aggressively build reserve for loan losses
- Quarterly loan portfolio credit quality reviews
- Real estate portfolio credit quality reviews twice quarterly

### ■ Maintain Solid Capital Position

- Issued \$40 million in TARP preferred stock
- Total Risk-based Capital over 11.5%

### ■ Focus on Liquidity

- Lender bonus plan includes deposit hurdles
- Reward deposit officers
- Target new deposit niches
- Review other liquidity options, such as:
  - Branch opportunities
  - Deposit campaigns



## Position Bank for Return to Top Quartile Performance in 2010

- **Improve Net Interest Margin**
  - Increase loan rates
  - Aggressively add floors on floating rate loans
  
- **Control Costs**
  - Return to a reasonable efficiency ratio
    - Reduction in FTE
    - Hire in-house legal counsel
    - Reduction of employee benefits
    - Renegotiate technology contracts
    - Consolidated two Los Altos branches

# Contact Information

HERITAGE  
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