MARKET VECTORS ETF TRUST
Form 497
March 01, 2013

SUPPLEMENT DATED MARCH 1, 2013 TO THE

STATEMENT OF ADDITIONAL INFORMATION OF

MARKET VECTORS ETF TRUST

Dated February 11, 2013

This Supplement updates certain information contained in the above-dated Statement of Additional Information (the “SAI”) for Market Vectors ETF Trust (the “Trust”) regarding Market Vectors BDC Income ETF (the “Fund”). You may obtain copies of the Fund’s Prospectus and SAI free of charge, upon request, by calling toll-free 1.888.MKT.VCTR or by visiting the Van Eck website at www.marketvectorsetfs.com.

Effective March 1, 2013, Joseph J. McBrien replaced Thomas K. Lynch as Chief Compliance Officer of the Trust. Accordingly, all references to Thomas K. Lynch in the SAI are hereby deleted and the biography of Joseph J. McBrien is amended as follows:

Officer Information:

Officer’s Name, Address[1] and Age	**Position(s) Held with the Trust**	**Term of Office and Length of Time Served**	**Principal Occupation(s) During the Past Five Years**
Joseph J. McBrien, 64	Senior Vice President, Secretary, Chief Legal Officer and Chief Compliance Officer	Senior Vice President, Secretary and Chief Legal Officer (Since 2006); Chief Compliance Officer (Since 2013)	Senior Vice President, General Counsel and Secretary of the Adviser, VESC and VEARA

(since December 2005); Director of VESC and

VEARA (since October 2010); Officer of other

investment companies advised by the Adviser.

[1] The address for each Officer is 335 Madison Avenue, 19th Floor, New York, New York, 10017.

Please retain this supplement for future reference.

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RATIOS:

Annualized net charge-offs (recoveries) to average loans(1)

0.02% -0.01% 0.00% 0.01%

Allowance for loan losses to total loans(1)

1.16% 0.71% 0.01% 1.88%

Allowance for loan losses to nonperforming loans

140.68% 86.82% 0.85% 228.35%

(1) Average loans and total loans exclude loans held-for-sale.

	Three Months Ended June 30, 2013			
	Commercial	Real Estate	Consumer	Total
	(Dollars in thousands)			
Balance, beginning of period	$ 12,455	$ 6,770	$ 117	$ 19,342
Charge-offs	(119)	(56)		(175)
Recoveries	188	257		445
Net recoveries	69	201		270
Provision (credit) for loan losses	287	(583)	26	(270)
Balance, end of period	$ 12,811	$ 6,388	$ 143	$ 19,342
RATIOS:				
Annualized net recoveries to average loans(1)	0.03%	0.10%	0.00%	0.13%
Allowance for loan losses to total loans(1)	1.52%	0.76%	0.02%	2.30%
Allowance for loan losses to nonperforming loans	89.10%	44.43%	0.99%	134.52%

	Six Months Ended June 30, 2014			
	Commercial	Real Estate	Consumer	Total
	(Dollars in thousands)			
Balance, beginning of period	$ 12,533	$ 6,548	$ 83	$ 19,164
Charge-offs	(595)			(595)
Recoveries	188	43		231
Net (charge-offs) recoveries	(407)	43		(364)
Provision (credit) for loan losses	(672)	478	(14)	(208)
Balance, end of period	$ 11,454	$ 7,069	$ 69	$ 18,592
RATIOS:				
Annualized net charge-offs (recoveries) to average loans(1)	0.09%	-0.01%	0.00%	0.08%
Allowance for loan losses to total loans(1)	1.16%	0.71%	0.01%	1.88%
Allowance for loan losses to nonperforming loans	140.68%	86.82%	0.85%	228.35%

	Six Months Ended June 30, 2013			
	Commercial	Real Estate	Consumer	Total
	(Dollars in thousands)			
Balance, beginning of period	$ 12,866	$ 6,034	$ 127	$ 19,027
Charge-offs	(959)	(56)		(1,015)
Recoveries	1,338	262		1,600

Net (charge-offs) recoveries	379	206		585
Provision (credit) for loan losses	(434)	148	16	(270)
Balance, end of period	$ 12,811	$ 6,388	$ 143	$ 19,342
RATIOS:				
Annualized net charge-offs (recoveries) to average loans(1)	0.10%	0.05%	0.00%	0.15%
Allowance for loan losses to total loans(1)	1.52%	0.76%	0.02%	2.30%
Allowance for loan losses to nonperforming loans	89.10%	44.43%	0.99%	134.52%

(1) Average loans and total loans exclude loans held-for-sale.

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The following table provides a summary of the allocation of the allowance for loan losses by class at the dates indicated. The allocation presented should not be interpreted as an indication that charges to the allowance for loan losses will be incurred in these amounts or proportions, or that the portion of the allowance allocated to each category represents the total amount available for charge-offs that may occur within these classes.

Allocation of Allowance for Loan Losses

	June 30, 2014		June 30, 2013		December 31, 2013	
	Allowance	**Percent of Loans in each category to total loans**	**Allowance**	**Percent of Loans in each category to total loans**	**Allowance**	**Percent of Loans in each category to total loans**
	(Dollars in thousands)					
Commercial	$ 11,454	42%	$ 12,811	46%	$ 12,533	43%
Real estate:						
Commercial and residential	4,862	46%	4,949	44%	4,922	46%
Land and construction	755	5%	280	3%	356	3%
Home equity	1,452	6%	1,159	6%	1,270	6%
Consumer	69	1%	143	1%	83	2%
Total	$ 18,592	100%	$ 19,342	100%	$ 19,164	100%

The allowance for loan losses totaled $18.6 million, or 1.88% of total loans at June 30, 2014, compared to $19.3 million, or 2.30% of total loans at June 30, 2013, and $19.2 million, or 2.09% of total loans at December 31, 2013. The allowance for loan losses to total loans decreased at June 30, 2014, compared to June 30, 2013, and December 31, 2013, primarily due to increasing loan balances with no default histories, improving the quality of the loan portfolio overall. Loan charge-offs reflect the realization of losses in the portfolio that were partially recognized previously through the provision for loan losses. The Company had net charge-offs of $27,000, or 0.01% of average loans, for the second quarter of 2014, compared to net recoveries of $270,000, or 0.13% of average loans, for the second quarter of 2013, and net charge-offs of $166,000, or 0.07% of average loans, for the fourth quarter of 2013.

The allowance for loan losses related to the commercial portfolio decreased $1.1 million at June 30, 2014 from December 31, 2013, as a result of a credit to the provision for loan losses of $672,000 and net charge-offs of $407,000. The decrease in the allowance for loan losses was primarily due to a decline in problem loans. The allowance for loan losses related to the real estate portfolio increased $521,000 at June 30, 2014 from December 31, 2013, as a result of a provision for loan losses of $478,000 and net recoveries of $43,000. The increase in the allowance for loan losses was primarily due to an increase in the balance of real estate loans outstanding, partially offset by a decline in problem loans.

Deposits

The composition and cost of the Company's deposit base are important components in analyzing the Company's net interest margin and balance sheet liquidity characteristics, both of which are discussed in greater detail in other sections herein. The Company's liquidity is impacted by the volatility of deposits from the propensity of that money to leave the institution for rate-related or other reasons. Deposits can be adversely affected if economic conditions in California, and the Company's market area in particular, weaken. Potentially, the most volatile deposits in a financial institution are jumbo

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certificates of deposit, meaning time deposits with balances that equal or exceed $100,000, as customers with balances of that magnitude are typically more rate-sensitive than customers with smaller balances.

The following table summarizes the distribution of deposits and the percentage of distribution in each category of deposits for the periods indicated:

	June 30, 2014		June 30, 2013		December 31, 2013	
	Balance	% to Total	Balance	% to Total	Balance	% to Total
	(Dollars in thousands)					
Demand, noninterest-bearing	$ 456,235	36%	$ 407,516	34%	$ 431,085	34%
Demand, interest-bearing	193,041	15%	171,027	14%	195,451	15%
Savings and money market	354,175	28%	295,336	25%	347,052	27%
Time deposits under $100	20,379	2%	23,062	2%	21,646	2%
Time deposits $100 and over	195,619	15%	197,718	17%	195,005	15%
Time deposits brokered	33,614	3%	76,800	6%	55,524	4%
CDARS money market and time deposits	14,785	1%	17,580	2%	40,458	3%
Total deposits	$ 1,267,848	100%	$ 1,189,039	100%	$ 1,286,221	100%

The Company obtains deposits from a cross-section of the communities it serves. The Company's business is not generally seasonal in nature. Public funds were 8% of deposits at June 30, 2014, 8% at June 30, 2013, and 9% at December 31, 2013.

Total deposits increased $78.8 million to $1.27 billion at June 30, 2014, from $1.19 billion at June 30, 2013, while brokered deposits decreased $43.2 million during this period. Total deposits decreased $18.4 million at June 30, 2014 from $1.29 billion at December 31, 2013, primarily due to a decrease in brokered deposits of $21.9 million and a decrease of $25.7 million in CDARS deposits, partially offset by an increase in core deposits. During the fourth quarter of 2013, the Company received $27.5 million in deposits from a law firm which were placed in a CDARS money market account. All of the $27.5 million in deposits from the law firm were withdrawn in January, 2014. Deposits (excluding all time deposits and CDARS deposits) increased $126.9 million, or 15%, to $1.0 billion at June 30, 2014, from $873.9 million at June 30, 2013, and increased $29.9 million, or 3%, from $973.6 million at December 31, 2013.

At June 30, 2014, the Company had $108.1 million (at fair value) of securities pledged for $98.0 million in certificates of deposits from the State of California. At June 30, 2013, the Company had $108.4 million (at fair value) of securities pledged for $98.0 million in certificates of deposits from the State of California. At December 31, 2013, the Company had $108.0 million (at fair value) of securities pledged for $98.0 million in certificates of deposits from the State of California.

CDARS deposits were comprised of $6.9 million of money market accounts and $7.9 million of time deposits at June 30, 2014. CDARS deposits were comprised of $9.0 million of money market accounts and $8.6 million of time deposits at June 30, 2013. CDARS deposits were comprised of $34.8 million of money market accounts and $5.7 million of time deposits at December 31, 2013.

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The following table indicates the contractual maturity schedule of the Company's time deposits of $100,000 and over, and all CDARS time deposits and brokered deposits as of June 30, 2014:

	Balance	% of Total
	(Dollars in thousands)	
Three months or less	$ 104,913	44%
Over three months through six months	63,407	27%
Over six months through twelve months	34,801	15%
Over twelve months	34,047	14%
Total	$ 237,168	100%

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

Return on Equity and Assets

The following table indicates the ratios for return on average assets and average equity, and average equity to average assets for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Annualized return on average assets	0.91%	0.82%	0.88%	0.71%
Annualized return on average tangible assets	0.91%	0.82%	0.88%	0.71%
Annualized return on average equity	7.45%	6.53%	7.28%	5.88%
Annualized return on average tangible equity	7.51%	6.60%	7.33%	5.94%
Dividend payout ratio(1)	38.51%	N/A	39.97%	N/A
Average equity to average assets ratio	12.18%	12.49%	12.12%	12.12%

(1) Percentage is calculated based on dividends paid on common stock and Series C Preferred Stock (on an as converted basis) divided by net income.

Off-Balance Sheet Arrangements

In the normal course of business, the Company makes commitments to extend credit to its customers as long as there are no violations of any conditions established in the contractual arrangements. These commitments are obligations that represent a potential credit risk to the Company, but are not reflected on the Company's consolidated balance sheets. Total unused commitments to extend credit were $396.0 million June 30, 2014, compared to $349.4 million at June 30, 2013, and $377.2 million at December 31, 2013. Unused commitments represented 40%, 41%, and 41% of outstanding gross loans at June 30, 2014, June 30, 2013, and December 31, 2013, respectively.

The effect on the Company's revenues, expenses, cash flows and liquidity from the unused portion of the commitments to provide credit cannot be reasonably predicted because there is no certainty that

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lines of credit and letters of credit will ever be fully utilized. The following table presents the Company's commitments to extend credit for the periods indicated:

	June 30, 2014		June 30, 2013		December 31, 2013	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(Dollars in thousands)					
Unused lines of credit and commitments to make loans	$ 8,104	$ 376,558	$ 5,683	$ 330,870	$ 6,136	$ 359,955
Standby letters of credit		11,370	2,775	10,030		11,099
	$ 8,104	$ 387,928	$ 8,458	$ 340,900	$ 6,136	$ 371,054

Liquidity and Asset/Liability Management

Liquidity refers to the Company's ability to maintain cash flows sufficient to fund operations and to meet obligations and other commitments in a timely and cost effective fashion. At various times the Company requires funds to meet short-term cash requirements brought about by loan growth or deposit outflows, the purchase of assets, or liability repayments. An integral part of the Company's ability to manage its liquidity position appropriately is the Company's large base of core deposits, which are generated by offering traditional banking services in its service area and which have historically been a stable source of funds. To manage liquidity needs properly, cash inflows must be timed to coincide with anticipated outflows or sufficient liquidity resources must be available to meet varying demands. The Company manages liquidity to be able to meet unexpected sudden changes in levels of its assets or deposit liabilities without maintaining excessive amounts of balance sheet liquidity. Excess balance sheet liquidity can negatively impact the Company's interest margin. In order to meet short-term liquidity needs the Company utilizes overnight Federal funds purchase arrangements and other borrowing arrangements with correspondent banks, solicits brokered deposits if cost effective deposits are not available from local sources and maintains collateralized lines of credit with the FHLB and FRB. In addition, the Company can raise cash for temporary needs by selling securities under agreements to repurchase and selling securities available-for-sale.

One of the measures we analyze for liquidity is our loan to deposit ratio. Our loan to deposit ratio was 78.11% at June 30, 2014, compared to 70.81% at June 30, 2013, and 71.13% at December 31, 2013.

FHLB and FRB Borrowings and Available Lines of Credit

The Company has off-balance sheet liquidity in the form of Federal funds purchase arrangements with correspondent banks, including the FHLB and FRB. The Company can borrow from the FHLB on a short-term (typically overnight) or long-term (over one year) basis. The Company had no overnight borrowings from the FHLB at June 30, 2014, June 30, 2013 and December 31, 2013. The Company had $261.2 million of loans pledged to the FHLB as collateral on an available line of credit of $137.7 million at June 30, 2014.

The Company can also borrow from the FRB's discount window. The Company had $339.9 million of loans pledged to the FRB as collateral on an available line of credit of $253.6 million at June 30, 2014, none of which was outstanding.

At June 30, 2014, the Company had Federal funds purchase arrangements available of $55.0 million. There were no Federal funds purchased outstanding at June 30, 2014, June 30, 2013 and December 31, 2013.

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The Company may also utilize securities sold under repurchase agreements to manage our liquidity position. There were no securities sold under agreements to repurchase June 30, 2014, June 30, 2013, and December 31, 2013.

The following table summarizes the Company's borrowings under its Federal funds purchased, security repurchase arrangements and lines of credit for the periods indicated:

	June 30, 2014	June 30, 2013	December 31, 2013
	(Dollars in thousands)		
Average balance year-to-date	$ 773	$	$ 58
Average interest rate year-to-date	0.12%	N/A	0.20%
Maximum month-end balance during the quarter	$ 5,000	$	$
Average rate at period-end	N/A	N/A	N/A

Capital Resources

The Company uses a variety of measures to evaluate capital adequacy. Management reviews various capital measurements on a regular basis and takes appropriate action to ensure that such measurements are within established internal and external guidelines. The external guidelines, which are issued by the Federal Reserve Board and the FDIC, establish a risk-adjusted ratio relating capital to different categories of assets and off-balance sheet exposures. There are two categories of capital under the Federal Reserve Board and FDIC guidelines: Tier 1 and Tier 2 Capital. Our Tier 1 Capital currently consists of total shareholders' equity (excluding accumulated other comprehensive income or loss), less intangible assets and disallowed deferred tax assets. Our Tier 2 Capital includes the allowances for loan losses and off-balance sheet credit losses.

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

	June 30, 2014	June 30, 2013	December 31, 2013
	(Dollars in thousands)		
Capital components:			
Tier 1 Capital	$ 176,058	$ 166,820	$ 165,162
Tier 2 Capital	15,893	13,885	14,754
Total risk-based capital	$ 191,951	$ 180,705	$ 179,916
Risk-weighted assets	$ 1,268,215	$ 1,105,051	$ 1,175,813
Average assets for capital purposes	$ 1,461,252	$ 1,350,489	$ 1,477,082

				Well-Capitalized Regulatory Requirements	Minimum Regulatory Requirements
Capital ratios:					
Total risk-based capital	15.1%	16.4%	15.3%	10.00%	8.00%
Tier 1 risk-based capital	13.9%	15.1%	14.0%	6.00%	4.00%
Leverage(1)	12.0%	12.4%	11.2%	N/A	4.00%

(1) Tier 1 capital divided by quarterly average assets (excluding intangible assets and disallowed deferred tax assets).

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The table above presents the capital ratios of the consolidated Company computed in accordance with applicable regulatory guidelines and compared to the standards for minimum capital adequacy requirements for bank holding companies.

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

	June 30, 2014	June 30, 2013	December 31, 2013
	(Dollars in thousands)		
Capital components:			
Tier 1 Capital	$ 163,447	$ 158,552	$ 149,037
Tier 2 Capital	15,932	13,911	14,790
Total risk-based capital	$ 179,379	$ 172,463	$ 163,827
Risk-weighted assets	$ 1,271,329	$ 1,107,207	$ 1,178,719
Average assets for capital purposes	$ 1,464,302	$ 1,352,479	$ 1,477,168

				Well-Capitalized Regulatory Requirements	Minimum Regulatory Requirements
Capital ratios:					
Total risk-based capital	14.1%	15.6%	13.9%	10.00%	8.00%
Tier 1 risk-based capital	12.9%	14.3%	12.6%	6.00%	4.00%
Leverage(1)	11.2%	11.7%	10.1%	5.00%	4.00%

(1) Tier 1 capital divided by quarterly average assets (excluding intangible assets and disallowed deferred tax assets).

The table above presents the capital ratios of HBC computed in accordance with applicable regulatory guidelines and compared to the standards for minimum capital adequacy requirements under the FDIC's prompt corrective action authority.

Due primarily to the redemption of $9 million floating-rate subordinated debt in the third quarter of 2013, the Company's total risk-based capital ratio, Tier 1 risk-based capital ratio, and leverage ratio at June 30, 2014 decreased to 15.1%, 13.9%, and 12.0%, compared to 16.4%, 15.1%, and 12.4% at June 30, 2013, respectively. Due primarily to distributions from HBC to HCC totaling $16 million during 2013, HBC's total risk-based capital ratio, Tier 1 risk-based capital ratio, and leverage ratio at June 30, 2014 decreased to 14.1%, 12.9%, and 11.2%, compared to 15.6%, 14.3%, and 11.7% at June 30, 2013, respectively. However, at June 30, 2014, the Company's and HBC's capital ratios exceed the highest regulatory capital requirement of "well-capitalized" under prompt corrective action provisions.

Quantitative measures established by regulation to help ensure capital adequacy require the Company and HBC to maintain minimum amounts and ratios of total risk-based capital and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes that, as of June 30, 2014, June 30, 2013, and December 31, 2013, the Company and HBC met all capital adequacy guidelines to which they were subject. There are no conditions or events since June 30, 2014 that management believes have changed the categorization of the Company or HBC as well-capitalized.

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At June 30, 2014, the Company had total shareholders' equity of $181.5 million, including $19.5 million in preferred stock, $132.9 million in common stock, $29.2 million in retained earnings, and ($92,000) of accumulated other comprehensive loss.

The accumulated other comprehensive loss was ($92,000) at June 30, 2014, compared to accumulated other comprehensive loss of ($4.7) million at June 30, 2013, and an accumulated other comprehensive loss of ($4.0) million at December 31, 2013. The unrealized gain (loss) on securities available-for-sale included in accumulated other comprehensive income was an unrealized gain of $2.6 million, net of taxes, at June 30, 2014, compared to an unrealized loss of ($507,000) , net of taxes, at June 30, 2013, and an unrealized loss of ($1.4) million, net of taxes, at December 31, 2013. The components of other comprehensive loss, net of taxes, at June 30, 2014 include the following: an unrealized gain on available-for-sale securities of $2.6 million; the remaining unamortized unrealized gain on securities available-for-sale transferred to held-to-maturity of $449,000; a liability adjustment on split dollar insurance contracts of ($1.9) million; a liability adjustment on the supplemental executive retirement plan of ($2.2) million; and an unrealized gain on interest-only strip from SBA loans of $948,000.

Mandatory Redeemable Cumulative Trust Preferred Securities

To enhance regulatory capital and to provide liquidity, the Company, through unconsolidated subsidiary grantor trusts, issued mandatory redeemable cumulative trust preferred securities of subsidiary grantor trusts. The subordinated debt was recorded as a component of long-term debt and included the value of the common stock issued by the trusts to the Company. The common stock was recorded as other assets for the amount issued. Under applicable regulatory guidelines, the trust preferred securities qualified as Tier I capital. The subsidiary trusts were not consolidated in the Company's consolidated financial statements.

During the third quarter of 2012, the Company redeemed its 10.875% fixed-rate subordinated debentures in the amount of $7 million issued to Heritage Capital Trust I and the Company's 10.600% fixed-rate subordinated debentures in the amount of $7 million issued to Heritage Statutory Trust I. The related trust securities issued by Capital Trust I and Statutory Trust I were also redeemed in connection with the subordinated debt redemption and the trusts were dissolved.

During the third quarter of 2013, the Company redeemed its Company's variable-rate subordinated debentures in the amount of $5 million issued to Heritage Statutory Trust II and the Company's variable-rate subordinated debentures in the amount of $4 million issued to Heritage Statutory Trust III. The related trust securities issued by Statutory Trust II and Statutory Trust III were also redeemed in connection with the subordinated debt redemption and the trusts were dissolved.

U.S. Treasury Capital Purchase Program

The Company received $40 million in November 2008 through the issuance of its Series A Preferred Stock and a warrant to purchase 462,963 shares of its common stock to the Treasury through the U.S. Treasury Capital Purchase Program. The Series A Preferred Stock qualified as a component of Tier 1 capital.

On March 7, 2012, in accordance with approvals received from the U.S. Treasury and the Federal Reserve, the Company repurchased all of the Series A Preferred Stock and paid the related accrued and unpaid dividends. On June 12, 2013, the Company completed the repurchase of the common stock warrant for $140,000.

Series C Preferred Stock

On June 21, 2010, the Company issued to various institutional investors 21,004 shares of newly issued Series C Preferred Stock. The Series C Preferred Stock is mandatorily convertible into 5,601,000

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shares of common stock at a conversion price of $3.75 per share upon a subsequent transfer of the Series C Preferred stock to third parties not affiliates with the holder in a widely dispersed offering. The Series C Preferred Stock is non-voting except in the case of certain transactions that would affect the rights of the holders of the Series C Preferred Stock or applicable law. The holders of Series C Preferred Stock receive dividends on an as converted basis when dividends are also declared for holders of common stock. The Series C Preferred Stock is not redeemable by the Company or by the holders and has a liquidation preference of $1,000 per share. The Series C Preferred Stock ranks senior to the Company's common stock.

Market Risk

Market risk is the risk of loss of future earnings, fair values, or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market risk sensitive instruments. Market risk is attributed to all market risk sensitive financial instruments, including securities, loans, deposits and borrowings, as well as the Company's role as a financial intermediary in customer-related transactions. The objective of market risk management is to avoid excessive exposure of the Company's earnings and equity to loss and to reduce the volatility inherent in certain financial instruments.

Interest Rate Management

Market risk arises from changes in interest rates, exchange rates, commodity prices and equity prices. The Company's market risk exposure is primarily that of interest rate risk, and it has established policies and procedures to monitor and limit earnings and balance sheet exposure to changes in interest rates. The Company does not engage in the trading of financial instruments, nor does the Company have exposure to currency exchange rates.

The principal objective of interest rate risk management (often referred to as "asset/liability management") is to manage the financial components of the Company in a manner that will optimize the risk/reward equation for earnings and capital in relation to changing interest rates. The Company's exposure to market risk is reviewed on a regular basis by the Asset/Liability Committee. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income. Management realizes certain risks are inherent, and that the goal is to identify and manage the risks. Management uses two methodologies to manage interest rate risk: (i) a standard GAP analysis; and (ii) an interest rate shock simulation model.

The planning of asset and liability maturities is an integral part of the management of an institution's net interest margin. To the extent maturities of assets and liabilities do not match in a changing interest rate environment, the net interest margin may change over time. Even with perfectly matched repricing of assets and liabilities, risks remain in the form of prepayment of loans or securities 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.

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.

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The Company uses modeling software for asset/liability management in order to simulate the effects of potential interest rate changes on the Company's net interest margin, and to calculate the estimated fair values of the Company's financial instruments under different interest rate scenarios. The program imports current balances, interest rates, maturity dates and repricing information for individual financial instruments, and incorporates assumptions on the characteristics of embedded options along with pricing and duration for new volumes to project the effects of a given interest rate change on the Company's interest income and interest expense. Rate scenarios consisting of key rate and yield curve projections are run against the Company's investment, loan, deposit and borrowed funds portfolios. These rate projections can be shocked (an immediate and parallel change in all base rates, up or down) and ramped (an incremental increase or decrease in rates over a specified time period), based on current trends and econometric models or stable economic conditions (unchanged from current actual levels).

The following table sets forth the estimated changes in the Company's annual net interest income that would result from the designated instantaneous parallel shift in interest rates noted, as of June 30, 2014. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results.

	Increase/(Decrease) in Estimated Net Interest Income	
	Amount	**Percent**
	(Dollars in thousands)	
Change in Interest Rates (basis points)		
+400	$ 13,039	24.2%
+300	$ 9,747	18.1%
+200	$ 6,430	11.9%
+100	$ 3,072	5.7%
0	$	0.0%
-100	$ (4,238)	-7.9%
-200	$ (8,695)	-16.2%

This data does not reflect any actions that we may undertake in response to changes in interest rates such as changes in rates paid on certain deposit accounts based on local competitive factors, which could reduce the actual impact on net interest income.

As with any method of gaging interest rate risk, there are certain shortcomings inherent to the methodology noted above. The model assumes interest rate changes are instantaneous parallel shifts in the yield curve. In reality, rate changes are rarely instantaneous. The use of the simplifying assumption that short-term and long-term rates change by the same degree may also misstate historic rate patterns, which rarely show parallel yield curve shifts. Further, the model assumes that certain assets and liabilities of similar maturity or period to repricing will react in the same way to changes in rates. In reality, certain types of financial instruments may react in advance of changes in market rates, while the reaction of other types of financial instruments may lag behind the change in general market rates. Additionally, the methodology noted above does not reflect the full impact of annual and lifetime restrictions on changes in rates for certain assets, such as adjustable rate loans. When interest rates change, actual loan prepayments and actual early withdrawals from certificates may deviate significantly from the assumptions used in the model. Finally, this methodology does not measure or reflect the impact that higher rates may have on adjustable-rate loan clients' ability to service their debt. All of these factors are considered in monitoring the Company's exposure to interest rate risk.

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ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information concerning quantitative and qualitative disclosure or market risk called for by Item 305 of Regulation S-K is included as part of Item 2 above.

ITEM 4 CONTROLS AND PROCEDURES

Disclosure Control and Procedures

The Company has carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2014. As defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), disclosure controls and procedures are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported on a timely basis. Disclosure controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded the Company's disclosure controls were effective as of June 30, 2014, the period covered by this report on Form 10-Q.

During the three and six months ended June 30, 2014, there were no changes in our internal controls over financial reporting that materially affected, or are reasonably likely to affect, our internal controls over financial reporting.

Part II OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

The Company is involved in certain legal actions arising from normal business activities. Management, based upon the advice of legal counsel, believes the ultimate resolution of all pending legal actions will not have a material effect on the financial statements of the Company.

ITEM 1A RISK FACTORS

In addition to the other information set forth in this Report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2013, which could materially affect our business, financial condition and/or operating results. There were no material changes from risk factors previously disclosed in our 2013 Annual Report on Form 10-K. The risk factors identified are in addition to those contained in any other cautionary statements, written or oral, which may be made or otherwise addressed in connection with a forward-looking statement or contained in any of our subsequent filings with the Securities and Exchange Commission.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 MINE SAFETY DISCLOSURES

None

ITEM 5 OTHER INFORMATION

None

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ITEM 6 EXHIBITS

Exhibit	Description
3.1	Heritage Commerce Corp Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K filed on March 4, 2010)
3.2	Certificate of Amendment of Articles of Incorporation of Heritage Commerce Corp as filed with the California Secretary of State on June 1, 2010 (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 filed July 23, 2010).
3.3	Heritage Commerce Corp Bylaws, as amended (incorporated by reference to the Registrant's Current Report on Form 8-K filed on June 28, 2013)
4.1	Certificate of Determination for Series C Convertible Perpetual Preferred Stock (incorporated by reference to the Registrant's Current Report on Form 8-K filed on June 22, 2010)
12.1	Calculation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Fixed Charges and Preferred Stock Dividends
31.1	Certification of Registrant's Chief Executive Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Registrant's Chief Financial Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002
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
101.INS	XBRL Instance Document, furnished herewith
101.SCH	XBRL Taxonomy Extension Schema Document, furnished herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document, furnished herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document, furnished herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document, furnished herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document, furnished herewith

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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)
Date: August 6, 2014	/s/ WALTER T. KACZMAREK
	Walter T. Kaczmarek *Chief Executive Officer*
Date: August 6, 2014	/s/ LAWRENCE D. MCGOVERN
	Lawrence D. McGovern *Chief Financial Officer*

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