## Heritage Commerce Corp Earns \$18.9 Million for the First Quarter of 2023; Total Deposits Stable

San Jose, CA - April 27, 2023 - Heritage Commerce Corp (Nasdaq: HTBK), the holding company (the "Company") for Heritage Bank of Commerce (the "Bank"), today announced first quarter 2023 net income increased $47 \%$ to $\$ 18.9$ million, or $\$ 0.31$ per average diluted common share, compared to $\$ 12.9$ million, or $\$ 0.21$ per average diluted common share, for the first quarter of 2022, and decreased ( $9 \%$ ) from $\$ 20.8$ million, or $\$ 0.34$ per average diluted common share, for the fourth quarter of 2022. All results are unaudited.
"We delivered record first quarter earnings and the second best quarterly results in the Company’s history," said Clay Jones, President and Chief Executive Officer. "First quarter earnings have been typically impacted by higher payroll taxes and employee benefits, due to the seasonal peak of these expenses. Profits increased $47 \%$ over the first quarter a year ago supported by strong year-over-year growth in net interest income and noninterest income, higher net interest margin and improved efficiency ratio. Total deposits increased by $\$ 54.9$ million from the linked quarter to $\$ 4.445$ billion at March 31, 2023. Noninterest-bearing deposits shifted during the quarter to the Bank's interest-bearing deposits, primarily due to the acceleration of recent rate hikes by the Federal Reserve Bank, prompting customers to seek higher yields." As a result, there was a substantial increase in the Bank's interest-bearing deposits and Insured Cash Sweep ("ICS") deposits. "With a solid earnings performance, a large core deposit base and excellent credit quality, we believe we have a solid foundation to accommodate our clients lending and deposit needs," stated Mr. Jones.
"Both the Company and the Bank remain in a strong financial position. Our capital levels and liquidity position are healthy, and the Bank has experienced stable deposit trends. Our prudent approach to risk management has enabled us to navigate recent market volatility in the financial industry," Mr. Jones continued. Mr. Jones expressed gratitude to the Bank's clients for their continued support and emphasized that the banking team is dedicated to meeting their needs.
"Our credit quality remains strong. Over our nearly 30 year history, the Bank has consistently taken a prudent approach to real estate underwriting across all product types, through many economic cycles. We believe our conservative credit standards, along with our continuous stress testing of each borrower for maturity dates, lease maturities, occupancy, interest rates and liquidity capacity will prove our loan portfolio is well positioned to successfully weather economic volatility." The Company recorded a $\$ 32,000$ provision for credit losses on loans for the first quarter of 2023. The allowance for credit losses on loans was $\$ 47.3$ million, and increased to $1.45 \%$ of total loans, at March 31, 2023, compared to $1.41 \%$ of total loans from the year ago quarter, and $1.44 \%$ of total loans at December 31, 2022.
"Complementing our stellar performance this quarter, we are very proud to have recently ranked $21{ }^{\text {st }}$ nationally for the best performing Community Bank by S\&P Market Intelligence," said Mr. Jones. "Criteria for the ranking included a gross loans and leases-to-total assets ratio of at least $33 \%$ and a leverage ratio of at least $5 \%$. Based on the selected criteria, 196 banks and thrifts were eligible for ranking." [Source $S \& P$ Capital IQ]

## Current Financial Condition and Liquidity Position

In light of current industry developments, the following are important factors in understanding our current financial condition and liquidity position:

## Liquidity and Lines of Credit:

- The following table shows our liquidity, available lines of credit and the amounts outstanding at March 31, 2023:

| LIQUIDITY AND LINES OF CREDIT (in \$000's, unaudited) | Total Available |  | Outstanding <br> Lines of Credit |  | Remaining Available |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Unpledged investment securities (at fair value) | \$ | 122,483 | \$ | - | \$ | 122,483 |
| Off-balance sheet deposits |  | 132,987 |  | - |  | 132,987 |
| Excess funds at the Federal Reserve Bank ("FRB") |  | 695,400 |  | - |  | 695,400 |
| FRB discount window |  | 1,231,874 |  | 150,000 ${ }^{(1)}$ |  | 1,081,874 |
| Federal Home Loan Bank ("FHLB") Advances |  | 789,909 |  | 150,000 ${ }^{(1)}$ |  | 639,909 |
| Federal funds purchase arrangements |  | 80,000 |  | - |  | 80,000 |
| Holding company line of credit |  | 20,000 |  | - |  | 20,000 |
| Total | \$ | 3,072,653 | \$ | 300,000 | \$ | 2,772,653 |

(1) Both the FRB and the FHLB lines of credit were repaid in full on April 20, 2023.

- The Company's total liquidity and borrowing capacity was $\$ 3.073$ billion, of which $\$ 2.773$ billion was remaining available at March 31, 2023.
- The remaining available liquidity and borrowing capacity of $\$ 2.773$ billion was $62 \%$ of total deposits and approximately $110 \%$ of estimated uninsured deposits at March 31, 2023.
- During the first quarter of 2023, the Bank increased its credit line availability from the FRB and the FHLB by $\$ 839.5$ million to $\$ 2.022$ billion at March 31, 2023 from December 31, 2022.
- The Company borrowed $\$ 150.0$ million on its line of credit with the FRB, and another $\$ 150.0$ million on its line of credit with the FHLB during the first quarter of 2023, and both lines of credit were repaid in full on April 20, 2023. These short-term borrowings provided instant liquidity during an uncertain time and allowed the Company to test the lines for future contingency planning purposes.
- The loan to deposit ratio was $73.39 \%$ at March 31, 2023, compared to $75.14 \%$ at December 31, 2022.


## Deposits:

- Total deposits increased $\$ 54.9$ million, or $1 \%$, to $\$ 4.445$ billion at March 31, 2023 from December 31, 2022.
- ICS/Certificate of Deposit Account Registry Service ("CDARS") deposits increased $\$ 273.7$ million, or $901 \%$, to $\$ 304.1$ million at March 31, 2023 from $\$ 30.4$ million at December 31, 2022, which included $\$ 128.0$ million of off-balance sheet relationship-based client deposits brought onto the balance sheet, and an increase in client deposits of $\$ 145.8$ million during the first quarter of 2023.
- Noninterest-bearing demand deposits decreased (\$267.6) million, or ( $15 \%$ ), to $\$ 1.469$ billion at March 31, 2023 from December 31, 2022, primarily due to clients moving noninterest-bearing deposits to the Bank's interest-bearing and ICS deposits.
- The Company had 24,103 deposits accounts at March 31, 2023, with an average balance of \$184,000.
- Deposits from the top 100 client relationships totaled $\$ 2.201$ billion, representing $50 \%$ of total deposits, with an average account size of $\$ 445,000$, representing $21 \%$ of the total number of accounts at March 31, 2023.


## Investment Securities:

- Investment securities totaled $\$ 1.190$ billion at March 31, 2023, of which $\$ 491.8$ million were in the securities available-for-sale portfolio (at fair value), and $\$ 698.2$ million were in the securities held-to-maturity portfolio (at amortized cost, net of allowance for credit losses of $\$ 14,000$ ).
- The weighted average life of the investment securities portfolio was 4.82 years and the modified duration was 4.04 years at March 31, 2023.


## Loans:

- Loans, excluding loans held-for-sale, decreased (\$36.6) million, or (1\%) to \$3.3 billion at March 31, 2023 from December 31, 2022.
- Commercial real estate ("CRE") loans totaled $\$ 1.687$ billion at March 31, 2023, which included $36 \%$ of owner occupied loans and $64 \%$ of investor and other CRE loans.
- The average loan size for all CRE loans was $\$ 1.6$ million, and the average loan size for office CRE loans was also $\$ 1.6$ million.
- The Company has personal guaranties on $90 \%$ of its CRE portfolio, while $10 \%$ are unguaranteed. A substantial portion of the unguaranteed CRE loans were made to credit-worthy non-profit organizations.
- Office exposure in the CRE portfolio totaled $\$ 383$ million, including 30 loans totaling approximately $\$ 70$ million, in San Jose, 19 loans totaling approximately $\$ 28$ million, in San Francisco, and 5 loans totaling approximately $\$ 10$ million, in Oakland, at March 31, 2023.
- Of the $\$ 383$ million of CRE loans with office exposure, approximately $\$ 29$ million, or $8 \%$, are situated in the Bay Area downtown business districts of San Jose and San Francisco, with an average balance of $\$ 2.2$ million.
- At March 31, 2023, the weighted average loan-to-value and debt-service coverage for the entire non-owner occupied office portfolio were $43.2 \%$ and 2.09 times, respectively. For the ten non-owner occupied office loans in the City of San Francisco at March 31, 2023, the weighted average loan-to-value and debt-service coverage were $28.5 \%$ and 3.41 times, respectively.
- The average vacancy level for the San Francisco CRE loans was $5.8 \%$, of which the vast majority are single-tenant small spaces in office buildings situated outside of downtown.


## First Quarter Ended March 31, 2023

Operating Results, Balance Sheet Review, Capital Management, and Credit Quality
(as of, or for the periods ended March 31, 2023, compared to March 31, 2022, and December 31, 2022, except as noted):

## Operating Results:

- Diluted earnings per share were $\$ 0.31$ for the first quarter of 2023, compared to $\$ 0.21$ for the first quarter of 2022, and $\$ 0.34$ for the fourth quarter of 2022 .
- The following table indicates the ratios for the return on average tangible assets and the return on average tangible common equity for the periods indicated:

|  | For the Quarter Ended: |  |  |
| :---: | :---: | :---: | :---: |
| (unaudited) | $\begin{gathered} \hline \text { March 31, } \\ 2023 \\ \hline \end{gathered}$ | $\begin{gathered} \text { December 31, } \\ 2022 \end{gathered}$ | $\begin{gathered} \text { March 31, } \\ 2022 \\ \hline \end{gathered}$ |
| Return on average tangible assets | 1.52\% | 1.59\% | 0.99\% |
| Return on average tangible common equity | 16.71\% | 18.89\% | 12.47\% |

- Net interest income, before provision for credit losses on loans, increased $29 \%$ to $\$ 49.3$ million for the first quarter of 2023, compared to $\$ 38.2$ million for the first quarter of 2022. The fully tax equivalent ("FTE") net interest margin increased 104 basis points to $4.09 \%$ for the first quarter of 2023 , from $3.05 \%$ for the first quarter of 2022 , primarily due to increases in the prime rate and the rate on overnight funds, and a shift in the mix of earning assets into higher yielding loans and investment securities, partially offset by lower interest and fees on Small Business Administration ("SBA") Paycheck Protection Program ("PPP") loans, lower prepayment fees, a decrease in the accretion of the loan purchase discount into interest income from acquired loans, a higher cost of funds, and an increase in short-term borrowings.
- Net interest income, before provision for credit losses on loans, decreased (5\%) to $\$ 49.3$ million for the first quarter of 2023, compared to $\$ 51.7$ million for the fourth quarter of 2022. The FTE net interest margin decreased 1 basis point to $4.09 \%$ for the first quarter of 2023 from $4.10 \%$ for the fourth quarter of 2022, primarily due to a higher cost of funds, a decrease in the average balances of noninterest bearing demand deposits, and an increase in short-term borrowings, partially offset by increases in the prime rate and higher average yields on overnight funds, and an increase in the accretion of the loan purchase discount into interest income from acquired loans.
- The Company reviewed beta assumptions for non-maturing interest-bearing deposit accounts as of March 31, 2023, and increased the beta assumptions for the upward shock scenarios. The following table, as of March 31, 2023, sets forth the estimated changes in the Company's annual net interest income that would result from an instantaneous shift in interest rates from the base rate:

| CHANGE IN INTEREST RATES (basis points) (in \$000's, unaudited) | Increase/(Decrease) in Estimated Net Interest Income ${ }^{(1)}$ |  |  |
| :---: | :---: | :---: | :---: |
|  | Amount |  | Percent |
|  |  |  |  |
| +400 | \$ | 14,603 | 7.1 \% |
| +300 | \$ | 10,917 | 5.3 \% |
| +200 | \$ | 7,254 | 3.5 \% |
| +100 | \$ | 3,618 | 1.8 \% |
| 0 |  | - | - |
| -100 | \$ | $(6,667)$ | (3.2)\% |
| -200 | \$ | $(19,823)$ | (9.6)\% |
| -300 | \$ | $(35,220)$ | (17.1)\% |
| -400 | \$ | $(50,409)$ | (24.4)\% |

(1) 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. Actual rates paid on deposits may differ from the hypothetical interest rates modeled due to competitive or market factors, which could reduce any actual impact on net interest income.

- The following tables present the average balance of loans outstanding, interest income, and the average yield for the periods indicated:
- The average yield on the total loan portfolio increased to $5.46 \%$ for the first quarter of 2023 , compared to $5.19 \%$ for the fourth quarter of 2022, primarily due to increases in the prime rate, and an increase in the accretion of the loan purchase discount into interest income from acquired loans.

| (in \$000's, unaudited) | For the Quarter Ended March 31, 2023 |  |  |  | For the Quarter Ended December 31, 2022 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average Balance |  | nterest Income | Average Yield | Average Balance |  | nterest ncome | Average Yield |
| Loans, core bank | \$ 2,680,849 | \$ | 34,827 | 5.27 \% | \$ 2,654,311 | \$ | 33,594 | 5.02 \% |
| Prepayment fees | - |  | 138 | 0.02 \% | - |  | 123 | 0.02 \% |
| PPP loans | 832 |  | 2 | 0.97 \% | 1,255 |  | 3 | 0.95 \% |
| PPP fees, net | - |  | 18 | 8.77 \% | - |  | 25 | 7.90 \% |
| Asset-based lending | 27,550 |  | 627 | 9.23 \% | 35,519 |  | 756 | 8.44 \% |
| Bay View Funding factored receivables | 77,755 |  | 4,001 | 20.87 \% | 71,789 |  | 3,696 | 20.43 \% |
| Purchased residential mortgages | 487,780 |  | 3,857 | 3.21 \% | 485,149 |  | 3,842 | 3.14 \% |
| Purchased CRE loans | 7,119 |  | 120 | 6.84 \% | 7,307 |  | 80 | 4.34 \% |
| Loan fair value mark / accretion | $(4,360)$ |  | 522 | 0.08 \% | $(4,774)$ |  | 382 | 0.06 \% |
| Total loans (includes loans held-for-sale) | \$ 3,277,525 | \$ | 44,112 | 5.46 \% | \$ 3,250,556 | \$ | 42,501 | 5.19 \% |

- The average yield on the total loan portfolio increased to $5.46 \%$ for the first quarter of 2023 , compared to $4.70 \%$ for the first quarter of 2022, primarily due to increases in the prime rate, partially offset by lower interest and fees on PPP loans, lower prepayment fees, a decrease in the accretion of the loan purchase discount into interest income from acquired loans, and higher average balances of lower yielding purchased residential mortgages.

| (in \$000's, unaudited) | For the Quarter Ended March 31, 2023 |  |  |  | For the Quarter Ended March 31, 2022 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average Balance |  | terest ncome | Average Yield | Average Balance |  | nterest | $\begin{gathered} \text { Average } \\ \text { Yield } \end{gathered}$ |
| Loans, core bank | \$ 2,680,849 | \$ | 34,827 | 5.27 \% | \$ 2,483,708 | \$ | 26,097 | 4.26 \% |
| Prepayment fees | - |  | 138 | 0.02 \% | - |  | 510 | 0.08 \% |
| PPP loans | 832 |  | 2 | 0.97 \% | 60,264 |  | 146 | 0.98 \% |
| PPP fees, net | - |  | 18 | 8.77 \% | - |  | 1,346 | 9.06 \% |
| Asset-based lending | 27,550 |  | 627 | 9.23 \% | 69,617 |  | 950 | 5.53 \% |
| Bay View Funding factored receivables | 77,755 |  | 4,001 | 20.87 \% | 57,761 |  | 2,793 | 19.61 \% |
| Purchased residential mortgages | 487,780 |  | 3,857 | 3.21 \% | 355,626 |  | 2,428 | 2.77 \% |
| Purchased CRE loans | 7,119 |  | 120 | 6.84 \% | 8,514 |  | 77 | 3.67 \% |
| Loan fair value mark / accretion | $(4,360)$ |  | 522 | 0.08 \% | $(6,901)$ |  | 754 | 0.12 \% |
| Total loans (includes loans held-for-sale) | \$ 3,277,525 | \$ | 44,112 | 5.46 \% | \$ 3,028,589 | \$ | 35,101 | 4.70 \% |

- In aggregate, the remaining net purchase discount on total loans acquired was $\$ 4.1$ million at March 31, 2023.
- The following table presents the average balance of deposits and interest-bearing liabilities, interest expense, and the average rate for the periods indicated:

| (in \$000's, unaudited) | For the Quarter Ended March 31, 2023 |  |  |  |  | For the Quarter Ended December 31, 2022 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average Balance |  | Interest <br> Expense |  | Average Rate | Average Balance |  | Interest <br> Expense |  | Average Rate |
| Deposits: |  |  |  |  |  |  |  |  |  |  |
| Demand, noninterest-bearing | \$ | 1,667,260 | \$ | - | N/A | \$ | 1,851,003 | \$ | - | N/A |
| Demand, interest-bearing |  | 1,217,731 |  | 1,476 | 0.49 \% |  | 1,164,378 |  | 945 | 0.32 \% |
| Savings and money market |  | 1,285,173 |  | 3,489 | 1.10 \% |  | 1,424,964 |  | 1,694 | 0.47 \% |
| Time deposits - under \$100 |  | 12,280 |  | 10 | 0.33 \% |  | 12,157 |  | 7 | 0.23 \% |
| Time deposits - \$100 and over |  | 163,047 |  | 845 | 2.10 \% |  | 120,246 |  | 268 | 0.88 \% |
| ICS/CDARS - interest-bearing demand, money market and time deposits |  | 70,461 |  | 81 | 0.47 \% |  | 27,785 |  | 1 | 0.01 \% |
| Total interest-bearing deposits |  | 2,748,692 |  | 5,901 | 0.87 \% |  | 2,749,530 |  | 2,915 | 0.42 \% |
| Total deposits |  | 4,415,952 |  | 5,901 | 0.54 \% |  | 4,600,533 |  | 2,915 | 0.25 \% |
| Short-term borrowings |  | 46,677 |  | 578 | 5.02 \% |  | 24 |  | - | - \% |
| Subordinated debt, net of issuance costs |  | 39,363 |  | 537 | 5.53 \% |  | 39,326 |  | 538 | 5.43 \% |
| Total interest-bearing liabilities |  | 2,834,732 |  | 7,016 | 1.00 \% |  | 2,788,880 |  | 3,453 | 0.49 \% |
| Total interest-bearing liabilities and demand, noninterest-bearing / cost of funds | \$ | 4,501,992 | \$ | 7,016 | 0.63 \% | \$ | 4,639,883 | \$ | 3,453 | 0.30 \% |

- The average cost of total deposits increased to $0.54 \%$ for the first quarter of 2023 , compared to $0.25 \%$ for the fourth quarter of 2022. The average cost of funds increased to $0.63 \%$ for the first quarter of 2023 , compared to $0.30 \%$ for the fourth quarter of 2022. The average cost of deposits was $0.10 \%$ and the average cost of funds was $0.14 \%$ for the first quarter of 2022 .
- During the first quarter of 2023 , there was a provision for credit losses on loans of $\$ 32,000$, compared to a $(\$ 567,000)$ recapture of provision for credit losses on loans for the first quarter of 2022, and a provision for credit losses on loans of $\$ 508,000$ for the fourth quarter of 2022.
- Total noninterest income increased $12 \%$ to $\$ 2.8$ million for the first quarter of 2023, compared to $\$ 2.5$ million for the first quarter of 2022, primarily due to higher service charges and fees on deposit accounts. Total noninterest income remained relatively flat at $\$ 2.8$ million for both the first quarter of 2023 and the fourth quarter of 2022.
- Total noninterest expense for the first quarter of 2023 increased to $\$ 25.4$ million, compared to $\$ 23.3$ million for the first quarter of 2022, primarily due to higher payroll taxes and employee benefits, higher professional fees, and higher insurance and information technology related expenses included in other noninterest expense during the first quarter of 2023. Total noninterest expense for
the first quarter of 2023 increased to $\$ 25.4$ million, compared to $\$ 24.5$ million for the fourth quarter of 2022, primarily due to an increase of $\$ 1.3$ million for $401(\mathrm{k})$ employer contribution, vacation, and payroll taxes in the first quarter of 2023, consistent with the cyclical nature of those expenses.
- Full time equivalent employees were 339 at March 31, 2023, and 325 at March 31, 2022, and 340 at December 31, 2022.
- The efficiency ratio improved to $48.83 \%$ for the first quarter of 2023 , compared to $57.16 \%$ for the first quarter of 2022, primarily due to an increase in net interest income. The efficiency ratio was $44.98 \%$ for the fourth quarter of 2022.
- Income tax expense was $\$ 7.7$ million for the first quarter of 2023 , compared to $\$ 5.1$ million for the first quarter of 2022 , and $\$ 8.7$ million for the fourth quarter of 2022. The effective tax rate for the first quarter of 2023 was $28.9 \%$, compared to $28.5 \%$ for the first quarter of 2022 , and $29.5 \%$ for the fourth quarter of 2022.


## Balance Sheet Review, Capital Management and Credit Quality:

- Total assets increased $2 \%$ to $\$ 5.537$ billion at March 31, 2023, compared to $\$ 5.427$ billion at March 31, 2022, and increased $7 \%$ from $\$ 5.158$ billion at December 31, 2022.
- The following table shows the balances of securities available-for-sale, at fair value, and the related pre-tax unrealized (loss) for the periods indicated:

| SECURITIES AVAILABLE-FOR-SALE |
| :--- |
| (in \$000's, unaudited) |
| Balance (at fair value): |
| U.S. Treasury |
| Agency mortgage-backed securities |
| Total |
| Pre-tax unrealized (loss): |
| U.S. Treasury |
| Agency mortgage-backed securities |
| Total |


| March 31, <br> $\mathbf{2 0 2 3}$ |  |
| :--- | ---: |
| $\$$ | 422,903 |
| $\$$ | 48,848 |
|  | 491,751 |
| $\$$ |  |
| $\$$ | $(7,510)$ |


| $\begin{gathered} \text { December 31, } \\ 2022 \end{gathered}$ |  | $\begin{gathered} \text { March 31, } \\ 2022 \\ \hline \end{gathered}$ |  |
| :---: | :---: | :---: | :---: |
| \$ | 418,474 | \$ | 21,564 |
|  | 71,122 |  | 89,653 |
| \$ | 489,596 | \$ | 111,217 |
| \$ | $(10,323)$ | \$ | (93) |
|  | $(5,794)$ |  | $(1,406)$ |
| \$ | $(16,117)$ | \$ | $(1,499)$ |

- The pre-tax unrealized loss on the securities available-for-sale portfolio was $\$ 12.5$ million, or $\$ 8.9$ million net of taxes, which was $1 \%$ of total shareholders' equity at March 31, 2023.
- The following table shows the balances of securities held-to-maturity, at amortized cost, and the related pre-tax unrealized (loss) gain and allowance for credit losses for the periods indicated:
SECURITIES HELD-TO-MATURITY
(in \$000's, unaudited)
Balance (at amortized cost):
Agency mortgage-backed securities
Municipals - exempt from Federal tax Total

| March 31, <br> 2023 |  |
| :--- | ---: |
| $\$$ | 663,481 |
| $\$$ | 34,764 |


| $\begin{gathered} \text { December 31, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \text { March 31, } \\ 2022 \\ \hline \end{gathered}$ |  |
| :---: | :---: | :---: | :---: |
| \$ | 677,381 | \$ | 696,161 |
|  | 37,623 |  | 40,701 |
| \$ | 715,004 | \$ | 736,862 |

Pre-tax unrealized (loss) gain:
Agency mortgage-backed securities
Municipals - exempt from Federal tax Total
Allowance for credit losses on municipal securities

| $\$$ | $(89,962)$ |
| :--- | ---: |
| $\$$ | $(90,259)$ |

\$
(14)

| $\$$ | $(99,742)$ |
| :--- | ---: |
|  | $(810)$ |
| $\$$ | $(100,552)$ |


| $\$$ | $(46,226)$ |
| :--- | ---: |
| $\$$ | $(46,078)$ |

\$
(14) $\$$
(39)

- The pre-tax unrealized loss on the securities held-to-maturity portfolio was $\$ 90.3$ million at March 31 , 2023, or $\$ 64.5$ million net of taxes, which was $10 \%$ of total shareholders' equity at March 31, 2023.
- The unrealized losses in both the available-for-sale and held-to-maturity portfolios were due to higher interest rates at March 31, 2023 compared to when the securities were purchased. The issuers are of high credit quality and all principal amounts are expected to be repaid when the securities mature. The fair value is expected to recover as the securities approach their maturity date and/or market rates decline.
- The loan portfolio remains well-diversified as reflected in the following table which summarizes the distribution of loans, excluding loans held-for-sale, and the percentage of distribution in each category for the periods indicated:

| LOANS <br> (in \$000's, unaudited) | March 31, 2023 |  |  | December 31, 2022 |  |  | March 31, 2022 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Balance |  | \% to Total | Balance |  | \% to Total | Balance |  | \% to Total |
| Commercial | \$ | 506,037 | $16 \%$ | \$ | 532,749 | 16 \% | \$ | 568,053 | 19 \% |
| PPP Loans ${ }^{(1)}$ |  | 565 | 0 \% |  | 1,166 | 0 \% |  | 37,393 | $1 \%$ |
| Real estate: |  |  |  |  |  |  |  |  |  |
| CRE - owner occupied |  | 603,298 | 18 \% |  | 614,663 | 19 \% |  | 597,542 | $20 \%$ |
| CRE - non-owner occupied |  | 1,083,852 | 33 \% |  | 1,066,368 | 32 \% |  | 928,220 | $31 \%$ |
| Land and construction |  | 166,408 | $5 \%$ |  | 163,577 | 5 \% |  | 153,323 | $5 \%$ |
| Home equity |  | 124,481 | $4 \%$ |  | 120,724 | $4 \%$ |  | 111,609 | $3 \%$ |
| Multifamily |  | 231,242 | 7 \% |  | 244,882 | $7 \%$ |  | 221,767 | $7 \%$ |
| Residential mortgages |  | 528,639 | $16 \%$ |  | 537,905 | 16 \% |  | 391,171 | $13 \%$ |
| Consumer and other |  | 17,905 | $1 \%$ |  | 17,033 | $1 \%$ |  | 17,110 | $1 \%$ |
| Total Loans |  | 3,262,427 | $100 \%$ |  | 3,299,067 | $100 \%$ |  | 3,026,188 | $100 \%$ |
| Deferred loan costs (fees), net |  | (512) | - |  | (517) | - |  | $(2,124)$ | - |
| Loans, net of deferred costs and fees | \$ | 3,261,915 | $100 \%$ | \$ | 3,298,550 | $100 \%$ |  | 3,024,064 | $100 \%$ |

(1) Less than $1 \%$ at March 31, 2023 and December 31, 2022.

- Loans, excluding loans held-for-sale, increased $\$ 237.9$ million, or $8 \%$, to $\$ 3.262$ billion at March 31 , 2023, compared to $\$ 3.024$ billion at March 31, 2022, and decreased (\$36.6) million, or (1\%), from $\$ 3.299$ billion at December 31, 2022. Loans, excluding loans held-for-sale, PPP loans and residential mortgages, increased \$136.5 million, or 5\%, to \$2.733 billion at March 31, 2023, compared to $\$ 2.596$ billion at March 31, 2022, and decreased ( $\$ 26.8$ ) million, or ( $1 \%$ ), from $\$ 2.760$ billion at December 31, 2022.
- Commercial and industrial ("C\&I") line utilization was 31\% at both March 31, 2023 and March 31, 2022, compared to $29 \%$ at December 31, 2022.
- At March 31, 2023, there was 36\% of the CRE loan portfolio secured by owner occupied real estate, compared to $39 \%$ at March 31, 2022, and $37 \%$ at December 31, 2022.
- The following table presents the maturity distribution of the Company's loans, excluding loans held-for-sale, as of March 31, 2023. The table 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.

| LOAN MATURITIES <br> (in \$000's, unaudited) | Due in <br> One Year or Less |  |  | Over One Year But Less than Five Years |  |  | Over Five Years |  |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Balance |  | \% to Total | Balance |  | \% to Total | Balance |  | \% to Total |  |  |
| Loans with variable interest rates | \$ | 409,059 | $41 \%$ | \$ | 286,346 | 28 \% | \$ | 312,341 | $31 \%$ | \$ | 1,007,746 |
| Loans with fixed interest rates |  | 65,799 | $3 \%$ |  | 500,734 | 22 \% |  | 1,688,148 | $75 \%$ |  | 2,254,681 |
| Loans | \$ | 474,858 | $15 \%$ | \$ | 787,080 | 24 \% | \$ | 2,000,489 | 61 \% | \$ | 3,262,427 |

- At March 31, 2023, approximately $31 \%$ of the Company's loan portfolio consisted of floating interest rate loans, compared to 38\% at March 31, 2022, and 33\% at December 31, 2022.
- The following table summarizes the allowance for credit losses on loans ("ACLL") for the periods indicated:


## ALLOWANCE FOR CREDIT LOSSES ON LOANS

(in \$000's, unaudited)
Balance at beginning of period
Charge-offs during the period
Recoveries during the period
Net recoveries (charge-offs) during the period
Provision for (recapture of) credit losses on loans during the period Balance at end of period

| $\begin{gathered} \hline \text { March 31, } \\ 2023 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { March 31, } \\ 2022 \\ \hline \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| \$ | 47,512 | \$ | 46,921 | \$ | 43,290 |
|  | (380) |  | (56) |  | (16) |
|  | 109 |  | 139 |  | 81 |
|  | (271) |  | 83 |  | 65 |
|  | 32 |  | 508 |  | (567) |
| \$ | 47,273 | \$ | 47,512 | \$ | 42,788 |
| \$ | 3,261,915 | \$ | 3,298,550 | \$ | 3,024,064 |
| \$ | 2,240 | \$ | 2,425 | \$ | 3,830 |
|  | 1.45 \% |  | 1.44 \% |  | $1.41 \%$ |
|  | 2,110.40 \% |  | 1,959.26 \% |  | 1,117.18 \% |

- The following table shows the drivers of change in ACLL under the current expected credit losses ("CECL") methodology for the first quarter of 2023:

DRIVERS OF CHANGE IN ACLL UNDER CECL
(in \$000's, unaudited)

| ACLL at December 31, 2022 | $\$$ |
| :--- | :---: |
| Portfolio changes during the first quarter of 2023 | 47,512 |
| Qualitative and quantitative changes during the first |  |
| $\quad$ quarter of 2023 including changes in economic forecasts | $(160)$ |
| $\quad$ ACLL at March 31, 2023 | $(79)$ |

- The following is a breakout of nonperforming assets ("NPAs") at the periods indicated:

NONPERFORMING ASSETS

## (in \$000's, unaudited)

Restructured and loans over 90 days past due
and still accruing
Commercial loans
Home equity loans
CRE loans
Total nonperforming assets

| March 31, 2023 |
| :--- |
| Balance $\quad \%$ of Tota |


| Balance |  | \% of Total | Balance |  | \% of Total | Balance |  | \% of Total |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| \$ | 1,459 | 65 \% | \$ | 1,685 | 70 \% | \$ | 527 | 14 \% |
|  | 685 | $31 \%$ |  | 642 | 26 \% |  | 997 | 26 \% |
|  | 96 | 4 \% |  | 98 | 4 \% |  | 73 | $2 \%$ |
|  | - | -\% |  | - | -\% |  | 2,233 | $58 \%$ |
| \$ | 2,240 | $100 \%$ | \$ | 2,425 | $100 \%$ | \$ | 3,830 | 100 |

- NPAs totaled $\$ 2.2$ million, or $0.04 \%$ of total assets, at March 31, 2023, compared to $\$ 3.8$ million, or $0.07 \%$ of total assets, at March 31, 2022, and $\$ 2.4$ million, or $0.05 \%$ of total assets, at December 31, 2022.
- There were no foreclosed assets on the balance sheet at March 31, 2023, March 31, 2022, or December 31, 2022.
- Classified assets totaled $\$ 26.8$ million, or $0.48 \%$ of total assets, at March 31, 2023, compared to $\$ 30.6$ million, or $0.56 \%$ of total assets, at March 31, 2022, and \$14.5 million, or $0.28 \%$ of total assets, at December 31, 2022.
- The following table summarizes the distribution of deposits and the percentage of distribution in each category for the periods indicated:

| DEPOSITS <br> (in \$000's, unaudited) |
| :--- |
| Demand, noninterest-bearing |
| Demand, interest-bearing |
| Savings and money market |
| Time deposits - under $\$ 250$ |
| Time deposits - $\$ 250$ and over |
| ICS/CDARS - interest-bearing demand, |
| money market and time deposits |
| $\quad$ Total deposits |


| March 31, 2023 |  |  | December 31, 2022 |  | March 31, 2022 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance | \% to Total |  | Balance | \% to Total | Balance | \% to Total |
| 1,469,081 | $33 \%$ | \$ | 1,736,722 | $40 \%$ | \$ 1,811,943 | $38 \%$ |
| 1,196,789 | 27 \% |  | 1,196,427 | 27 \% | 1,268,942 | 27 \% |
| 1,264,567 | 28 \% |  | 1,285,444 | 29 \% | 1,447,434 | $31 \%$ |
| 37,884 | $1 \%$ |  | 32,445 | 1 \% | 38,417 | $1 \%$ |
| 172,070 | $4 \%$ |  | 108,192 | $2 \%$ | 93,161 | $2 \%$ |
| 304,147 | $7 \%$ |  | 30,374 | $1 \%$ | 30,008 | $1 \%$ |
| \$ 4,444,538 | $100 \%$ | \$ | 4,389,604 | $100 \%$ | \$ 4,689,905 | $100 \%$ |

- Total deposits increased $\$ 54.9$ million, or $1 \%$, to $\$ 4.445$ billion at March 31, 2023, compared to $\$ 4.390$ billion at December 31,2022 , and decreased ( $\$ 245.4$ ) million, or (5\%), from $\$ 4.690$ billion at March 31, 2022.
- ICS/CDARS deposits increased $\$ 273.7$ million, or $901 \%$, to $\$ 304.1$ million at March 31 , 2023, compared to $\$ 30.4$ million at December 31, 2022, and increased $\$ 274.1$ million, or $914 \%$, from $\$ 30.0$ million at March 31, 2022.
- Uninsured deposits represented approximately $57 \%$ of total deposits at March 31, 2023.
- The Company's consolidated capital ratios exceeded regulatory guidelines and the Bank's capital ratios exceeded regulatory guidelines under the Basel III prompt corrective action ("PCA") regulatory guidelines for a well-capitalized financial institution, and the Basel III minimum regulatory requirements at March 31, 2023, as reflected in the following table:

|  |  |  | Well-capitalized <br> Financial |
| :--- | :---: | :---: | :---: | :---: | :---: |
| Institution |  |  |  |
| Basel III PCA |  |  |  |
| Regulatory |  |  |  |
| Guidelines |  |  |  |$\quad$| Heritage |
| :---: |

(1) Basel III minimum regulatory requirements for both the Company and the Bank include a $2.5 \%$ capital conservation buffer, except the leverage ratio.

- The following table reflects the components of accumulated other comprehensive loss, net of taxes, for the periods indicated:

| ACCUMULATED OTHER COMPREHENSIVE LOSS <br> (in \$000's, unaudited) |
| :--- |
| Unrealized loss on securities available-for-sale |
| Split dollar insurance contracts liability |
| Supplemental executive retirement plan liability |
| Unrealized gain on interest-only strip from SBA loans |
| $\quad$ Total accumulated other comprehensive loss |


| March 31,  <br> $\mathbf{2 0 2 3}$  <br> $\$$  <br>   <br>   <br>   <br> $\$$ $\quad(8,924)$ |  |
| :--- | ---: |
|  | $(3,139)$ |


| December 31, <br> 2022 |  |
| :---: | ---: |
| $\$$ | $(11,506)$ |
|  | $(3,091)$ |
|  | $(2,371)$ |
|  | 112 |
| $\$$ | $(16,856)$ |


| March 31, <br> 2022 |  |
| :--- | ---: |
| $\$$ | $(1,127)$ |
|  | $(5,491)$ |
|  | $(7,588)$ |
|  | 152 |
| $\$$ | $(14,054)$ |

Heritage Commerce Corp, a bank holding company established in October 1997, is the parent company of Heritage Bank of Commerce, established in 1994 and headquartered in San Jose, CA with full-service branches in Danville, Fremont, Gilroy, Hollister, Livermore, Los Altos, Los Gatos, Morgan Hill, Oakland, Palo Alto, Pleasanton, Redwood City, San Francisco, San Jose, San Mateo, San Rafael, and Walnut Creek. Heritage Bank of Commerce is an SBA Preferred Lender. Bay View Funding, a subsidiary of Heritage Bank of Commerce, is based in San Jose, CA and provides business-essential working capital factoring financing to various industries throughout the United States. For more information, please visit www.heritagecommercecorp.com.

## Forward-Looking Statement Disclaimer

Certain matters discussed in this press release constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to various risks and uncertainties that may be outside our control and our actual results could differ materially from our projected results. Risks and uncertainties that could cause our financial performance to differ materially from our goals, plans, expectations and projections expressed in forward-looking statements include those set forth in our filings with the Securities and Exchange Commission ("SEC"), Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2022, and the following: (1) geopolitical and domestic political developments that can increase levels of political and economic unpredictability, contribute to rising energy and commodity prices, and increase the volatility of financial markets; (2) current and future economic and market conditions in the United States generally or in the communities we serve, including the effects of declines in property values and overall slowdowns in economic growth should these events occur; (3) effects of and changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the Federal Open Market Committee of the Federal Reserve Board; (4) inflationary pressures and changes in the interest rate environment that reduce our margins and yields, the fair value of financial instruments or our level of loan originations, or increase the level of defaults, losses and prepayments on loans we have made and make, whether held in the portfolio or in the secondary market; (5) liquidity risks; (6) our ability to mitigate and manage deposit liabilities in a manner that balances the need to meet current and expected withdrawals while investing a sufficient portion of our assets to promote strong earning capacity; (7) changes in the level of nonperforming assets and charge offs and other credit quality measures, and their impact on the adequacy of our allowance for credit losses and our provision for credit losses; (8) volatility in credit and equity markets and its effect on the global economy; (9) conditions relating to the impact of the COVID-19 pandemic, and other infectious illness outbreaks that may arise in the future, our customers, employees, businesses, liquidity, financial results and overall condition including severity and duration of the associated uncertainties in U.S. and global markets; (10) our ability to effectively compete with other banks and financial services companies and the effects of competition in the financial services industry on our business; (11) our ability to achieve loan growth and attract deposits in our market area, the impact of the cost of deposits and our ability to retain deposits; (12) risks associated with concentrations in real estate related loans; (13) the relative strength or weakness of the commercial and real estate markets where our borrowers are located, including related vacancy rates, and asset and market prices; (14) credit related impairment charges to our securities portfolio; (15) increased capital requirements for our continual growth or as imposed by banking regulators, which may require us to raise capital at a time when capital is not available on favorable terms or at all; (16) regulatory limits on Heritage Bank of Commerce's ability to pay dividends to the Company; (17) operational issues stemming from, and/or capital spending necessitated by, the potential need to adapt to industry changes in information technology systems, on which we are highly dependent; (18) our inability to attract, recruit, and retain qualified officers and other personnel could harm our ability to implement our strategic plan, impair our relationships with customers and adversely affect our business, results of operations and growth prospects; (19) possible adjustment of the valuation of our deferred tax assets; (20) our ability to keep pace with technological changes, including our ability to identify and address cybersecurity risks such as data security breaches, "denial of service" attacks, "hacking" and identity theft; (21) inability of our framework to manage risks associated with our business, including operational risk and credit risk; (22) risks of loss of funding of Small Business Administration ("SBA") or SBA loan programs, or changes in those programs; (23) compliance with applicable laws and governmental and regulatory requirements, including the Dodd-Frank Act and others relating to banking, consumer protection, securities, accounting and tax matters; (24) effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters; (25) the expense and uncertain resolution of litigation matters whether occurring in the ordinary course of business or otherwise; (26) availability of and competition for acquisition opportunities; (27) risks resulting from domestic terrorism; (28) risks resulting from social unrest and protests; (29) risks of natural disasters (including earthquakes, fires, and flooding) and other events beyond our control; and (30) our success in managing the risks involved in the foregoing factors.

For additional information, contact:

## Debbie Reuter

EVP, Corporate Secretary
Direct: (408) 494-4542
Debbie.Reuter@herbank.com

| CONSOLIDATED INCOME STATEMENTS(in SO00's, unaudited) | For the Quarter Ended: |  |  |  |  |  | Percent Change From: |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \hline \text { March 31, } \\ 2023 \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2022 \end{gathered}$ |  | $\begin{gathered} \hline \text { March 31, } \\ 2022 \end{gathered}$ |  | $\begin{gathered} \text { December 31, } \\ 2022 \\ \hline \end{gathered}$ | $\begin{gathered} \hline \text { March 31, } \\ 2022 \\ \hline \end{gathered}$ |
| Interest income | \$ | 56,274 | \$ | 55,192 | \$ | 39,906 | $2 \%$ | $41 \%$ |
| Interest expense |  | 7,016 |  | 3,453 |  | 1,685 | 103 \% | $316 \%$ |
| Net interest income before provision for credit losses on loans |  | 49,258 |  | 51,739 |  | 38,221 | (5)\% | 29 \% |
| Provision for (recapture of) credit losses on loans |  | 32 |  | 508 |  | (567) | (94)\% | $106 \%$ |
| Net interest income after provision for credit losses on loans |  | 49,226 |  | 51,231 |  | 38,788 | (4)\% | 27 \% |
| Noninterest income: |  |  |  |  |  |  |  |  |
| Service charges and fees on deposit accounts |  | 1,743 |  | 1,801 |  | 612 | (3)\% | 185 \% |
| Increase in cash surrender value of life insurance |  | 493 |  | 481 |  | 480 | 2 \% | $3 \%$ |
| Servicing income |  | 131 |  | 138 |  | 106 | (5)\% | 24 \% |
| Gain on sales of SBA loans |  | 76 |  | - |  | 156 | N/A | (51)\% |
| Termination fees |  | 11 |  | - |  | - | N/A | N/A |
| Gain on warrants |  | - |  | - |  | 637 | N/A | (100)\% |
| Other |  | 312 |  | 352 |  | 469 | (11)\% | (33)\% |
| Total noninterest income |  | 2,766 |  | 2,772 |  | 2,460 | 0 \% | 12 \% |
| Noninterest expense: |  |  |  |  |  |  |  |  |
| Salaries and employee benefits |  | 14,809 |  | 13,915 |  | 13,821 | 6 \% | 7 \% |
| Occupancy and equipment |  | 2,400 |  | 2,510 |  | 2,437 | (4)\% | (2)\% |
| Professional fees |  | 1,399 |  | 1,414 |  | 1,080 | (1)\% | $30 \%$ |
| Other |  | 6,793 |  | 6,679 |  | 5,914 | 2 \% | 15 \% |
| Total noninterest expense |  | 25,401 |  | 24,518 |  | 23,252 | 4 \% | $9 \%$ |
| Income before income taxes |  | 26,591 |  | 29,485 |  | 17,996 | (10)\% | 48 \% |
| Income tax expense |  | 7,674 |  | 8,686 |  | 5,130 | (12)\% | 50 \% |
| Net income | \$ | 18,917 | \$ | $\underline{\mathbf{2 0 , 7 9 9}}$ | \$ | 12,866 | (9)\% | 47 \% |
| PER COMMON SHARE DATA <br> (unaudited) |  |  |  |  |  |  |  |  |
| Basic earnings per share | \$ | 0.31 | \$ | 0.34 | \$ | 0.21 | (9)\% | 48 \% |
| Diluted earnings per share | \$ | 0.31 | \$ | 0.34 | \$ | 0.21 | (9)\% | 48 \% |
| Weighted average shares outstanding - basic |  | 60,908,221 |  | 60,788,803 |  | 60,393,883 | 0 \% | $1 \%$ |
| Weighted average shares outstanding - diluted |  | 61,268,072 |  | 61,357,023 |  | 60,921,835 | 0 \% | $1 \%$ |
| Common shares outstanding at period-end |  | 60,948,607 |  | 60,852,723 |  | 60,407,846 | 0 \% | 1 \% |
| Dividend per share | \$ | 0.13 | \$ | 0.13 | \$ | 0.13 | 0 \% | 0 \% |
| Book value per share | \$ | 10.62 | \$ | 10.39 | \$ | 9.95 | $2 \%$ | 7 \% |
| Tangible book value per share | \$ | 7.70 | \$ | 7.46 | \$ | 6.96 | $3 \%$ | 11 \% |
| KEY FINANCIAL RATIOS (unaudited) |  |  |  |  |  |  |  |  |
| Annualized return on average equity |  | 12.03 \% |  | 13.40 \% |  | 8.71 \% | (10)\% | 38 \% |
| Annualized return on average tangible common equity |  | 16.71 \% |  | 18.89 \% |  | 12.47 \% | (12)\% | 34 \% |
| Annualized return on average assets |  | 1.47 \% |  | 1.54 \% |  | 0.96 \% | (5)\% | 53 \% |
| Annualized return on average tangible assets |  | 1.52 \% |  | 1.59 \% |  | 0.99 \% | (4)\% | 54 \% |
| Net interest margin (FTE) |  | 4.09 \% |  | 4.10 \% |  | 3.05 \% | 0 \% | 34 \% |
| Efficiency ratio |  | 48.83 \% |  | 44.98 \% |  | 57.16 \% | $9 \%$ | (15)\% |
| AVERAGE BALANCES <br> (in $\$ 000$ 's, unaudited) |  |  |  |  |  |  |  |  |
| Average assets | \$ | 5,235,506 | \$ | 5,360,867 | \$ | 5,443,240 | (2)\% | (4)\% |
| Average tangible assets | \$ | 5,057,063 | \$ | 5,181,793 | \$ | 5,262,175 | (2)\% | (4)\% |
| Average earning assets | \$ | 4,895,009 | \$ | 5,009,578 | \$ | 5,093,851 | (2)\% | (4)\% |
| Average loans held-for-sale | \$ | 2,755 | \$ | 2,346 | \$ | 1,478 | 17 \% | 86 \% |
| Average total loans | \$ | 3,274,770 | \$ | 3,248,210 | \$ | 3,027,111 | 1 \% | 8 \% |
| Average deposits | \$ | 4,415,952 | \$ | 4,600,533 | \$ | 4,697,136 | (4)\% | (6)\% |
| Average demand deposits - noninterest-bearing | \$ | 1,667,260 | \$ | 1,851,003 | \$ | 1,857,164 | (10)\% | (10)\% |
| Average interest-bearing deposits | \$ | 2,748,692 | \$ | 2,749,530 | \$ | 2,839,972 | 0 \% | (3)\% |
| Average interest-bearing liabilities | \$ | 2,834,732 | \$ | 2,788,880 | \$ | 2,879,952 | 2 \% | (2)\% |
| Average equity | \$ | 637,597 | \$ | 615,941 | \$ | 599,355 | 4 \% | $6 \%$ |
| Average tangible common equity | \$ | 459,154 | \$ | 436,867 | \$ | 418,290 | 5 \% | 10 \% |


| CONSOLIDATED INCOME STATEMENTS (in \$000's, unaudited) |  |  |  |  |  | Q Quarter En |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \text { March 31, } \\ 2023 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { June 30, } \\ 2022 \end{gathered}$ |  | $\begin{gathered} \hline \text { March 31, } \\ 2022 \\ \hline \end{gathered}$ |  |
| Interest income | \$ | 56,274 | \$ | 55,192 | \$ | 50,174 | \$ | 43,556 | \$ | 39,906 |
| Interest expense |  | 7,016 |  | 3,453 |  | 2,133 |  | 1,677 |  | 1,685 |
| Net interest income before provision for credit losses on loans |  | 49,258 |  | 51,739 |  | 48,041 |  | 41,879 |  | 38,221 |
| Provision for (recapture of) credit losses on loans |  | 32 |  | 508 |  | 1,006 |  | (181) |  | (567) |
| Net interest income after provision for credit losses on loans |  | 49,226 |  | 51,231 |  | 47,035 |  | 42,060 |  | 38,788 |
| Noninterest income: |  |  |  |  |  |  |  |  |  |  |
| Service charges and fees on deposit accounts |  | 1,743 |  | 1,801 |  | 1,360 |  | 867 |  | 612 |
| Increase in cash surrender value of life insurance |  | 493 |  | 481 |  | 484 |  | 480 |  | 480 |
| Servicing income |  | 131 |  | 138 |  | 125 |  | 139 |  | 106 |
| Gain on sales of SBA loans |  | 76 |  | - |  | 308 |  | 27 |  | 156 |
| Termination fees |  | 11 |  | - |  | 16 |  | 45 |  | - |
| Gain on warrants |  | - |  | - |  | 32 |  | - |  | 637 |
| Gain on proceeds from company-owned |  |  |  |  |  |  |  |  |  |  |
| life insurance |  | - |  | - |  | - |  | 27 |  | - |
| Other |  | 312 |  | 352 |  | 456 |  | 513 |  | 469 |
| Total noninterest income |  | 2,766 |  | 2,772 |  | 2,781 |  | 2,098 |  | 2,460 |
| Noninterest expense: |  |  |  |  |  |  |  |  |  |  |
| Salaries and employee benefits |  | 14,809 |  | 13,915 |  | 14,119 |  | 13,476 |  | 13,821 |
| Occupancy and equipment |  | 2,400 |  | 2,510 |  | 2,415 |  | 2,277 |  | 2,437 |
| Professional fees |  | 1,399 |  | 1,414 |  | 1,230 |  | 1,291 |  | 1,080 |
| Other |  | 6,793 |  | 6,679 |  | 6,135 |  | 6,146 |  | 5,914 |
| Total noninterest expense |  | 25,401 |  | 24,518 |  | 23,899 |  | 23,190 |  | 23,252 |
| Income before income taxes |  | 26,591 |  | 29,485 |  | 25,917 |  | 20,968 |  | 17,996 |
| Income tax expense |  | 7,674 |  | 8,686 |  | 7,848 |  | 6,147 |  | 5,130 |
| Net income | \$ | 18,917 | \$ | 20,799 | \$ | 18,069 | \$ | 14,821 | \$ | 12,866 |
| PER COMMON SHARE DATA (unaudited) |  |  |  |  |  |  |  |  |  |  |
| Basic earnings per share | \$ | 0.31 | \$ | 0.34 | \$ | 0.30 | \$ | 0.24 | \$ | 0.21 |
| Diluted earnings per share | \$ | 0.31 | \$ | 0.34 | \$ | 0.30 | \$ | 0.24 | \$ | 0.21 |
| Weighted average shares outstanding - basic |  | 60,908,221 |  | 60,788,803 |  | 60,686,992 |  | 60,542,170 |  | 60,393,883 |
| Weighted average shares outstanding - diluted |  | 61,268,072 |  | 61,357,023 |  | 61,123,801 |  | 60,969,154 |  | 60,921,835 |
| Common shares outstanding at period-end |  | 60,948,607 |  | 60,852,723 |  | 60,716,794 |  | 60,666,794 |  | 60,407,846 |
| Dividend per share | \$ | 0.13 | \$ | 0.13 | \$ | 0.13 | \$ | 0.13 | \$ | 0.13 |
| Book value per share | \$ | 10.62 | \$ | 10.39 | \$ | 10.04 | \$ | 10.01 | \$ | 9.95 |
| Tangible book value per share | \$ | 7.70 | \$ | 7.46 | \$ | 7.09 | \$ | 7.04 | \$ | 6.96 |
| KEY FINANCIAL RATIOS <br> (unaudited) |  |  |  |  |  |  |  |  |  |  |
| Annualized return on average equity |  | 12.03 \% |  | 13.40 \% |  | 11.72 \% |  | 9.86 \% |  | 8.71 \% |
| Annualized return on average tangible common equity |  | 16.71 \% |  | 18.89 \% |  | 16.60 \% |  | 14.06 \% |  | 12.47 \% |
| Annualized return on average assets |  | 1.47 \% |  | 1.54 \% |  | 1.31 \% |  | 1.11 \% |  | 0.96 \% |
| Annualized return on average tangible assets |  | 1.52 \% |  | 1.59 \% |  | 1.36 \% |  | 1.15 \% |  | 0.99 \% |
| Net interest margin (FTE) |  | 4.09 \% |  | 4.10 \% |  | 3.73 \% |  | 3.38 \% |  | 3.05 \% |
| Efficiency ratio |  | 48.83 \% |  | 44.98 \% |  | 47.02 \% |  | 52.73 \% |  | 57.16 \% |
| AVERAGE BALANCES (in \$000's, unaudited) |  |  |  |  |  |  |  |  |  |  |
| Average assets | \$ | 5,235,506 | \$ | 5,360,867 | \$ | 5,466,330 | \$ | 5,334,636 | \$ | 5,443,240 |
| Average tangible assets | \$ | 5,057,063 | \$ | 5,181,793 | \$ | 5,286,591 | \$ | 5,154,245 | \$ | 5,262,175 |
| Average earning assets | \$ | 4,895,009 | \$ | 5,009,578 | \$ | 5,117,373 | \$ | 4,985,611 | \$ | 5,093,851 |
| Average loans held-for-sale | \$ | 2,755 | \$ | 2,346 | \$ | 3,282 | \$ | 1,824 | \$ | 1,478 |
| Average total loans | \$ | 3,274,770 | \$ | 3,248,210 | \$ | 3,140,705 | \$ | 3,048,353 | \$ | 3,027,111 |
| Average deposits | \$ | 4,415,952 | \$ | 4,600,533 | \$ | 4,712,044 | \$ | 4,579,436 | \$ | 4,697,136 |
| Average demand deposits - noninterest-bearing | \$ | 1,667,260 | \$ | 1,851,003 | \$ | 1,910,748 | \$ | 1,836,350 | \$ | 1,857,164 |
| Average interest-bearing deposits | \$ | 2,748,692 | \$ | 2,749,530 | \$ | 2,801,296 | \$ | 2,743,086 | \$ | 2,839,972 |
| Average interest-bearing liabilities | \$ | 2,834,732 | \$ | 2,788,880 | \$ | 2,840,611 | \$ | 2,791,527 | \$ | 2,879,952 |
| Average equity | \$ | 637,597 | \$ | 615,941 | \$ | 611,707 | \$ | 603,182 | \$ | 599,355 |
| Average tangible common equity | \$ | 459,154 | \$ | 436,867 | \$ | 431,968 | \$ | 422,791 | \$ | 418,290 |


| CONSOLIDATED BALANCE SHEETS (in \$000's, unaudited) | End of Period: |  |  |  |  |  | Percent Change From: |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \hline \text { March 31, } \\ 2023 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { March 31, } \\ 2022 \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2022 \end{gathered}$ | $\begin{gathered} \text { March 31, } \\ 2022 \\ \hline \end{gathered}$ |
| ASSETS |  |  |  |  |  |  |  |  |
| Cash and due from banks | \$ | 41,318 | \$ | 27,595 | \$ | 29,729 | $50 \%$ | 39 \% |
| Other investments and interest-bearing deposits in other financial institutions |  | 698,690 |  | 279,008 |  | 1,187,436 | 150 \% | (41)\% |
| Securities available-for-sale, at fair value |  | 491,751 |  | 489,596 |  | 111,217 | 0 \% | 342 \% |
| Securities held-to-maturity, at amortized cost |  | 698,231 |  | 714,990 |  | 736,823 | (2)\% | (5)\% |
| Loans held-for-sale - SBA, including deferred costs |  | 2,792 |  | 2,456 |  | 831 | 14 \% | 236 \% |
| Loans: |  |  |  |  |  |  |  |  |
| Commercial |  | 506,037 |  | 532,749 |  | 568,053 | (5)\% | (11)\% |
| PPP loans |  | 565 |  | 1,166 |  | 37,393 | (52)\% | (98)\% |
| Real estate: |  |  |  |  |  |  |  |  |
| CRE - owner occupied |  | 603,298 |  | 614,663 |  | 597,542 | (2)\% | $1 \%$ |
| CRE - non-owner occupied |  | 1,083,852 |  | 1,066,368 |  | 928,220 | $2 \%$ | 17 \% |
| Land and construction |  | 166,408 |  | 163,577 |  | 153,323 | $2 \%$ | $9 \%$ |
| Home equity |  | 124,481 |  | 120,724 |  | 111,609 | $3 \%$ | 12 \% |
| Multifamily |  | 231,242 |  | 244,882 |  | 221,767 | (6)\% | $4 \%$ |
| Residential mortgages |  | 528,639 |  | 537,905 |  | 391,171 | (2)\% | $35 \%$ |
| Consumer and other |  | 17,905 |  | 17,033 |  | 17,110 | 5 \% | $5 \%$ |
| Loans |  | 3,262,427 |  | 3,299,067 |  | 3,026,188 | (1)\% | 8 \% |
| Deferred loan fees, net |  | (512) |  | (517) |  | $(2,124)$ | (1)\% | (76)\% |
| Total loans, net of deferred costs and fees |  | 3,261,915 |  | 3,298,550 |  | 3,024,064 | (1)\% | 8 \% |
| Allowance for credit losses on loans |  | $(47,273)$ |  | $(47,512)$ |  | $(42,788)$ | (1)\% | $10 \%$ |
| Loans, net |  | 3,214,642 |  | 3,251,038 |  | 2,981,276 | (1)\% | 8 \% |
| Company-owned life insurance |  | 79,438 |  | 78,945 |  | 78,069 | $1 \%$ | 2 \% |
| Premises and equipment, net |  | 9,142 |  | 9,301 |  | 9,580 | (2)\% | (5)\% |
| Goodwill |  | 167,631 |  | 167,631 |  | 167,631 | 0 \% | 0 \% |
| Other intangible assets |  | 10,431 |  | 11,033 |  | 13,009 | (5)\% | (20)\% |
| Accrued interest receivable and other assets |  | 122,474 |  | 125,987 |  | 111,797 | (3)\% | $10 \%$ |
| Total assets | \$ | 5,536,540 | \$ | 5,157,580 | \$ | 5,427,398 | $7 \%$ | $2 \%$ |
| LIABILITIES AND SHAREHOLDERS' EQUITY |  |  |  |  |  |  |  |  |
| Liabilities: |  |  |  |  |  |  |  |  |
| Deposits: |  |  |  |  |  |  |  |  |
| Demand, noninterest-bearing | \$ | 1,469,081 | \$ | 1,736,722 | \$ | 1,811,943 | (15)\% | (19)\% |
| Demand, interest-bearing |  | 1,196,789 |  | 1,196,427 |  | 1,268,942 | 0 \% | (6)\% |
| Savings and money market |  | 1,264,567 |  | 1,285,444 |  | 1,447,434 | (2)\% | (13)\% |
| Time deposits - under \$250 |  | 37,884 |  | 32,445 |  | 38,417 | 17 \% | (1)\% |
| Time deposits - \$250 and over |  | 172,070 |  | 108,192 |  | 93,161 | $59 \%$ | $85 \%$ |
| ICS/CDARS - interest-bearing demand, money market and time deposits |  | 304,147 |  | 30,374 |  | 30,008 | $901 \%$ | 914 \% |
| Total deposits |  | 4,444,538 |  | 4,389,604 |  | 4,689,905 | $1 \%$ | (5)\% |
| Other short-term borrowings |  | 300,000 |  | - |  | - | N/A | N/A |
| Subordinated debt, net of issuance costs |  | 39,387 |  | 39,350 |  | 39,987 | $0 \%$ | (2)\% |
| Accrued interest payable and other liabilities |  | 105,407 |  | 96,170 |  | 96,450 | $10 \%$ | $9 \%$ |
| Total liabilities |  | 4,889,332 |  | 4,525,124 |  | 4,826,342 | 8 \% | $1 \%$ |
| Shareholders' Equity: |  |  |  |  |  |  |  |  |
| Common stock |  | 504,135 |  | 502,923 |  | 498,763 | $0 \%$ | $1 \%$ |
| Retained earnings |  | 157,390 |  | 146,389 |  | 116,347 | 8 \% | $35 \%$ |
| Accumulated other comprehensive loss |  | $(14,317)$ |  | $(16,856)$ |  | $(14,054)$ | $15 \%$ | (2)\% |
| Total shareholders' equity |  | 647,208 |  | 632,456 |  | 601,056 | $2 \%$ | 8 \% |
| Total liabilities and shareholders' equity | \$ | 5,536,540 | \$ | 5,157,580 | \$ | 5,427,398 | 7 \% | $2 \%$ |


| CONSOLIDATED BALANCE SHEETS (in \$000's, unaudited) | End of Period: |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \text { March 31, } \\ 2023 \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { June 30, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { March 31, } \\ 2022 \end{gathered}$ |  |
| ASSETS |  |  |  |  |  |  |  |  |  |  |
| Cash and due from banks |  | 41,318 | \$ | 27,595 | \$ | 40,500 | \$ | 35,764 | \$ | 29,729 |
| Other investments and interest-bearing deposits |  |  |  |  |  |  |  |  |  |  |
| Securities available-for-sale, at fair value |  | 491,751 |  | 489,596 |  | 478,534 |  | 332,129 |  | 111,217 |
| Securities held-to-maturity, at amortized cost |  | 698,231 |  | 714,990 |  | 703,794 |  | 723,716 |  | 736,823 |
| Loans held-for-sale - SBA, including deferred costs |  | 2,792 |  | 2,456 |  | 2,081 |  | 2,281 |  | 831 |
| Loans: |  |  |  |  |  |  |  |  |  |  |
| Commercial |  | 506,037 |  | 532,749 |  | 541,215 |  | 523,268 |  | 568,053 |
| PPP loans |  | 565 |  | 1,166 |  | 1,614 |  | 8,153 |  | 37,393 |
| Real estate: |  |  |  |  |  |  |  |  |  |  |
| CRE - owner occupied |  | 603,298 |  | 614,663 |  | 612,241 |  | 597,521 |  | 597,542 |
| CRE - non-owner occupied |  | 1,083,852 |  | 1,066,368 |  | 1,023,405 |  | 993,621 |  | 928,220 |
| Land and construction |  | 166,408 |  | 163,577 |  | 167,439 |  | 155,389 |  | 153,323 |
| Home equity |  | 124,481 |  | 120,724 |  | 116,489 |  | 116,641 |  | 111,609 |
| Multifamily |  | 231,242 |  | 244,882 |  | 229,455 |  | 221,938 |  | 221,767 |
| Residential mortgages |  | 528,639 |  | 537,905 |  | 508,839 |  | 448,958 |  | 391,171 |
| Consumer and other |  | 17,905 |  | 17,033 |  | 16,620 |  | 18,354 |  | 17,110 |
| Loans |  | 3,262,427 |  | 3,299,067 |  | 3,217,317 |  | 3,083,843 |  | 3,026,188 |
| Deferred loan fees, net |  | (512) |  | (517) |  | (844) |  | $(1,391)$ |  | $(2,124)$ |
| Total loans, net of deferred fees |  | 3,261,915 |  | 3,298,550 |  | 3,216,473 |  | 3,082,452 |  | 3,024,064 |
| Allowance for credit losses on loans |  | $(47,273)$ |  | $(47,512)$ |  | $(46,921)$ |  | $(45,490)$ |  | $(42,788)$ |
| Loans, net |  | 3,214,642 |  | 3,251,038 |  | 3,169,552 |  | 3,036,962 |  | 2,981,276 |
| Company-owned life insurance |  | 79,438 |  | 78,945 |  | 78,456 |  | 77,972 |  | 78,069 |
| Premises and equipment, net |  | 9,142 |  | 9,301 |  | 9,428 |  | 9,593 |  | 9,580 |
| Goodwill |  | 167,631 |  | 167,631 |  | 167,631 |  | 167,631 |  | 167,631 |
| Other intangible assets |  | 10,431 |  | 11,033 |  | 11,692 |  | 12,351 |  | 13,009 |
| Accrued interest receivable and other assets |  | 122,474 |  | 125,987 |  | 128,343 |  | 117,621 |  | 111,797 |
| Total assets |  | 5,536,540 | \$ | 5,157,580 | \$ | 5,431,262 | \$ | 5,356,841 | \$ | 5,427,398 |
| LIABILITIES AND SHAREHOLDERS' EQUITY |  |  |  |  |  |  |  |  |  |  |
| Liabilities: |  |  |  |  |  |  |  |  |  |  |
| Deposits: |  |  |  |  |  |  |  |  |  |  |
| Demand, noninterest-bearing |  | 1,469,081 | \$ | 1,736,722 | \$ | 1,883,574 | \$ | 1,846,365 | \$ | 1,811,943 |
| Demand, interest-bearing |  | 1,196,789 |  | 1,196,427 |  | 1,154,403 |  | 1,218,538 |  | 1,268,942 |
| Savings and money market |  | 1,264,567 |  | 1,285,444 |  | 1,487,400 |  | 1,387,003 |  | 1,447,434 |
| Time deposits - under \$250 |  | 37,884 |  | 32,445 |  | 34,728 |  | 36,691 |  | 38,417 |
| Time deposits - \$250 and over |  | 172,070 |  | 108,192 |  | 93,263 |  | 98,760 |  | 93,161 |
| ICS/CDARS - interest-bearing demand, money market and time deposits |  | 304,147 |  | 30,374 |  | 29,897 |  | 26,287 |  | 30,008 |
| Total deposits |  | 4,444,538 |  | 4,389,604 |  | 4,683,265 |  | 4,613,644 |  | 4,689,905 |
| Other short-term borrowings |  | 300,000 |  | - |  | - |  | - |  | - |
| Subordinated debt, net of issuance costs |  | 39,387 |  | 39,350 |  | 39,312 |  | 39,274 |  | 39,987 |
| Accrued interest payable and other liabilities |  | 105,407 |  | 96,170 |  | 99,168 |  | 96,699 |  | 96,450 |
| Total liabilities |  | 4,889,332 |  | 4,525,124 |  | 4,821,745 |  | 4,749,617 |  | 4,826,342 |
| Shareholders' Equity: |  |  |  |  |  |  |  |  |  |  |
| Common stock |  | 504,135 |  | 502,923 |  | 501,240 |  | 499,832 |  | 498,763 |
| Retained earnings |  | 157,390 |  | 146,389 |  | 133,489 |  | 123,310 |  | 116,347 |
| Accumulated other comprehensive loss |  | $(14,317)$ |  | $(16,856)$ |  | $(25,212)$ |  | $(15,918)$ |  | $(14,054)$ |
| Total shareholders' equity |  | 647,208 |  | 632,456 |  | 609,517 |  | 607,224 |  | 601,056 |
| Total liabilities and shareholders' equity |  | 5,536,540 | \$ | 5,157,580 | \$ | 5,431,262 | \$ | 5,356,841 | \$ | 5,427,398 |


| CREDIT QUALITY DATA (in \$000's, unaudited) | At or For the Quarter Ended: |  |  |  |  |  | Percent Change From: |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \hline \text { March 31, } \\ 2023 \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2022 \end{gathered}$ |  | $\begin{gathered} \hline \text { March 31, } \\ 2022 \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2022 \end{gathered}$ | $\begin{gathered} \text { March 31, } \\ 2022 \end{gathered}$ |
| Nonaccrual loans - held-for-investment | \$ | 781 | \$ | 740 | \$ | 3,303 | 6 \% | (76)\% |
| Restructured and loans over 90 days past due and still accruing | Restructured and loans over 90 days past due | 1,459 |  | 1,685 |  | 527 | (13)\% | 177 \% |
| Total nonperforming loans |  | 2,240 |  | 2,425 |  | 3,830 | (8)\% | (42)\% |
| Foreclosed assets |  | - |  | - |  | - | N/A | N/A |
| Total nonperforming assets | \$ | 2,240 | \$ | 2,425 | \$ | 3,830 | (8)\% | (42)\% |
| Other restructured loans still accruing | \$ | - | \$ | 171 | \$ | 125 | (100)\% | (100)\% |
| Net charge-offs (recoveries) during the quarter | \$ | 271 | \$ | (83) | \$ | (65) | 427 \% | 517 \% |
| Provision for (recapture of) credit losses on loans during the quarter | \$ | 32 | \$ | 508 | \$ | (567) | (94)\% | 106 \% |
| Allowance for credit losses on loans | \$ | 47,273 | \$ | 47,512 | \$ | 42,788 | (1)\% | 10 \% |
| Classified assets | \$ | 26,800 | \$ | 14,544 | \$ | 30,579 | 84 \% | (12)\% |
| Allowance for credit losses on loans to total loans |  | 1.45 \% |  | 1.44 \% |  | 1.41 \% | $1 \%$ | $3 \%$ |
| Allowance for credit losses on loans to total nonperforming loans |  | 2,110.40 \% |  | 1,959.26 \% |  | 1,117.18 \% | 8 \% | 89 \% |
| Nonperforming assets to total assets |  | 0.04 \% |  | 0.05 \% |  | 0.07 \% | (20)\% | (43)\% |
| Nonperforming loans to total loans |  | 0.07 \% |  | 0.07 \% |  | 0.13 \% | 0 \% | (46)\% |
| Classified assets to Heritage Commerce Corp |  |  |  |  |  |  |  |  |
| Tier 1 capital plus allowance for credit losses on loans |  | $5 \%$ |  | $3 \%$ |  | 6 \% | 67 \% | (17)\% |
| Classified assets to Heritage Bank of Commerce |  |  |  |  |  |  |  |  |
| Tier 1 capital plus allowance for credit losses on loans |  | $5 \%$ |  | $3 \%$ |  | 6 \% | 67 \% | (17)\% |
| OTHER PERIOD-END STATISTICS (in $\$ 000$ 's, unaudited) |  |  |  |  |  |  |  |  |
| Heritage Commerce Corp: |  |  |  |  |  |  |  |  |
| Tangible common equity ${ }^{(1)}$ | \$ | 469,146 | \$ | 453,792 | \$ | 420,416 | $3 \%$ | 12 \% |
| Shareholders' equity / total assets |  | 11.69 \% |  | 12.26 \% |  | 11.07 \% | (5)\% | 6 \% |
| Tangible common equity / tangible assets ${ }^{(2)}$ |  | 8.76 \% |  | 9.11 \% |  | 8.01 \% | (4)\% | $9 \%$ |
| Loan to deposit ratio |  | 73.39 \% |  | 75.14 \% |  | 64.48 \% | (2)\% | 14 \% |
| Noninterest-bearing deposits / total deposits |  | 33.05 \% |  | 39.56 \% |  | 38.63 \% | (16)\% | (14)\% |
| Total capital ratio |  | 15.3 \% |  | 14.8 \% |  | 14.6 \% | $3 \%$ | 5 \% |
| Tier 1 capital ratio |  | 13.1 \% |  | 12.7 \% |  | 12.4 \% | $3 \%$ | 6 \% |
| Common Equity Tier 1 capital ratio |  | 13.1 \% |  | 12.7 \% |  | 12.4 \% | $3 \%$ | 6 \% |
| Tier 1 leverage ratio |  | 9.6 \% |  | 9.2 \% |  | 8.3 \% | $4 \%$ | $16 \%$ |
| Heritage Bank of Commerce: |  |  |  |  |  |  |  |  |
| Total capital ratio |  | 14.7 \% |  | 14.2 \% |  | 13.9 \% | 4 \% | 6 \% |
| Tier 1 capital ratio |  | 13.5 \% |  | 13.2 \% |  | 12.9 \% | 2 \% | $5 \%$ |
| Common Equity Tier 1 capital ratio |  | 13.5 \% |  | 13.2 \% |  | 12.9 \% | $2 \%$ | $5 \%$ |
| Tier 1 leverage ratio |  | 9.9 \% |  | 9.5 \% |  | 8.7 \% | 4 \% | 14 \% |

(1) Represents shareholders' equity minus goodwill and other intangible assets
(2) Represents shareholders' equity minus goodwill and other intangible assets divided by total assets minus goodwill and other intangible assets

At or For the Quarter Ended:

| CREDIT QUALITY DATA (in \$000's, unaudited) | $\begin{gathered} \hline \text { March 31, } \\ 2023 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { June 30, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { March 31, } \\ 2022 \\ \hline \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Nonaccrual loans - held-for-investment | \$ | 781 | \$ | 740 | \$ | 491 | \$ | 1,734 | \$ | 3,303 |
| Restructured and loans over 90 days past due and still accruing |  | 1,459 |  | 1,685 |  | 545 |  | 981 |  | 527 |
| Total nonperforming loans |  | 2,240 |  | 2,425 |  | 1,036 |  | 2,715 |  | 3,830 |
| Foreclosed assets |  | - |  | - |  | - |  | - |  | - |
| Total nonperforming assets | \$ | 2,240 | \$ | 2,425 | \$ | 1,036 | \$ | 2,715 | \$ | 3,830 |
| Other restructured loans still accruing | \$ | - | \$ | 171 | \$ | 93 | \$ | 113 | \$ | 125 |
| Net charge-offs (recoveries) during the quarter | \$ | 271 | \$ | (83) | \$ | (425) | \$ | $(2,883)$ | \$ | (65) |
| Provision for (recapture of) credit losses on loans during the quarter | \$ | 32 | \$ | 508 | \$ | 1,006 | \$ | (181) | \$ | (567) |
| Allowance for credit losses on loans | \$ | 47,273 | \$ | 47,512 | \$ | 46,921 | \$ | 45,490 | \$ | 42,788 |
| Classified assets | \$ | 26,800 | \$ | 14,544 | \$ | 28,570 | \$ | 28,929 | \$ | 30,579 |
| Allowance for credit losses on loans to total loans |  | 1.45 \% |  | 1.44 \% |  | 1.46 \% |  | 1.48 \% |  | 1.41 \% |
| Allowance for credit losses on loans to total nonperforming loans |  | 2,110.40 \% |  | 1,959.26 \% |  | 4,529.05 \% |  | 1,675.51 \% |  | 1,117.18\% |
| Nonperforming assets to total assets |  | 0.04 \% |  | 0.05 \% |  | 0.02 \% |  | 0.05 \% |  | 0.07 \% |
| Nonperforming loans to total loans |  | 0.07 \% |  | 0.07 \% |  | 0.03 \% |  | 0.09 \% |  | 0.13 \% |
| Classified assets to Heritage Commerce Corp |  |  |  |  |  |  |  |  |  |  |
| Tier 1 capital plus allowance for credit losses on loans |  | $5 \%$ |  | $3 \%$ |  | $6 \%$ |  | 6 \% |  | 6 \% |
| Classified assets to Heritage Bank of Commerce |  |  |  |  |  |  |  |  |  |  |
| Tier 1 capital plus allowance for credit losses on loans |  | $5 \%$ |  | $3 \%$ |  | $5 \%$ |  | 6 \% |  | 6 \% |

## OTHER PERIOD-END STATISTICS

## (in \$000's, unaudited)

Heritage Commerce Corp:
Tangible common equity ${ }^{(1)}$

| \$ 469,146 | \$ | 453,792 | \$ | 430,194 | \$ | 427,242 | \$ | 420,416 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 11.69 \% |  | 12.26 \% |  | 11.22 \% |  | 11.34 \% |  | 11.07 \% |
| 8.76 \% |  | 9.11 \% |  | 8.19 \% |  | 8.25 \% |  | 8.01 \% |
| 73.39 \% |  | 75.14 \% |  | 68.68 \% |  | 66.81 \% |  | 64.48 \% |
| 33.05 \% |  | 39.56 \% |  | 40.22 \% |  | 40.02 \% |  | 38.63 \% |
| 15.3 \% |  | 14.8 \% |  | 14.5 \% |  | 14.6 \% |  | 14.6 \% |
| 13.1 \% |  | 12.7 \% |  | 12.4 \% |  | 12.5 \% |  | 12.4 \% |
| 13.1 \% |  | 12.7 \% |  | 12.4 \% |  | 12.5 \% |  | 12.4 \% |
| 9.6 \% |  | 9.2 \% |  | 8.7 \% |  | 8.7 \% |  | 8.3 \% |
| 14.7 \% |  | 14.2 \% |  | 14.0 \% |  | 14.1 \% |  | 13.9 \% |
| 13.5 \% |  | 13.2 \% |  | 12.9 \% |  | 13.0 \% |  | 12.9 \% |
| 13.5 \% |  | 13.2 \% |  | 12.9 \% |  | 13.0 \% |  | 12.9 \% |
| 9.9 \% |  | 9.5 \% |  | 9.0 \% |  | 9.0 \% |  | 8.7 \% |

Shareholders' equity / total assets
Tangible common equity / tangible assets ${ }^{(2)}$
Loan to deposit ratio
Noninterest-bearing deposits / total deposits
Total capital ratio
Tier 1 capital ratio
.
Common Equity Tier 1 capital ratio
Tier 1 leverage ratio
Heritage Bank of Commerce:
Total capital ratio
$\begin{array}{rrrrr}14.7 \% & 14.2 \% & 14.0 \% & 14.1 \% & 13.9 \% \\ 13.5 \% & 13.2 \% & 12.9 \% & 13.0 \% & 12.9 \% \\ 13.5 \% & 13.2 \% & 12.9 \% & 13.0 \% & 12.9 \% \\ 9.9 \% & 9.5 \% & 9.0 \% & 9.0 \% & 8.7 \%\end{array}$
Tier 1 capital ratio
Common Equity Tier 1 capital ratio
$9.9 \%$
Tier 1 leverage ratio
(1) Represents shareholders' equity minus goodwill and other intangible assets
(2) Represents shareholders' equity minus goodwill and other intangible assets divided by total assets minus goodwill and other intangible assets

| NET INTEREST INCOME AND NET INTEREST MARGIN(in \$000's, unaudited) | For the Quarter Ended March 31, 2023 |  |  |  |  | For the Quarter Ended March 31, 2022 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average Balance |  | Interest Income/ Expense |  | Average <br> Yield/ <br> Rate | Average Balance |  | Interest Income/ Expense | $\begin{gathered} \hline \text { Average } \\ \text { Yield/ } \\ \text { Rate } \\ \hline \end{gathered}$ |
| Assets: |  |  |  |  |  |  |  |  |  |
| Loans, gross ${ }^{(1)(2)}$ | \$ | 3,277,525 |  | \$ 44,112 | 5.46 \% | \$ | 3,028,589 | 35,101 | 4.70 \% |
| Securities - taxable |  | 1,161,021 |  | 7,056 | 2.46 \% |  | 781,689 | 3,444 | 1.79 \% |
| Securities - exempt from Federal tax ${ }^{(3)}$ |  | 36,012 |  | 313 | 3.52 \% |  | 44,871 | 376 | 3.40 \% |
| Other investments and interest-bearing deposits in other financial institutions |  | 420,451 |  | 4,859 | 4.69 \% |  | 1,238,702 | 1,064 |  |
| in other financial institutions Total interest earning assets ${ }^{(3)}$ |  | 4,895,009 |  | 4,859 56,340 | $4.67 \%$ |  | 1,238,702 | 1,064 | $\begin{aligned} & 0.35 \% \\ & 3.18 \% \end{aligned}$ |
| Cash and due from banks |  | 37,563 |  |  |  |  | 37,630 |  |  |
| Premises and equipment, net |  | 9,269 |  |  |  |  | 9,605 |  |  |
| Goodwill and other intangible assets |  | 178,443 |  |  |  |  | 181,065 |  |  |
| Other assets |  | 115,222 |  |  |  |  | 121,089 |  |  |
| Total assets | \$ | 5,235,506 |  |  |  | \$ | 5,443,240 |  |  |
| Liabilities and shareholders' equity: |  |  |  |  |  |  |  |  |  |
| Deposits: |  |  |  |  |  |  |  |  |  |
| Demand, noninterest-bearing | \$ | 1,667,260 |  |  |  | \$ | 1,857,164 |  |  |
| Demand, interest-bearing |  | 1,217,731 |  | 1,476 | 0.49 \% |  | 1,279,989 | 459 | 0.15 \% |
| Savings and money market |  | 1,285,173 |  | 3,489 | 1.10 \% |  | 1,394,734 | 543 | 0.16 \% |
| Time deposits - under \$100 |  | 12,280 |  | 10 | 0.33 \% |  | 13,235 | 5 | 0.15 \% |
| Time deposits - \$100 and over |  | 163,047 |  | 845 | 2.10 \% |  | 119,082 | 106 | 0.36 \% |
| ICS/CDARS - interest-bearing demand, money market and time deposits |  | 70,461 |  | 81 | 0.47 \% |  | 32,932 | 1 | 0.01 \% |
| Total interest-bearing deposits |  | 2,748,692 |  | 5,901 | 0.87 \% |  | 2,839,972 | 1,114 | 0.16 \% |
| Total deposits |  | 4,415,952 |  | 5,901 | 0.54 \% |  | 4,697,136 | 1,114 | 0.10 \% |
| Short-term borrowings |  | 46,677 |  | 578 | 5.02 \% |  | 29 | - | 0.00 \% |
| Subordinated debt, net of issuance costs |  | 39,363 |  | 537 | 5.53 \% |  | 39,951 | 571 | 5.80 \% |
| Total interest-bearing liabilities |  | 2,834,732 |  | 7,016 | 1.00 \% |  | 2,879,952 | 1,685 | 0.24 \% |
| Total interest-bearing liabilities and demand, noninterest-bearing / cost of funds |  | 4,501,992 |  | 7,016 | 0.63 \% |  | 4,737,116 | 1,685 | 0.14 \% |
| Other liabilities |  | 95,917 |  |  |  |  | 106,769 |  |  |
| Total liabilities |  | 4,597,909 |  |  |  |  | 4,843,885 |  |  |
| Shareholders' equity |  | 637,597 |  |  |  |  | 599,355 |  |  |
| Total liabilities and shareholders' equity | \$ | 5,235,506 |  |  |  | \$ | 5,443,240 |  |  |
| Net interest income ${ }^{(3)} /$ margin |  |  |  | 49,324 | 4.09 \% |  |  | 38,300 | $3.05 \%$ |
| Less tax equivalent adjustment ${ }^{(3)}$ |  |  |  | (66) |  |  |  | (79) |  |
| Net interest income |  |  |  | 49,258 |  |  |  | \$ 38,221 |  |

(1) Includes loans held-for-sale. Nonaccrual loans are included in average balances.
(2) Yield amounts earned on loans include fees and costs. The accretion of net deferred loan fees into loan interest income was $\$ 300,000$ for the first quarter of 2023 (of which $\$ 18,000$ was from PPP loans), compared to $\$ 1,788,000$ for the first quarter of 2022 (of which $\$ 1,346,000$ was from PPP loans). Prepayment fees totaled $\$ 138,000$ for the first quarter of 2023, compared to $\$ 510,000$ for the first quarter of 2022.
(3) Reflects the FTE adjustment for Federal tax-exempt income based on a $21 \%$ tax rate.

| NET INTEREST INCOME AND NET INTEREST MARGIN(in \$000's, unaudited) | For the Quarter Ended March 31, 2023 |  |  |  |  | For the Quarter Ended December 31, 2022 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average Balance |  | Interest <br> Income/ <br> Expense |  | $\begin{gathered} \hline \text { Average } \\ \text { Yield/ } \\ \text { Rate } \\ \hline \end{gathered}$ | Average Balance |  | Interest <br> Income/ <br> Expense |  | $\begin{gathered} \hline \text { Average } \\ \text { Yield/ } \\ \text { Rate } \\ \hline \end{gathered}$ |
| Assets: |  |  |  |  |  |  |  |  |  |  |
| Loans, gross ${ }^{(1)(2)}$ | \$ | 3,277,525 | \$ | 44,112 | 5.46 \% | \$ | 3,250,556 | \$ | 42,501 | 5.19 \% |
| Securities - taxable |  | 1,161,021 |  | 7,056 | 2.46 \% |  | 1,156,563 |  | 6,941 | 2.38 \% |
| Securities - exempt from Federal tax ${ }^{(3)}$ |  | 36,012 |  | 313 | 3.52 \% |  | 37,958 |  | 324 | 3.39 \% |
| Other investments and interest-bearing deposits in other financial institutions |  | 420,451 |  | 4,859 | 4.69 \% |  | 564,501 |  | 5,494 | 3.86 \% |
| Total interest earning assets ${ }^{(3)}$ |  | 4,895,009 |  | 56,340 | 4.67 \% |  | 5,009,578 |  | 55,260 | 4.38 \% |
| Cash and due from banks |  | 37,563 |  |  |  |  | 36,392 |  |  |  |
| Premises and equipment, net |  | 9,269 |  |  |  |  | 9,436 |  |  |  |
| Goodwill and other intangible assets |  | 178,443 |  |  |  |  | 179,074 |  |  |  |
| Other assets |  | 115,222 |  |  |  |  | 126,387 |  |  |  |
| Total assets |  | 5,235,506 |  |  |  | \$ | 5,360,867 |  |  |  |
| Liabilities and shareholders' equity: |  |  |  |  |  |  |  |  |  |  |
| Deposits: |  |  |  |  |  |  |  |  |  |  |
| Demand, noninterest-bearing | \$ | 1,667,260 |  |  |  | \$ | 1,851,003 |  |  |  |
| Demand, interest-bearing |  | 1,217,731 |  | 1,476 | 0.49 \% |  | 1,164,378 |  | 945 | 0.32 \% |
| Savings and money market |  | 1,285,173 |  | 3,489 | 1.10 \% |  | 1,424,964 |  | 1,694 | 0.47 \% |
| Time deposits - under \$100 |  | 12,280 |  | 10 | 0.33 \% |  | 12,157 |  | 7 | 0.23 \% |
| Time deposits - \$100 and over |  | 163,047 |  | 845 | 2.10 \% |  | 120,246 |  | 268 | 0.88 \% |
| ICS/CDARS - interest-bearing demand, money market and time deposits |  | 70,461 |  | 81 | 0.47 \% |  | 27,785 |  | 1 | 0.01 \% |
| Total interest-bearing deposits |  | 2,748,692 |  | 5,901 | 0.87 \% |  | 2,749,530 |  | 2,915 | 0.42 \% |
| Total deposits |  | 4,415,952 |  | 5,901 | 0.54 \% |  | 4,600,533 |  | 2,915 | 0.25 \% |
| Short-term borrowings |  | 46,677 |  | 578 | 5.02 \% |  | 24 |  | - | 0.00 \% |
| Subordinated debt, net of issuance costs |  | 39,363 |  | 537 | 5.53 \% |  | 39,326 |  | 538 | 5.43 \% |
| Total interest-bearing liabilities |  | 2,834,732 |  | 7,016 | 1.00 \% |  | 2,788,880 |  | 3,453 | 0.49 \% |
| Total interest-bearing liabilities and demand, noninterest-bearing / cost of funds |  | 4,501,992 |  | 7,016 | 0.63 \% |  | 4,639,883 |  | 3,453 | 0.30 \% |
| Other liabilities |  | 95,917 |  |  |  |  | 105,043 |  |  |  |
| Total liabilities |  | 4,597,909 |  |  |  |  | 4,744,926 |  |  |  |
| Shareholders' equity |  | 637,597 |  |  |  |  | 615,941 |  |  |  |
| Total liabilities and shareholders' equity |  | 5,235,506 |  |  |  | \$ | 5,360,867 |  |  |  |
| Net interest income ${ }^{(3)} /$ margin |  |  |  | 49,324 | 4.09 \% |  |  |  | 51,807 | 4.10 \% |
| Less tax equivalent adjustment ${ }^{(3)}$ |  |  |  | (66) |  |  |  |  | (68) |  |
| Net interest income |  |  |  | 49,258 |  |  |  | \$ | 51,739 |  |

(1) Includes loans held-for-sale. Nonaccrual loans are included in average balances.
(2) Yield amounts earned on loans include fees and costs. The accretion of net deferred loan fees into loan interest income was $\$ 300,000$ for the first quarter of 2023 (of which $\$ 18,000$ was from PPP loans), compared to $\$ 326,000$ for the fourth quarter of 2022 (of which $\$ 25,000$ was from PPP loans). Prepayment fees totaled $\$ 138,000$ for the first quarter of 2023, compared to $\$ 123,000$ for the fourth quarter of 2022.
(3) Reflects the FTE adjustment for Federal tax-exempt income based on a $21 \%$ tax rate.

