COMMERCE CORP

## Heritage Commerce Corp Earns \$18.1 Million for the Third Quarter of 2022, and \$45.8 Million for the First Nine Months of 2022

San Jose, CA - October 27, 2022 - Heritage Commerce Corp (Nasdaq: HTBK), the holding company (the "Company") for Heritage Bank of Commerce (the "Bank"), today announced third quarter 2022 net income of $\$ 18.1$ million, or $\$ 0.30$ per average diluted common share, compared to $\$ 13.7$ million, or $\$ 0.23$ per average diluted common share, for the third quarter of 2021 , and $\$ 14.8$ million, or $\$ 0.24$ per average diluted common share, for the second quarter of 2022. For the nine months ended September 30, 2022, net income was $\$ 45.8$ million, or $\$ 0.75$ per average diluted common share, compared to $\$ 33.7$ million, or $\$ 0.56$ per average diluted common share, for the nine months ended September 30, 2021. All results are unaudited.
"Our outstanding operating results reflect the continued successful implementation of our growth plan. We delivered record third quarter and year-to-date 2022 earnings, fueled by higher net interest income and solid loan growth. Our net interest margin improved to $3.73 \%$ for the third quarter of 2022, compared to $3.38 \%$ from the preceding quarter, driven primarily by a shift in the mix of earning assets as the Company invested its excess liquidity into higher yielding loans and investment securities. Loans, excluding Small Business Administration ("SBA") Paycheck Protection Program ("PPP") loans and residential mortgages, increased $10 \%$ from a year earlier, and $3 \%$ from the preceding quarter. Total deposits increased $\$ 69.6$ million from the linked quarter with noninterest-bearing deposits increasing 4\% from a year ago," said Clay Jones, President and Chief Executive Officer. "Net income increased $22 \%$ from the preceding quarter and $32 \%$ from the third quarter a year ago. The return on average tangible equity was $16.60 \%$, the return on average tangible assets was $1.36 \%$ and our efficiency ratio improved to $47.02 \%$, for the third quarter of 2022."
"Our credit quality remains healthy as a result of our credit management, while we continue to be vigilant to the potential impact an uncertain economic future could have on our portfolio. Nonperforming assets ("NPAs") declined $\$ 3.7$ million at September 30, 2022 from September 30, 2021, and declined $\$ 1.7$ million from June 30, 2022, with continued net recoveries throughout the first nine months of 2022," said Mr. Jones. "Reflecting our strong loan growth, we recorded a $\$ 1.0$ million provision for credit losses on loans during the third quarter of 2022."
"Our noninterest income was also higher in the third quarter of 2022, compared to the preceding quarter, primarily due to the substantial increase in gain on sale of SBA loans and higher income on off-balance sheet deposits," said Mr. Jones. Third quarter 2022 noninterest expense was elevated compared to the third quarter a year ago and to the preceding quarter, due to non-cash expenses related to the retirement of the previous President and Chief Executive Officer of the Company from the vesting of shares of restricted common stock. This one-time contractual event added $\$ 784,000$ to salaries and employee benefits for the third quarter of 2022, which increased $13 \%$ from the third quarter of 2021, and $5 \%$ from the second quarter of 2022.
"These solid results are a direct result of our dedicated employees and their commitment and effort in supporting our clients, communities and shareholders," said Mr. Jones. "Our strong liquidity continues to provide us with the opportunity for investment strategies that positively impact our net interest income."

## Third Quarter Ended September 30, 2022 <br> Operating Results, Balance Sheet Review, Capital Management, and Credit Quality

(as of, or for the periods ended September 30, 2022, compared to September 30, 2021, and June 30, 2022, except as noted):

## Operating Results:

- Diluted earnings per share were $\$ 0.30$ for the third quarter of 2022, compared to $\$ 0.23$ for the third quarter of 2021, and $\$ 0.24$ for the second quarter of 2022. Diluted earnings per share were $\$ 0.75$ for the first nine months of 2022 , compared to $\$ 0.56$ for the first nine months of 2021.
- The following table indicates the ratios for the return on average tangible assets and the return on average tangible equity for the periods indicated:

|  | For the Quarter Ended: |  |  | For the Nine Months Ended |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| (unaudited) | $\begin{gathered} \hline \text { September 30, } \\ 2022 \\ \hline \end{gathered}$ | $\begin{gathered} \hline \text { June 30, } \\ 2022 \\ \hline \end{gathered}$ | $\begin{gathered} \hline \text { September 30, } \\ 2021 \\ \hline \end{gathered}$ | $\begin{gathered} \hline \text { September 30, } \\ 2022 \\ \hline \end{gathered}$ | $\begin{gathered} \hline \text { September 30, } \\ 2021 \\ \hline \end{gathered}$ |
| Return on average tangible assets | 1.36\% | 1.15\% | 1.10\% | 1.17\% | 0.94\% |
| Return on average tangible equity | 16.60\% | 14.06\% | 13.49\% | 14.41\% | 11.29\% |

- Net interest income, before provision for credit losses on loans, increased $26 \%$ to $\$ 48.0$ million for the third quarter of 2022, compared to $\$ 38.2$ million for the third quarter of 2021. The fully tax equivalent ("FTE") net interest margin increased 55 basis points to $3.73 \%$ for the third quarter of 2022 , from $3.18 \%$ for the third quarter of 2021 , primarily due to a shift in the mix of earning assets into higher yielding loans and investment securities, and higher average yield on overnight funds, partially offset by lower interest and fees on PPP loans, a decrease in the accretion of the loan purchase discount into interest income from acquired loans, lower prepayment fees, and a higher cost of funds.
- Net interest income increased $15 \%$ to $\$ 48.0$ million for the third quarter of 2022, compared to $\$ 41.9$ million for the second quarter of 2022. The FTE net interest margin increased 35 basis points to $3.73 \%$ for the third quarter of 2022 from $3.38 \%$ for the second quarter of 2022, primarily due to a shift in the mix of earning assets as the Company invested its excess liquidity into higher yielding loans and investment securities, and higher average yields on overnight funds, partially offset by a decrease in the accretion of the loan purchase discount into interest income from acquired loans, lower prepayment fees, lower interest and fees on PPP loans, and a higher cost of funds.
- Net interest income increased $19 \%$ to $\$ 128.1$ million for the first nine months of 2022, compared to $\$ 108.0$ million for the first nine months of 2021. For the first nine months of 2022, the FTE net interest margin increased 26 basis points to $3.39 \%$, compared to $3.13 \%$ for the first nine months of 2021, primarily due to higher average balances of loans and investment securities, higher average yields on investment securities and overnight funds, partially offset by lower interest and fees on PPP loans, a decrease in the accretion of the loan purchase discount into interest income from acquired loans, and lower prepayment fees.
- The following table, as of September 30, 2022, 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 from the base rate:

|  | $\begin{array}{c}\text { Increase/(Decrease) in } \\ \text { Estimated Net } \\ \text { Interest Income }\end{array}$ |  |  |
| :--- | :---: | :---: | :---: |
| Change in Interest Rates (basis points) |  |  |  |$)$

(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 $4.90 \%$ for the third quarter of 2022 , compared to $4.80 \%$ for the second quarter of 2022, primarily due to increases in the prime rate, partially offset by a decrease in the accretion of the loan
purchase discount into interest income from acquired loans, lower prepayment fees, lower fees on PPP loans, and higher average balances of lower yielding purchased residential mortgage loans.

| (in \$000's, unaudited) | For the Quarter Ended September 30, 2022 |  |  |  | For the Quarter Ended June 30, 2022 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average Balance |  | Interest Income | Average Yield | Average Balance |  | terest come | Average Yield |
| Loans, core bank | \$ 2,574,842 | \$ | 30,490 | 4.70 \% | \$ 2,530,836 | \$ | 27,402 | $4.34 \%$ |
| Prepayment fees | - |  | 96 | 0.01 \% | - |  | 549 | 0.09 \% |
| PPP loans | 4,593 |  | 11 | 0.95 \% | 21,479 |  | 53 | 0.99 \% |
| PPP fees, net | - |  | 190 | 16.41 \% | - |  | 493 | 9.21 \% |
| Asset-based lending | 53,514 |  | 1,032 | 7.65 \% | 49,667 |  | 874 | 7.06 \% |
| Bay View Funding factored receivables | 62,623 |  | 3,201 | 20.28 \% | 64,085 |  | 3,129 | 19.58 \% |
| Purchased residential mortgages | 445,256 |  | 3,414 | 3.04 \% | 381,988 |  | 2,711 | 2.85 \% |
| Purchased commercial real estate ("CRE") loans | 8,337 |  | 83 | 3.95 \% | 8,425 |  | 77 | 3.67 \% |
| Loan fair value mark / accretion | $(5,178)$ |  | 353 | 0.05 \% | $(6,303)$ |  | 1,250 | 0.20 \% |
| Total loans (includes loans held-for-sale) | \$ 3,143,987 | \$ | 38,870 | 4.90 \% | \$ 3,050,177 | \$ | 36,538 | 4.80 \% |

- The average yield on the total loan portfolio decreased to $4.90 \%$ for the third quarter of 2022 , compared to $5.18 \%$ for the third quarter of 2021, primarily due to lower interest and fees on PPP loans, a decrease in the accretion of the loan purchase discount into interest income from acquired loans, lower prepayment fees, and higher average balances of lower yielding purchased residential mortgages, partially offset by increases in the prime rate.

| (in \$000's, unaudited) | For the Quarter Ended September 30, 2022 |  |  |  | For the Quarter Ended September 30, 2021 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average Balance |  | nterest ncome | Average Yield | Average Balance |  | terest come | Average Yield |
| Loans, core bank | \$ 2,574,842 | \$ | 30,490 | 4.70 \% | \$ 2,317,985 | \$ | 25,476 | 4.36 \% |
| Prepayment fees | - |  | 96 | 0.01 \% | - |  | 1,282 | 0.22 \% |
| PPP loans | 4,593 |  | 11 | 0.95 \% | 218,098 |  | 548 | 1.00 \% |
| PPP fees, net | - |  | 190 | 16.41 \% | - |  | 2,508 | 4.56 \% |
| Asset-based lending | 53,514 |  | 1,032 | 7.65 \% | 43,457 |  | 586 | 5.35 \% |
| Bay View Funding factored receivables | 62,623 |  | 3,201 | 20.28 \% | 50,674 |  | 2,815 | 22.04 \% |
| Purchased residential mortgages | 445,256 |  | 3,414 | 3.04 \% | 141,073 |  | 1,019 | 2.87 \% |
| Purchased CRE loans | 8,337 |  | 83 | 3.95 \% | 9,177 |  | 91 | 3.93 \% |
| Loan fair value mark / accretion | $(5,178)$ |  | 353 | 0.05 \% | $(8,923)$ |  | 1,882 | 0.32 \% |
| Total loans (includes loans held-for-sale) | \$ 3,143,987 | \$ | 38,870 | 4.90 \% | \$ 2,771,541 | \$ | 36,207 | 5.18 \% |

- The average yield on the total loan portfolio decreased to $4.81 \%$ for the nine months ended September 30, 2022, compared to $5.07 \%$ for the nine months ended September 30, 2021, primarily due to a decrease in interest and fees on PPP loans, a decrease in the accretion of the loan purchase discount into interest income from acquired loans, lower prepayment fees, and an increase in the average balance of lower yielding purchased residential mortgages.

| (in \$000's, unaudited) | For the Nine Months Ended September 30, 2022 |  |  |  | For the Nine Months Ended September 30, 2021 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average Balance |  | Interest Income | Average Yield | Average Balance |  | nterest ncome | Average Yield |
| Loans, core bank | \$ 2,530,130 | \$ | 83,988 | 4.44 \% | \$ 2,254,435 | \$ | 75,205 | 4.46 \% |
| Prepayment fees | - - |  | 1,155 | 0.06 \% | - |  | 2,303 | 0.14 \% |
| PPP loans | 28,575 |  | 210 | 0.98 \% | 290,253 |  | 2,163 | 1.00 \% |
| PPP fees, net | - |  | 2,029 | 9.49 \% | - |  | 7,784 | 3.59 \% |
| Asset-based lending | 57,540 |  | 2,857 | 6.64 \% | 35,376 |  | 1,424 | 5.38 \% |
| Bay View Funding factored receivables | 61,508 |  | 9,123 | 19.83 \% | 49,263 |  | 8,237 | 22.36 \% |
| Purchased residential mortgages | 394,618 |  | 8,553 | 2.90 \% | 96,761 |  | 2,118 | 2.93 \% |
| Purchased CRE loans | 8,424 |  | 237 | 3.76 \% | 13,618 |  | 372 | 3.65 \% |
| Loan fair value mark / accretion | $(6,121)$ |  | 2,357 | 0.12 \% | $(10,387)$ |  | 3,876 | 0.23 \% |
| Total loans (includes loans held-for-sale) | \$ 3,074,674 | \$ | 110,509 | 4.81 \% | \$ 2,729,319 | \$ | 103,482 | 5.07 \% |

- In aggregate, the remaining net purchase discount on total loans acquired from Focus Business Bank, Tri-Valley Bank, United American Bank, and Presidio Bank was $\$ 5.0$ million at September 30, 2022.
- The average cost of total deposits was $0.13 \%$ for the third quarter of 2022, compared to $0.10 \%$ for both the third quarter of 2021 and the second quarter of 2022. The average cost of total deposits was $0.11 \%$ for both the nine months ended September 30,2022 and September 30, 2021.
- During the third quarter of 2022, there was a provision for credit losses on loans of $\$ 1.0$ million, compared to a $\$ 514,000$ negative provision for credit losses on loans for the third quarter of 2021, and a negative provision for credit losses on loans of $\$ 181,000$ for the second quarter of 2022 . There was a provision for credit losses on loans of $\$ 258,000$ for the nine months ended September 30, 2022, compared to a $\$ 2.5$ million negative provision for credit losses on loans for the nine months ended September 30, 2021.
- Total noninterest income increased $15 \%$ to $\$ 2.8$ million for the third quarter of 2022, compared to $\$ 2.4$ million for the third quarter of 2021 , primarily due to higher income on off-balance sheet deposits, partially offset by a lower gain on sale of SBA loans during the third quarter of 2022, and a gain on proceeds from company-owned life insurance during the third quarter of 2021. Total noninterest income increased $33 \%$ from $\$ 2.1$ million for the second quarter of 2022 , primarily due to higher service charges and fees on deposit accounts, and a higher gain on sale of SBA loans during the third quarter of 2022.
- For the nine months ended September 30, 2022, total noninterest income increased $7 \%$ to $\$ 7.3$ million, compared to $\$ 6.9$ million for the nine months ended September 30, 2021, primarily due to higher income on off-balance sheet deposits, and a $\$ 669,000$ gain on warrants, partially offset by a lower gain on sale of SBA loans and a lower gain on proceeds from company-owned life insurance during the first nine months of 2022.
- Total noninterest expense for the third quarter of 2022 increased to $\$ 23.9$ million, compared to $\$ 21.8$ million for the third quarter of 2021 , and $\$ 23.2$ million for the second quarter of 2022, primarily due to higher salaries and employee benefits, occupancy and equipment, and insurance expense during the third quarter of 2022. Salaries and employee benefits included $\$ 784,000$ of restricted stock expense for vesting of restricted common stock held by the previous President and Chief Executive Officer of the Company who retired during the third quarter of 2022.
- Noninterest expense for the nine months ended September 30, 2022 decreased to $\$ 70.3$ million, compared to $\$ 70.9$ million for the nine months ended September 30, 2021, primarily due to a reserve for a legal settlement during the first nine months of 2021, partially offset by higher salaries and employee benefits, occupancy and equipment, and insurance expense during the first nine months of 2022.
- Full time equivalent employees were 327 at September 30, 2022, and 325 at September 30, 2021, and 332 at June 30, 2022.
- The efficiency ratio was $47.02 \%$ for the third quarter of 2022, compared to $53.78 \%$ for the third quarter of 2021 , and $52.73 \%$ for the second quarter of 2022. The efficiency ratio for the nine months ended September 30, 2022 was $51.92 \%$, compared to $61.67 \%$ for the nine months ended September 30, 2021. The improvement in the efficiency ratio for the third quarter and first nine months of 2022 was primarily due to an increase in net interest income from the rising interest rate environment. The efficiency ratio for the nine months ended September 30, 2021 was negatively impacted by the $\$ 4.0$ million reserve for a legal settlement. Excluding the $\$ 4.0$ million reserve for a legal settlement, the efficiency ratio was $58.18 \%$ for the nine months ended September 30, 2021.
- Income tax expense was $\$ 7.8$ million for the third quarter of 2022 , compared to $\$ 5.6$ million for the third quarter of 2021, and $\$ 6.1$ million for the second quarter of 2022. The effective tax rate for the third quarter of 2022 was $30.3 \%$, compared to $28.8 \%$ for the third quarter of 2021 , and $29.3 \%$ for the second quarter of 2021. The increase in the effective tax rate was due to an adjustment from significantly higher earnings for the third quarter of 2022, compared to the first and second quarters of 2022. Income tax expense for the nine months ended September 30 , 2022 was $\$ 19.1$ million, compared to $\$ 12.8$ million for the nine months ended September 30, 2021. The effective tax rate for the nine months ended September 30, 2022 was $29.5 \%$, compared to $27.5 \%$ for the nine months ended September 30, 2021.


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

- Total assets decreased (1\%) to $\$ 5.431$ billion at September 30, 2022, compared to $\$ 5.463$ billion at September 30, 2021, and increased $1 \%$ from $\$ 5.357$ billion at June 30, 2022.
- Securities available-for-sale, at fair value, totaled $\$ 478.5$ million at September 30, 2022, compared to $\$ 121.0$ million at September 30, 2021, and $\$ 332.1$ million at June 30, 2022. At September 30, 2022, the Company's securities available-for-sale portfolio was comprised of $\$ 405.4$ million of U.S. Treasury securities and $\$ 73.1$ million of agency mortgage-backed securities (all issued by U.S. Government sponsored entities).
- The pre-tax unrealized loss on U.S. Treasury securities available-for-sale at September 30, 2022 was ( $\$ 10.1$ ) million, compared to a pre-tax unrealized gain of $\$ 11,000$ at September 30, 2021, and a pre-tax unrealized loss of (\$1.2) million at June 30, 2022. The pre-tax unrealized loss on mortgage-backed securities available-for-sale at September 30, 2022 was (\$7.3) million, compared to a pre-tax unrealized gain of $\$ 4.0$ million at September 30, 2021, and a pre-tax unrealized loss of ( $\$ 2.9$ ) million at June 30, 2022. The pre-tax unrealized loss on total securities available-for-sale at September 30, 2022 was ( $\$ 17.4$ ) million, compared to a pre-tax unrealized gain of $\$ 4.0$ million at September 30, 2021, and a pre-tax unrealized loss of ( $\$ 4.1$ ) million at June 30, 2022. All other factors remaining the same, when market interest rates are increasing, the Company will experience a higher unrealized loss in the securities portfolio.
- During the third quarter of 2022, the Company purchased $\$ 163.0$ million of U.S. Treasury securities available-for-sale, with a book yield of $3.50 \%$ and an average life of 1.83 years. During the first nine months of 2022, the Company purchased $\$ 414.0$ million of U.S. Treasury securities available-for-sale, with a book yield of $3.04 \%$ and an average life of 2.28 years.
- At September 30, 2022, securities held-to-maturity, at amortized cost, totaled $\$ 703.8$ million, compared to $\$ 537.3$ million at September 30, 2021, and $\$ 723.7$ million at June 30, 2022. At September 30, 2022, the Company's securities held-to-maturity portfolio was comprised of $\$ 665.7$ million of agency mortgage-backed securities, and $\$ 38.1$ million of tax-exempt municipal bonds.
- The pre-tax unrealized loss on mortgage-backed securities held-to-maturity at September 30, 2022 was ( $\$ 108.1$ ) million, compared to a pre-tax unrealized gain of $\$ 1.1$ million at September 30, 2021, and a pre-tax unrealized loss of (\$72.5) million at June 30, 2022. The pre-tax unrealized loss on municipal bonds held-to-maturity at September 30, 2022 was ( $\$ 2.1$ ) million, compared to a pre-tax unrealized gain of $\$ 989,000$ at September 30, 2021, and a pre-tax unrealized loss of $(\$ 436,000)$ at June 30, 2022. The pre-tax unrealized loss on total securities held-to-maturity at September 30, 2022 was ( $\$ 110.2$ ) million, compared to a pre-tax unrealized gain of $\$ 2.1$ million at September 30, 2021, and a pre-tax unrealized loss of (\$72.9) million at June 30, 2022.
- There were no purchases of securities held-to-maturity during the third quarter of 2022. During the first nine months of 2022, the Company purchased $\$ 119.4$ million of agency mortgage-backed securities held-to-maturity, with a book yield of $2.21 \%$ and an average life of 6.55 years.
- The average life of the total investment securities portfolio was 5.18 years at September 30, 2022.
- 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) | September 30, 2022 |  |  | June 30, 2022 |  |  | September 30, 2021 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Balance |  | \% to Total | Balance |  | \% to Total | Balance | \% to Total |
| Commercial | \$ | 541,215 | 17 \% | \$ | 523,268 | $17 \%$ | \$ 578,944 | $20 \%$ |
| PPP Loans ${ }^{(1)}$ |  | 1,614 | 0 \% |  | 8,153 | 0 \% | 164,506 | 6 \% |
| Real estate: |  |  |  |  |  |  |  |  |
| CRE - owner occupied |  | 612,241 | $19 \%$ |  | 597,521 | $19 \%$ | 580,624 | $20 \%$ |
| CRE - non-owner occupied |  | 1,023,405 | 32 \% |  | 993,621 | 32 \% | 829,022 | 29 \% |
| Land and construction |  | 167,439 | $5 \%$ |  | 155,389 | $5 \%$ | 141,277 | $5 \%$ |
| Home equity |  | 116,489 | $3 \%$ |  | 116,641 | $4 \%$ | 106,690 | 4 \% |
| Multifamily |  | 229,455 | $7 \%$ |  | 221,938 | $7 \%$ | 205,952 | 7 \% |
| Residential mortgages |  | 508,839 | $16 \%$ |  | 448,958 | $15 \%$ | 211,467 | 8 \% |
| Consumer and other |  | 16,620 | $1 \%$ |  | 18,354 | $1 \%$ | 20,106 | $1 \%$ |
| Total Loans |  | 3,217,317 | $100 \%$ |  | 3,083,843 | $100 \%$ | 2,838,588 | $100 \%$ |
| Deferred loan costs (fees), net |  | (844) | - |  | $(1,391)$ | - | $(5,729)$ | - |
| Loans, net of deferred costs and fees | \$ | 3,216,473 | $100 \%$ |  | 3,082,452 | $100 \%$ | \$ 2,832,859 | $100 \%$ |

(1) Less than 1\% at September 30, 2022 and June 30, 2022.

- Loans, excluding loans held-for-sale, increased $\$ 383.6$ million, or $14 \%$, to $\$ 3.216$ billion at September 30, 2022, compared to $\$ 2.833$ billion at September 30, 2021, and increased $\$ 134.0$ million, or 4\%, from $\$ 3.082$ billion at June 30, 2022. Total loans at September 30, 2022 included $\$ 1.6$ million of PPP loans, compared to $\$ 164.5$ million at September 30, 2021 and $\$ 8.2$ million at June 30, 2022. Total loans at September 30, 2022 included $\$ 508.8$ million of residential mortgages, compared to $\$ 211.5$ million at September 30, 2021, and $\$ 449.0$ million at June 30, 2022. Loans, excluding loans held-for-sale, PPP loans and residential mortgages, increased $\$ 244.9$ million, or $10 \%$, to $\$ 2.706$ billion at September 30, 2022, compared to $\$ 2.461$ billion at September 30, 2021, and increased $\$ 80.5$ million, or 3\%, from $\$ 2.626$ billion at June 30, 2022.
- Commercial and industrial ("C\&I") line utilization was $29 \%$ at September 30, 2022, compared to $27 \%$ at September 30, 2021, and 28\% at June 30, 2022.
- At September 30, 2022,37\% of the CRE loan portfolio was secured by owner-occupied real estate, compared to $41 \%$ at September 30, 2021, and 38\% at June 30, 2022.
- At September 30, 2022, approximately 34\% of the Company's loan portfolio consisted of floating interest rate loans, compared to 42\% at September 30, 2021, and 36\% at June 30, 2022.
- In response to economic stimulus laws passed by Congress in 2020 and 2021, the Bank funded two rounds of PPP loans totaling $\$ 530.8$ million. At September 30, 2022, there were no remaining "Round 1" PPP loans. After accounting for loan payoffs and SBA loan forgiveness, "Round 2" PPP loans totaled $\$ 1.6$ million at September 30, 2022. The following table shows interest income, fee income and deferred origination costs generated by the PPP loans, outstanding PPP loan balances and related deferred fees and costs for the periods indicated:

| PPP LOANS <br> (in $\$ 000$ 's, unaudited) | At or For the Quarter Ended: |  |  |  |  |  | At or For the Nine Months Ended: |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \hline \text { September 30, } \\ 2022 \end{gathered}$ |  | June 30, 2022 |  | $\begin{gathered} \hline \text { September 30, } \\ 2021 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2021 \\ \hline \end{gathered}$ |  |
| Interest income | \$ | 11 | \$ | 53 | \$ | 548 | \$ | 210 | \$ | 2,163 |
| Fee income, net |  | 190 |  | 493 |  | 2,508 |  | 2,029 |  | 7,784 |
| Total | \$ | 201 | \$ | 546 | \$ | 3,056 | \$ | 2,239 | \$ | 9,947 |
| PPP loans outstanding at period end: |  |  |  |  |  |  |  |  |  |  |
| Round 1 | \$ | - | \$ | 43 | \$ | 5,795 | \$ | - | \$ | 5,795 |
| Round 2 |  | 1,614 |  | 8,110 |  | 158,711 |  | 1,614 |  | 158,711 |
| Total | \$ | 1,614 | \$ | 8,153 | \$ | 164,506 | \$ | 1,614 | \$ | 164,506 |
| Deferred fees outstanding at period end | \$ | (132) | \$ | (337) | \$ | $(4,831)$ | \$ | (132) | \$ | $(4,831)$ |
| Deferred costs outstanding at period end |  | 8 |  | 24 |  | 461 |  | 8 |  | 461 |
| Total | \$ | (124) | \$ | (313) | \$ | $(4,370)$ | \$ | $(124)$ | \$ | $(4,370)$ |

- During the third quarter of 2022, the Company purchased single family residential mortgage loans totaling $\$ 73.5$ million, tied to homes located in California, with average principal balances of approximately $\$ 1.0$ million and a bond equivalent yield of approximately $5.24 \%$, which uses the average life of the loan to recognize the discount into income. During the first nine months of 2022, the Company purchased single family residential mortgage loans totaling $\$ 148.0$ million, tied to homes located in California, with average principal balances of approximately $\$ 915,000$.
- 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) | At or For the Quarter Ended: |  |  |  |  |  | For the Nine Months Ended |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \hline \text { September 30, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \text { June 30, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \text { September 30, } \\ 2021 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2021 \\ \hline \end{gathered}$ |  |
| Balance at beginning of period | \$ | 45,490 | \$ | 42,788 | \$ | 43,956 | \$ | 43,290 | \$ | 44,400 |
| Charge-offs during the period |  | (7) |  | (355) |  | (65) |  | (378) |  | (433) |
| Recoveries during the period |  | 432 |  | 3,238 |  | 303 |  | 3,751 |  | 2,232 |
| Net recoveries (charge-offs) during the period |  | 425 |  | 2,883 |  | 238 |  | 3,373 |  | 1,799 |
| Provision for (recapture of) credit losses on loans during the period |  | 1,006 |  | (181) |  | (514) |  | 258 |  | $(2,519)$ |
| Balance at end of period | \$ | 46,921 | \$ | 45,490 | \$ | 43,680 | \$ | 46,921 | \$ | 43,680 |
| Total loans, net of deferred fees | \$ | 3,216,473 |  | ,082,452 | \$ | 2,832,859 | \$ | 3,216,473 | \$ | 2,832,859 |
| Total nonperforming loans | \$ | 1,036 | \$ | 2,715 | \$ | 4,733 | \$ | 1,036 | \$ | 4,733 |
| ACLL to total loans |  | 1.46 \% |  | 1.48 \% |  | 1.54 \% |  | 1.46 \% |  | 1.54 \% |
| ACLL to total nonperforming loans |  | 4,529.05 \% |  | 1,675.51 \% |  | 922.88 \% |  | 4,529.05\% |  | 922.88 \% |

- The ACLL was $1.46 \%$ of total loans at September 30, 2022 while the ACLL to total nonperforming loans was $4,529.05 \%$. The ACLL was $1.54 \%$ of total loans and the ACLL to nonperforming loans was $922.88 \%$ at September 30, 2021. The ACLL was $1.48 \%$ of total loans and the ACLL to total nonperforming loans was $1,675.51 \%$ at June 30, 2022.
- The following table shows the drivers of change in ACLL under the current expected credit losses ("CECL") methodology for the first nine months of 2022:


## DRIVERS OF CHANGE IN ACLL UNDER CECL

(in \$000's, unaudited)

| ACLL at December 31, 2021 | \$ | 43,290 |
| :---: | :---: | :---: |
| Portfolio changes during the first quarter of 2022 including net recoveries |  | (33) |
| Qualitative and quantitative changes during the first quarter of 2022 including changes in economic forecasts |  | (469) |
| ACLL at March 31, 2022 |  | 42,788 |
| Portfolio changes during the second quarter of 2022 including net recoveries |  | 1,383 |
| Qualitative and quantitative changes during the second quarter of 2022 including changes in economic forecasts |  | 1,319 |
| ACLL at June 30, 2022 |  | 45,490 |
| Portfolio changes during the third quarter of 2022 including net recoveries |  | 2,009 |
| Qualitative and quantitative changes during the third quarter of 2022 including changes in economic forecasts |  | (578) |
| ACLL at September 30, 2022 | \$ | 46,921 |

- Net recoveries totaled $\$ 425,000$ for the third quarter of 2022 , compared to net recoveries of $\$ 238,000$ for the third quarter of 2021 , and net recoveries of $\$ 2.9$ million for the second quarter of 2022 . Net recoveries totaled $\$ 3.4$ million during the first nine months of 2022, compared to net recoveries of $\$ 1.8$ million for the first nine months of 2021.
- The following is a breakout of NPAs at the periods indicated:

| NONPERFORMING ASSETS (in \$000's, unaudited) | September 30, 2022 |  |  | June 30, 2022 |  |  | September 30, 2021 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Balance |  | \% of Total | Balance |  | \% of Total | Balance |  | \% of Total |
| Restructured and loans over 90 days past due and still accruing | \$ | 545 | 53 \% | \$ | 981 | 36 \% | \$ | 642 | $13 \%$ |
| Commercial loans |  | 491 | 47 \% |  | 640 | 24 \% |  | 1,330 | 28 \% |
| CRE loans |  | - | - \% |  | 1,094 | 40 \% |  | 2,260 | 48 \% |
| Home equity loans |  | - | - \% |  | - | - \% |  | 94 | $2 \%$ |
| Consumer and other loans |  | - | -\% |  | - | -\% |  | 407 | $9 \%$ |
| Total nonperforming assets | \$ | 1,036 | $100 \%$ | \$ | 2,715 | $100 \%$ | \$ | 4,733 | $100 \%$ |

- NPAs totaled $\$ 1.0$ million, or $0.02 \%$ of total assets, at September 30, 2022, compared to $\$ 4.7$ million, or $0.09 \%$ of total assets, at September 30, 2021, \$2.7 million, or 0.05\% of total assets, at June 30, 2022.
- There were no foreclosed assets on the balance sheet at September 30, 2022, September 30, 2021, or June 30, 2022.
- Classified assets decreased to $\$ 28.6$ million, or $0.53 \%$ of total assets, at September 30, 2022, compared to $\$ 31.9$ million, or $0.58 \%$ of total assets, at September 30, 2021, and $\$ 28.9$ million, or $0.54 \%$ of total assets, at June 30, 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) | September 30, 2022 |  |  | June 30, 2022 |  |  | September 30, 2021 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | Balance | \% to Total |  | Balance | \% to Total |  | Balance | \% to Total |
| Demand, noninterest-bearing | \$ | 1,883,574 | 40 \% | \$ | 1,846,365 | $40 \%$ | \$ | 1,804,965 | $38 \%$ |
| Demand, interest-bearing |  | 1,154,403 | 24 \% |  | 1,218,538 | 26 \% |  | 1,141,944 | 24 \% |
| Savings and money market |  | 1,487,400 | 32 \% |  | 1,387,003 | $30 \%$ |  | 1,600,754 | 34 \% |
| Time deposits - under \$250 |  | 34,728 | 1 \% |  | 36,691 | $1 \%$ |  | 39,628 | $1 \%$ |
| Time deposits - \$250 and over |  | 93,263 | 2 \% |  | 98,760 | $2 \%$ |  | 103,046 | $2 \%$ |
| CDARS - interest-bearing demand, money market and time deposits |  | 29,897 | $1 \%$ |  | 26,287 | $1 \%$ |  | 36,044 | $1 \%$ |
| Total deposits | \$ | 4,683,265 | $100 \%$ | \$ | 4,613,644 | $100 \%$ | \$ | 4,726,381 | $100 \%$ |

- Total deposits decreased ( $\$ 43.1$ ) million, or ( $1 \%$ ), to $\$ 4.683$ billion at September 30, 2022, compared to $\$ 4.726$ billion at September 30, 2021, and increased $\$ 69.6$ million, or $2 \%$, from $\$ 4.614$ billion at June 30, 2022.
- Deposits, excluding all time deposits and CDARS deposits, decreased (\$22.3) million to $\$ 4.525$ billion at September 30, 2022, compared to $\$ 4.548$ billion at September 30, 2021, and increased $\$ 73.5$ million, or $2 \%$, compared to $\$ 4.452$ billion at June 30, 2022.
- 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 September 30, 2022, as reflected in the following table:

| CAPITAL RATIOS (unaudited) | Heritage Commerce Corp | Heritage Bank of Commerce | Well-capitalized Financial Institution Basel III PCA Regulatory Guidelines | $\qquad$ |
| :---: | :---: | :---: | :---: | :---: |
| Total Capital | 14.5 \% | 14.0 \% | 10.0 \% | 10.5 \% |
| Tier 1 Capital | 12.4 \% | 12.9 \% | 8.0 \% | 8.5 \% |
| Common Equity Tier 1 Capital | 12.4 \% | 12.9 \% | $6.5 \%$ | 7.0 \% |
| Tier 1 Leverage | 8.7 \% | 9.0 \% | 5.0 \% | 4.0 \% |

(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 (in \$000's, unaudited)
Unrealized (loss) gain on securities available-for-sale
Remaining unamortized unrealized gain on securities available-for-sale transferred to held-to-maturity Split dollar insurance contracts liability Supplemental executive retirement plan liability Unrealized gain on interest-only strip from SBA loans Total accumulated other comprehensive loss

| $\begin{gathered} \text { September 30, } \\ 2022 \end{gathered}$ |  |
| :---: | :---: |
| \$ | $(12,398)$ |
|  | $(5,511)$ |
|  | $(7,428)$ |
|  | 125 |
| \$ | $(25,212)$ |


| June 30, |  |
| :---: | ---: |
| $\$$ | $(3,036)$ |
|  | $-\overline{2022}$ |
|  | $(5,501)$ |
|  | $(7,508)$ |
|  | 127 |
| $\$$ | $(15,918)$ |


| September 30, <br> 2021 |  |
| :--- | ---: |
| $\$ 8$ | 2,435 |
|  | 234 |
|  | $(6,143)$ |
|  | $(8,411)$ |
|  | 179 |
| $\$$ | $(11,706)$ |

- Tangible equity was $\$ 430.2$ million at September 30, 2022, compared to $\$ 408.1$ million at September 30, 2021, and $\$ 427.2$ million at June 30, 2022. Tangible book value per share was $\$ 7.09$ at September 30, 2022, compared to $\$ 6.77$ at September 30, 2021, and $\$ 7.04$ at June 30, 2022.

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, Sunnyvale, 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, 2021, and the following: (1) geopolitical and domestic political developments that can increase levels of political and economic unpredictability, contribute to rising energy prices and commodity prices, and increase the volatility of financial markets; (2) conditions related to the impact of the COVID-19 pandemic, and other infectious illness outbreaks that may arise in the future, our customers, employees, businesses, liquidity, and financial results and overall condition including severity and duration of the associated uncertainties in U.S. and global markets; (3) 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; (4) 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; (5) inflationary pressures and changes in the interest rate environment that reduce our margin and yields, the fair value of financial instruments or our level of loan originations, or increase in the level of defaults, losses and prepayments on loans we have made and make; (6) 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; (7) volatility in credit and equity markets and its effect on the global economy; (8) 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; (9) our ability to achieve loan growth and attract deposits in our market area; (10) risks associated with concentrations in real estate related loans; (11) the relative strength or weakness of the commercial and real estate markets where our borrowers are located, including related asset and market prices; (12) credit related impairment charges to our securities portfolio; (13) 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; (14) regulatory limits on Heritage Bank of Commerce's ability to pay dividends to the Company; (15) 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; (16) 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; (17) possible adjustment of the valuation of our deferred tax assets; (18) our ability to keep pace with technological changes, including our ability to identify and address cyber-security risks such as data security breaches, "denial of service" attacks, "hacking" and identity theft; (19) inability of our framework to manage risks associated with our business, including operational risk and credit risk; (20) risks of loss of funding of SBA or SBA loan programs, or changes in those programs; (21) 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; (22) 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; (23) the expense and uncertain resolution of litigation matters whether occurring in the ordinary course of business or otherwise; (24) availability of and competition for acquisition opportunities; (25) risks resulting from domestic terrorism; (26) risks resulting from social unrest and protests; (27) risks of natural disasters (including earthquakes, fires, and flooding) and other events beyond our control; (28) our success in managing the risks involved in the foregoing factors.

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| CONSOLIDATED INCOME STATEMENTS (in \$000's, unaudited) | For the Quarter Ended: |  |  |  |  |  | Percent Change From: |  | For the Nine Months Ended: |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | $\begin{aligned} & \hline \text { tember 30, } \\ & 2022 \\ & \hline \end{aligned}$ |  | $\begin{gathered} \text { June 30, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{aligned} & \hline \text { tember 30, } \\ & 2021 \\ & \hline \end{aligned}$ | $\begin{gathered} \hline \text { June 30, } \\ \mathbf{2 0 2 2} \\ \hline \end{gathered}$ | $\begin{gathered} \text { September 30, } \\ 2021 \\ \hline \end{gathered}$ |  | $\begin{aligned} & \text { tember 30, } \\ & 2022 \\ & \hline \end{aligned}$ |  | $\begin{aligned} & \text { tember 30, } \\ & 2021 \\ & \hline \end{aligned}$ | Percent Change |
| Interest income | \$ | 50,174 | \$ | 43,556 | \$ | 39,907 | $15 \%$ | 26 \% | \$ | 133,636 | \$ | 113,300 | 18 \% |
| Interest expense |  | 2,133 |  | 1,677 |  | 1,725 | 27 \% | 24 \% |  | 5,495 |  | 5,284 | $4 \%$ |
| Net interest income before provision for credit losses on loans |  | 48,041 |  | 41,879 |  | 38,182 | 15 \% | 26 \% |  | 128,141 |  | 108,016 | 19 \% |
| Provision for (recapture of) credit losses on loans |  | 1,006 |  | (181) |  | (514) | 656 \% | 296 \% |  | 258 |  | $(2,519)$ | $110 \%$ |
| Net interest income after provision for credit losses on loans |  | 47,035 |  | 42,060 |  | 38,696 | 12 \% | 22 \% |  | 127,883 |  | 110,535 | 16 \% |
| Noninterest income: |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Service charges and fees on deposit accounts |  | 1,360 |  | 867 |  | 584 | 57 \% | 133 \% |  | 2,839 |  | 1,844 | 54 \% |
| Increase in cash surrender value of |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gain on sales of SBA loans |  | 308 |  | 27 |  | 594 | 1041 \% | (48)\% |  | 491 |  | 1,227 | (60)\% |
| Servicing income |  | 125 |  | 139 |  | 129 | (10)\% | (3)\% |  | 370 |  | 415 | (11)\% |
| Gain on warrants |  | 32 |  | - |  | - | N/A | N/A |  | 669 |  |  | N/A |
| Termination fees |  | 16 |  | 45 |  | 32 | (64)\% | (50)\% |  | 61 |  | 179 | (66)\% |
| Gain on proceeds from company-owned life insurance |  | - |  | 27 |  | 109 | (100)\% | (100)\% |  | 27 |  | 571 | (95)\% |
| Other |  | 456 |  | 513 |  | 490 | (11)\% | (7)\% |  | 1,438 |  | 1,258 | 14 \% |
| Total noninterest income |  | 2,781 |  | 2,098 |  | 2,408 | 33 \% | $15 \%$ |  | 7,339 |  | 6,878 | $7 \%$ |
| Noninterest expense: |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Salaries and employee benefits |  | 14,119 |  | 13,476 |  | 12,461 | $5 \%$ | 13 \% |  | 41,416 |  | 38,991 | 6 \% |
| Occupancy and equipment |  | 2,415 |  | 2,277 |  | 2,151 | 6 \% | 12 \% |  | 7,129 |  | 6,672 | $7 \%$ |
| Professional fees |  | 1,230 |  | 1,291 |  | 1,211 | (5)\% | 2 \% |  | 3,601 |  | 4,701 | (23)\% |
| Other |  | 6,135 |  | 6,146 |  | 6,008 | 0 \% | $2 \%$ |  | 18,195 |  | 20,486 | (11)\% |
| Total noninterest expense |  | 23,899 |  | 23,190 |  | 21,831 | $3 \%$ | $9 \%$ |  | 70,341 |  | 70,850 | (1)\% |
| Income before income taxes |  | 25,917 |  | 20,968 |  | 19,273 | 24 \% | $34 \%$ |  | 64,881 |  | 46,563 | 39 \% |
| Income tax expense |  | 7,848 |  | 6,147 |  | 5,555 | 28 \% | $41 \%$ |  | 19,125 |  | 12,828 | 49 \% |
| Net income | \$ | 18,069 | \$ | 14,821 | \$ | 13,718 | 22 \% | 32 \% | \$ | 45,756 | \$ | 33,735 | 36 \% |
| PER COMMON SHARE DATA (unaudited) |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic earnings per share | \$ | 0.30 | \$ | 0.24 | \$ | 0.23 | 25 \% | $30 \%$ | \$ | 0.76 | \$ | 0.56 | 36 \% |
| Diluted earnings per share | \$ | 0.30 | \$ | 0.24 | \$ | 0.23 | 25 \% | $30 \%$ | \$ | 0.75 | \$ | 0.56 | 34 \% |
| Weighted average shares outstanding - basic |  | 60,686,992 |  | 60,542,170 |  | 60,220,717 | 0 \% | $1 \%$ |  | 60,541,015 |  | 60,078,953 | $1 \%$ |
| Weighted average shares outstanding - diluted |  | 61,123,801 |  | 60,969,154 |  | 60,760,189 | $0 \%$ | $1 \%$ |  | 61,004,840 |  | 60,635,304 | $1 \%$ |
| Common shares outstanding at period-end |  | 60,716,794 |  | 60,666,794 |  | 60,266,316 | 0 \% | $1 \%$ |  | 60,716,794 |  | 60,266,316 | $1 \%$ |
| Dividend per share | \$ | 0.13 | \$ | 0.13 | \$ | 0.13 | 0 \% | 0 \% | \$ | 0.39 | \$ | 0.39 | 0 \% |
| Book value per share | \$ | 10.04 | \$ | 10.01 | \$ | 9.79 | $0 \%$ | $3 \%$ | \$ | 10.04 | \$ | 9.79 | $3 \%$ |
| Tangible book value per share | \$ | 7.09 | \$ | 7.04 | \$ | 6.77 | $1 \%$ | $5 \%$ | \$ | 7.09 | \$ | 6.77 | 5 \% |
| KEY FINANCIAL RATIOS (unaudited) |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Annualized return on average equity |  | 11.72 \% |  | 9.86 \% |  | 9.29 \% | 19 \% | 26 \% |  | 10.12 \% |  | 7.74 \% | $31 \%$ |
| Annualized return on average tangible equity |  | 16.60 \% |  | 14.06 \% |  | 13.49 \% | 18 \% | 23 \% |  | 14.41 \% |  | 11.29 \% | 28 \% |
| Annualized return on average assets |  | 1.31 \% |  | 1.11 \% |  | 1.06 \% | 18 \% | 24 \% |  | 1.13 \% |  | 0.90 \% | 26 \% |
| Annualized return on average tangible assets |  | 1.36 \% |  | 1.15 \% |  | 1.10 \% | 18 \% | 24 \% |  | 1.17 \% |  | 0.94 \% | 24 \% |
| Net interest margin (FTE) |  | 3.73 \% |  | 3.38 \% |  | 3.18 \% | $10 \%$ | 17 \% |  | 3.39 \% |  | 3.13 \% | 8 \% |
| Efficiency ratio |  | 47.02 \% |  | 52.73 \% |  | 53.78 \% | (11)\% | (13)\% |  | 51.92 \% |  | 61.67 \% | (16)\% |
| AVERAGE BALANCES (in \$000's, unaudited) |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Average assets | \$ | 5,466,330 | \$ | 5,334,636 | \$ | 5,139,239 | $2 \%$ | 6 \% | \$ | 5,414,820 | \$ | 4,988,076 | $9 \%$ |
| Average tangible assets | \$ | 5,286,591 | \$ | 5,154,245 | \$ | 4,956,738 | $3 \%$ | 7 \% | \$ | 5,234,427 | \$ | 4,804,814 | $9 \%$ |
| Average earning assets | \$ | 5,117,373 | \$ | 4,985,611 | \$ | 4,778,574 | $3 \%$ | $7 \%$ | \$ | 5,065,698 | \$ | 4,626,853 | $9 \%$ |
| Average loans held-for-sale | \$ | 3,282 | \$ | 1,824 | \$ | 4,810 | $80 \%$ | (32)\% | \$ | 2,201 | \$ | 4,112 | (46)\% |
| Average total loans | \$ | 3,140,705 | \$ | 3,048,353 | \$ | 2,766,731 | $3 \%$ | 14 \% | \$ | 3,072,473 | \$ | 2,725,207 | 13 \% |
| Average deposits | \$ | 4,712,044 | \$ | 4,579,436 | \$ | 4,396,315 | $3 \%$ | $7 \%$ | \$ | 4,662,926 | \$ | 4,252,214 | $10 \%$ |
| Average demand deposits - noninterest-bearing | \$ | 1,910,748 | \$ | 1,836,350 | \$ | 1,835,219 | $4 \%$ | $4 \%$ | \$ | 1,868,283 | \$ | 1,786,035 | $5 \%$ |
| Average interest-bearing deposits | \$ | 2,801,296 | \$ | 2,743,086 | \$ | 2,561,096 | $2 \%$ | $9 \%$ | \$ | 2,794,643 | \$ | 2,466,179 | $13 \%$ |
| Average interest-bearing liabilities | \$ | 2,840,611 | \$ | 2,791,527 | \$ | 2,601,002 | $2 \%$ | $9 \%$ | \$ | 2,837,219 | \$ | 2,506,025 | 13 \% |
| Average equity | \$ | 611,707 | \$ | 603,182 | \$ | 586,012 | $1 \%$ | $4 \%$ | \$ | 604,794 | \$ | 582,751 | $4 \%$ |
| Average tangible equity | \$ | 431,968 | \$ | 422,791 | \$ | 403,511 | $2 \%$ | 7 \% | \$ | 424,401 | \$ | 399,489 | 6 \% |


| CONSOLIDATED INCOME STATEMENTS(in \$000's, unaudited) | Ended: |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \hline \text { September 30, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { June 30, } \\ 2022 \end{gathered}$ |  | $\begin{gathered} \hline \text { March 31, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2021 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2021 \\ \hline \end{gathered}$ |  |
| Interest income | \$ | 50,174 | \$ | 43,556 | \$ | 39,906 | \$ | 39,956 | \$ | 39,907 |
| Interest expense |  | 2,133 |  | 1,677 |  | 1,685 |  | 1,847 |  | 1,725 |
| Net interest income before provision for credit losses on loans |  | $48,041$ |  | $\begin{array}{r} 41,879 \\ (181) \end{array}$ |  | $\begin{array}{r} 38,221 \\ (567) \end{array}$ |  | $38,109$ |  | $\begin{array}{r} 38,182 \\ (514) \end{array}$ |
| Provision for (recapture of) credit losses on loans |  |  |  |  |  |  |  |  |  |  |
| Net interest income after provision for credit losses on loans |  | 47,035 |  | 42,060 |  | 38,788 |  | 38,724 |  | 38,696 |
| Noninterest income: |  |  |  |  |  |  |  |  |  |  |
| Service charges and fees on deposit accounts |  | 1,360 |  | 867 |  | 612 |  | 644 |  | 584 |
| Increase in cash surrender value of life insurance |  | 484 |  | 480 |  | 480 |  | 454 |  | 470 |
| Gain on sales of SBA loans |  | 308 |  | 27 |  | 156 |  | 491 |  | 594 |
| Servicing income |  | 125 |  | 139 |  | 106 |  | 138 |  | 129 |
| Gain on warrants |  | 32 |  | - |  | 637 |  | - |  | - |
| Termination fees |  | 16 |  | 45 |  | - |  | 618 |  | 32 |
| Gain on proceeds from company-owned |  |  |  |  |  |  |  |  |  |  |
| life insurance |  | - |  | 27 |  | - |  | 104 |  | 109 |
| Other |  | 456 |  | 513 |  | 469 |  | 361 |  | 490 |
| Total noninterest income |  | 2,781 |  | 2,098 |  | 2,460 |  | 2,810 |  | 2,408 |
| Noninterest expense: |  |  |  |  |  |  |  |  |  |  |
| Salaries and employee benefits |  | 14,119 |  | 13,476 |  | 13,821 |  | 12,871 |  | 12,461 |
| Occupancy and equipment |  | 2,415 |  | 2,277 |  | 2,437 |  | 2,366 |  | 2,151 |
| Professional fees |  | 1,230 |  | 1,291 |  | 1,080 |  | 1,200 |  | 1,211 |
| Other |  | 6,135 |  | 6,146 |  | 5,914 |  | 5,790 |  | 6,008 |
| Total noninterest expense |  | 23,899 |  | 23,190 |  | 23,252 |  | 22,227 |  | 21,831 |
| Income before income taxes |  | 25,917 |  | 20,968 |  | 17,996 |  | 19,307 |  | 19,273 |
| Income tax expense |  | 7,848 |  | 6,147 |  | 5,130 |  | 5,342 |  | 5,555 |
| Net income | \$ | 18,069 | \$ | 14,821 | \$ | 12,866 | \$ | 13,965 | \$ | 13,718 |
| PER COMMON SHARE DATA (unaudited) |  |  |  |  |  |  |  |  |  |  |
| Basic earnings per share | \$ | 0.30 | \$ | 0.24 | \$ | 0.21 | \$ | 0.23 | \$ | 0.23 |
| Diluted earnings per share | \$ | 0.30 | \$ | 0.24 | \$ | 0.21 | \$ | 0.23 | \$ | 0.23 |
| Weighted average shares outstanding - basic |  | 60,686,992 |  | 60,542,170 |  | 60,393,883 |  | 60,298,424 |  | 60,220,717 |
| Weighted average shares outstanding - diluted |  | 61,123,801 |  | 60,969,154 |  | 60,921,835 |  | 60,844,221 |  | 60,760,189 |
| Common shares outstanding at period-end |  | 60,716,794 |  | 60,666,794 |  | 60,407,846 |  | 60,339,837 |  | 60,266,316 |
| Dividend per share | \$ | 0.13 | \$ | 0.13 | \$ | 0.13 | \$ | 0.13 | \$ | 0.13 |
| Book value per share | \$ | 10.04 | \$ | 10.01 | \$ | 9.95 | \$ | 9.91 | \$ | 9.79 |
| Tangible book value per share | \$ | 7.09 | \$ | 7.04 | \$ | 6.96 | \$ | 6.91 | \$ | 6.77 |
| KEY FINANCIAL RATIOS (unaudited) |  |  |  |  |  |  |  |  |  |  |
| Annualized return on average equity |  | 11.72 \% |  | 9.86\% |  | 8.71 \% |  | 9.35 \% |  | 9.29 \% |
| Annualized return on average tangible equity |  | 16.60 \% |  | 14.06 \% |  | 12.47 \% |  | 13.50 \% |  | 13.49 \% |
| Annualized return on average assets |  | 1.31 \% |  | 1.11 \% |  | 0.96 \% |  | 0.97 \% |  | 1.06 \% |
| Annualized return on average tangible assets |  | 1.36 \% |  | 1.15 \% |  | 0.99 \% |  | 1.00 \% |  | 1.10 \% |
| Net interest margin (FTE) |  | 3.73 \% |  | 3.38 \% |  | 3.05 \% |  | 2.84 \% |  | 3.18 \% |
| Efficiency ratio |  | 47.02 \% |  | 52.73 \% |  | 57.16 \% |  | 54.32 \% |  | 53.78 \% |
| AVERAGE BALANCES (in \$000's, unaudited) |  |  |  |  |  |  |  |  |  |  |
| Average assets | \$ | 5,466,330 | \$ | 5,334,636 | \$ | 5,443,240 | \$ | 5,695,136 | \$ | 5,139,239 |
| Average tangible assets | \$ | 5,286,591 | \$ | 5,154,245 | \$ | 5,262,175 | \$ | 5,513,359 | \$ | 4,956,738 |
| Average earning assets | \$ | 5,117,373 | \$ | 4,985,611 | \$ | 5,093,851 | \$ | 5,336,129 | \$ | 4,778,574 |
| Average loans held-for-sale | \$ | 3,282 | \$ | 1,824 | \$ | 1,478 | \$ | 4,047 | \$ | 4,810 |
| Average total loans | \$ | 3,140,705 | \$ | 3,048,353 | \$ | 3,027,111 | \$ | 2,872,074 | \$ | 2,766,731 |
| Average deposits | \$ | 4,712,044 | \$ | 4,579,436 | \$ | 4,697,136 | \$ | 4,945,204 | \$ | 4,396,315 |
| Average demand deposits - noninterest-bearing | \$ | 1,910,748 | \$ | 1,836,350 | \$ | 1,857,164 | \$ | 1,979,940 | \$ | 1,835,219 |
| Average interest-bearing deposits | \$ | 2,801,296 | \$ | 2,743,086 | \$ | 2,839,972 | \$ | 2,965,264 | \$ | 2,561,096 |
| Average interest-bearing liabilities | \$ | 2,840,611 | \$ | 2,791,527 | \$ | 2,879,952 | \$ | 3,005,212 | \$ | 2,601,002 |
| Average equity | \$ | 611,707 | \$ | 603,182 | \$ | 599,355 | \$ | 592,291 | \$ | 586,012 |
| Average tangible equity | \$ | 431,968 | \$ | 422,791 | \$ | 418,290 | \$ | 410,514 | \$ | 403,511 |


| CONSOLIDATED BALANCE SHEETS <br> (in \$000's, unaudited) | End of Period: |  |  |  |  |  | Percent Change From: |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \hline \text { September 30, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { June 30, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2021 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { June 30, } \\ 2022 \\ \hline \end{gathered}$ | $\begin{gathered} \hline \text { September 30, } \\ 2021 \\ \hline \end{gathered}$ |
| ASSETS |  |  |  |  |  |  |  |  |
| Cash and due from banks | \$ | 40,500 | \$ | 35,764 | \$ | 33,013 | $13 \%$ | 23 \% |
| Other investments and interest-bearing deposits in other financial institutions |  | 641,251 |  | 840,821 |  | 1,588,334 | (24)\% | (60)\% |
| Securities available-for-sale, at fair value |  | 478,534 |  | 332,129 |  | 121,000 | 44 \% | 295 \% |
| Securities held-to-maturity, at amortized cost |  | 703,794 |  | 723,716 |  | 537,285 | (3)\% | 31 \% |
| Loans held-for-sale - SBA, including deferred costs |  | 2,081 |  | 2,281 |  | 3,678 | (9)\% | (43)\% |
| Loans: |  |  |  |  |  |  |  |  |
| Commercial |  | 541,215 |  | 523,268 |  | 578,944 | $3 \%$ | (7)\% |
| PPP loans |  | 1,614 |  | 8,153 |  | 164,506 | (80)\% | (99)\% |
| Real estate: |  |  |  |  |  |  |  |  |
| CRE - owner occupied |  | 612,241 |  | 597,521 |  | 580,624 | $2 \%$ | $5 \%$ |
| CRE - non-owner occupied |  | 1,023,405 |  | 993,621 |  | 829,022 | $3 \%$ | 23 \% |
| Land and construction |  | 167,439 |  | 155,389 |  | 141,277 | 8 \% | 19 \% |
| Home equity |  | 116,489 |  | 116,641 |  | 106,690 | 0 \% | $9 \%$ |
| Multifamily |  | 229,455 |  | 221,938 |  | 205,952 | $3 \%$ | $11 \%$ |
| Residential mortgages |  | 508,839 |  | 448,958 |  | 211,467 | $13 \%$ | 141 \% |
| Consumer and other |  | 16,620 |  | 18,354 |  | 20,106 | (9)\% | (17)\% |
| Loans |  | 3,217,317 |  | 3,083,843 |  | 2,838,588 | 4 \% | 13 \% |
| Deferred loan fees, net |  | (844) |  | $(1,391)$ |  | $(5,729)$ | (39)\% | (85)\% |
| Total loans, net of deferred costs and fees |  | 3,216,473 |  | 3,082,452 |  | 2,832,859 | 4 \% | 14 \% |
| Allowance for credit losses on loans |  | $(46,921)$ |  | $(45,490)$ |  | $(43,680)$ | $3 \%$ | $7 \%$ |
| Loans, net |  | 3,169,552 |  | 3,036,962 |  | 2,789,179 | 4 \% | 14 \% |
| Company-owned life insurance |  | 78,456 |  | 77,972 |  | 77,509 | $1 \%$ | $1 \%$ |
| Premises and equipment, net |  | 9,428 |  | 9,593 |  | 9,821 | (2)\% | (4)\% |
| Goodwill |  | 167,631 |  | 167,631 |  | 167,631 | 0 \% | 0 \% |
| Other intangible assets |  | 11,692 |  | 12,351 |  | 14,423 | (5)\% | (19)\% |
| Accrued interest receivable and other assets |  | 128,343 |  | 117,621 |  | 121,129 | 9 \% | 6 \% |
| Total assets | \$ | 5,431,262 | \$ | 5,356,841 | \$ | 5,463,002 | $1 \%$ | (1)\% |
| LIABILITIES AND SHAREHOLDERS' EQUITY |  |  |  |  |  |  |  |  |
| Liabilities: |  |  |  |  |  |  |  |  |
| Deposits: |  |  |  |  |  |  |  |  |
| Demand, noninterest-bearing | \$ | 1,883,574 | \$ | 1,846,365 | \$ | 1,804,965 | $2 \%$ | $4 \%$ |
| Demand, interest-bearing |  | 1,154,403 |  | 1,218,538 |  | 1,141,944 | (5)\% | $1 \%$ |
| Savings and money market |  | 1,487,400 |  | 1,387,003 |  | 1,600,754 | 7 \% | (7)\% |
| Time deposits - under \$250 |  | 34,728 |  | 36,691 |  | 39,628 | (5)\% | (12)\% |
| Time deposits - \$250 and over |  | 93,263 |  | 98,760 |  | 103,046 | (6)\% | (9)\% |
| CDARS - money market and time deposits |  | 29,897 |  | 26,287 |  | 36,044 | 14 \% | (17)\% |
| Total deposits |  | 4,683,265 |  | 4,613,644 |  | 4,726,381 | 2 \% | (1)\% |
| Subordinated debt, net of issuance costs |  | 39,312 |  | 39,274 |  | 39,878 | $0 \%$ | (1)\% |
| Accrued interest payable and other liabilities |  | 99,168 |  | 96,699 |  | 106,625 | $3 \%$ | (7)\% |
| Total liabilities |  | 4,821,745 |  | 4,749,617 |  | 4,872,884 | $2 \%$ | (1)\% |
| Shareholders' Equity: |  |  |  |  |  |  |  |  |
| Common stock |  | 501,240 |  | 499,832 |  | 496,622 | 0 \% | $1 \%$ |
| Retained earnings |  | 133,489 |  | 123,310 |  | 105,202 | 8 \% | 27 \% |
| Accumulated other comprehensive loss |  | $(25,212)$ |  | $(15,918)$ |  | $(11,706)$ | (58)\% | (115)\% |
| Total shareholders' equity |  | 609,517 |  | 607,224 |  | 590,118 | 0 \% | $3 \%$ |
| Total liabilities and shareholders' equity | \$ | 5,431,262 | \$ | 5,356,841 | \$ | 5,463,002 | $1 \%$ | (1)\% |


| CONSOLIDATED BALANCE SHEETS (in \$000's, unaudited) | End of Period: |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \hline \text { September 30, } \\ 2022 \end{gathered}$ |  | $\begin{gathered} \hline \text { June 30, } \\ 2022 \end{gathered}$ |  | $\begin{gathered} \hline \text { March 31, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2021 \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2021 \\ \hline \end{gathered}$ |  |
| ASSETS |  |  |  |  |  |  |  |  |  |  |
| Cash and due from banks | \$ | 40,500 | \$ | 35,764 | \$ | 29,729 | \$ | 15,703 | \$ | 33,013 |
| Other investments and interest-bearing deposits in other financial institutions |  | 641,251 |  | 840,821 |  | 1,187,436 |  | 1,290,513 |  | 1,588,334 |
| Securities available-for-sale, at fair value |  | 478,534 |  | 332,129 |  | 111,217 |  | 102,252 |  | 121,000 |
| Securities held-to-maturity, at amortized cost |  | 703,794 |  | 723,716 |  | 736,823 |  | 658,397 |  | 537,285 |
| Loans held-for-sale - SBA, including deferred costs |  | 2,081 |  | 2,281 |  | 831 |  | 2,367 |  | 3,678 |
| Loans: |  |  |  |  |  |  |  |  |  |  |
| Commercial |  | 541,215 |  | 523,268 |  | 568,053 |  | 594,108 |  | 578,944 |
| PPP loans |  | 1,614 |  | 8,153 |  | 37,393 |  | 88,726 |  | 164,506 |
| Real estate: |  |  |  |  |  |  |  |  |  |  |
| CRE - owner occupied |  | 612,241 |  | 597,521 |  | 597,542 |  | 595,934 |  | 580,624 |
| CRE - non-owner occupied |  | 1,023,405 |  | 993,621 |  | 928,220 |  | 902,326 |  | 829,022 |
| Land and construction |  | 167,439 |  | 155,389 |  | 153,323 |  | 147,855 |  | 141,277 |
| Home equity |  | 116,489 |  | 116,641 |  | 111,609 |  | 109,579 |  | 106,690 |
| Multifamily |  | 229,455 |  | 221,938 |  | 221,767 |  | 218,856 |  | 205,952 |
| Residential mortgages |  | 508,839 |  | 448,958 |  | 391,171 |  | 416,660 |  | 211,467 |
| Consumer and other |  | 16,620 |  | 18,354 |  | 17,110 |  | 16,744 |  | 20,106 |
| Loans |  | 3,217,317 |  | 3,083,843 |  | 3,026,188 |  | 3,090,788 |  | 2,838,588 |
| Deferred loan fees, net |  | (844) |  | $(1,391)$ |  | $(2,124)$ |  | $(3,462)$ |  | $(5,729)$ |
| Total loans, net of deferred fees |  | 3,216,473 |  | 3,082,452 |  | 3,024,064 |  | 3,087,326 |  | 2,832,859 |
| Allowance for credit losses on loans |  | $(46,921)$ |  | $(45,490)$ |  | $(42,788)$ |  | $(43,290)$ |  | $(43,680)$ |
| Loans, net |  | 3,169,552 |  | 3,036,962 |  | 2,981,276 |  | 3,044,036 |  | 2,789,179 |
| Company-owned life insurance |  | 78,456 |  | 77,972 |  | 78,069 |  | 77,589 |  | 77,509 |
| Premises and equipment, net |  | 9,428 |  | 9,593 |  | 9,580 |  | 9,639 |  | 9,821 |
| Goodwill |  | 167,631 |  | 167,631 |  | 167,631 |  | 167,631 |  | 167,631 |
| Other intangible assets |  | 11,692 |  | 12,351 |  | 13,009 |  | 13,668 |  | 14,423 |
| Accrued interest receivable and other assets |  | 128,343 |  | 117,621 |  | 111,797 |  | 117,614 |  | 121,129 |
| Total assets | \$ | 5,431,262 | \$ | 5,356,841 | \$ | 5,427,398 | \$ | 5,499,409 | \$ | 5,463,002 |
| LIABILITIES AND SHAREHOLDERS' EQUITY |  |  |  |  |  |  |  |  |  |  |
| Liabilities: |  |  |  |  |  |  |  |  |  |  |
| Deposits: |  |  |  |  |  |  |  |  |  |  |
| Demand, noninterest-bearing | \$ | 1,883,574 | \$ | 1,846,365 | \$ | 1,811,943 | \$ | 1,903,768 | \$ | 1,804,965 |
| Demand, interest-bearing |  | 1,154,403 |  | 1,218,538 |  | 1,268,942 |  | 1,308,114 |  | 1,141,944 |
| Savings and money market |  | 1,487,400 |  | 1,387,003 |  | 1,447,434 |  | 1,375,825 |  | 1,600,754 |
| Time deposits - under \$250 |  | 34,728 |  | 36,691 |  | 38,417 |  | 38,734 |  | 39,628 |
| Time deposits - \$250 and over |  | 93,263 |  | 98,760 |  | 93,161 |  | 94,700 |  | 103,046 |
| CDARS - money market and time deposits |  | 29,897 |  | 26,287 |  | 30,008 |  | 38,271 |  | 36,044 |
| Total deposits |  | 4,683,265 |  | 4,613,644 |  | 4,689,905 |  | 4,759,412 |  | 4,726,381 |
| Subordinated debt, net of issuance costs |  | 39,312 |  | 39,274 |  | 39,987 |  | 39,925 |  | 39,878 |
| Accrued interest payable and other liabilities |  | 99,168 |  | 96,699 |  | 96,450 |  | 102,044 |  | 106,625 |
| Total liabilities |  | 4,821,745 |  | 4,749,617 |  | 4,826,342 |  | 4,901,381 |  | 4,872,884 |
| Shareholders' Equity: |  |  |  |  |  |  |  |  |  |  |
| Common stock |  | 501,240 |  | 499,832 |  | 498,763 |  | 497,695 |  | 496,622 |
| Retained earnings |  | 133,489 |  | 123,310 |  | 116,347 |  | 111,329 |  | 105,202 |
| Accumulated other comprehensive loss |  | $(25,212)$ |  | $(15,918)$ |  | $(14,054)$ |  | $(10,996)$ |  | $(11,706)$ |
| Total shareholders' equity |  | 609,517 |  | 607,224 |  | 601,056 |  | 598,028 |  | 590,118 |
| Total liabilities and shareholders' equity | \$ | 5,431,262 | \$ | 5,356,841 | \$ | 5,427,398 | \$ | 5,499,409 | \$ | 5,463,002 |


| CREDIT QUALITY DATA (in \$000's, unaudited) | At or For the Quarter Ended: |  |  |  |  |  | Percent Change From: |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \hline \text { September 30, } \\ 2022 \end{gathered}$ |  | $\begin{gathered} \hline \text { June 30, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2021 \end{gathered}$ |  | $\begin{gathered} \hline \text { June 30, } \\ 2022 \end{gathered}$ | $\begin{gathered} \text { September 30, } \\ 2021 \end{gathered}$ |
| Nonaccrual loans - held-for-investment | \$ | 491 | \$ | 1,734 | \$ | 4,091 | (72)\% | (88)\% |
| Restructured and loans over 90 days past due |  |  |  |  |  |  |  |  |
| Total nonperforming loans |  | 1,036 |  | 2,715 |  | 4,733 | (62)\% | (78)\% |
| Foreclosed assets |  | - |  | - |  | - | N/A | N/A |
| Total nonperforming assets | \$ | 1,036 | \$ | 2,715 | \$ | 4,733 | (62)\% | (78)\% |
| Other restructured loans still accruing | \$ | 93 | \$ | 113 | \$ | 90 | (18)\% | $3 \%$ |
| Net charge-offs (recoveries) during the quarter | \$ | (425) | \$ | $(2,883)$ | \$ | (238) | $85 \%$ | (79)\% |
| Provision for (recapture of) credit losses on loans during the quarter | \$ | 1,006 | \$ | (181) | \$ | (514) | 656 \% | 296 \% |
| Allowance for credit losses on loans | \$ | 46,921 | \$ | 45,490 | \$ | 43,680 | $3 \%$ | 7 \% |
| Classified assets | \$ | 28,570 | \$ | 28,929 | \$ | 31,937 | (1)\% | (11)\% |
| Allowance for credit losses on loans to total loans |  | 1.46 \% |  | 1.48 \% |  | 1.54 \% | (1)\% | (5)\% |
| Allowance for credit losses on loans to total nonperforming loans |  | 4,529.05\% |  | 1,675.51 \% |  | 922.88 \% | 170 \% | 391 \% |
| Nonperforming assets to total assets |  | 0.02 \% |  | 0.05 \% |  | 0.09 \% | (60)\% | (78)\% |
| Nonperforming loans to total loans |  | 0.03 \% |  | 0.09 \% |  | 0.17 \% | (67)\% | (82)\% |
| Classified assets to Heritage Commerce Corp |  |  |  |  |  |  |  |  |
| Tier 1 capital plus allowance for credit losses on loans |  | 6 \% |  | 6 \% |  | 7 \% | 0 \% | (14)\% |
| Classified assets to Heritage Bank of Commerce |  |  |  |  |  |  |  |  |
| Tier 1 capital plus allowance for credit losses on loans |  | $5 \%$ |  | 6 \% |  | 7 \% | (17)\% | (29)\% |
| OTHER PERIOD-END STATISTICS (in \$000's, unaudited) |  |  |  |  |  |  |  |  |
| Heritage Commerce Corp: |  |  |  |  |  |  |  |  |
| Tangible common equity ${ }^{(1)}$ | \$ | 430,194 | \$ | 427,242 | \$ | 408,064 | 1 \% | $5 \%$ |
| Shareholders' equity / total assets |  | 11.22 \% |  | 11.34 \% |  | 10.80 \% | (1)\% | 4 \% |
| Tangible common equity / tangible assets ${ }^{(2)}$ |  | 8.19 \% |  | 8.25 \% |  | 7.73 \% | (1)\% | 6 \% |
| Loan to deposit ratio |  | 68.68 \% |  | 66.81 \% |  | 59.94 \% | $3 \%$ | $15 \%$ |
| Noninterest-bearing deposits / total deposits |  | 40.22 \% |  | 40.02 \% |  | 38.19 \% | 0 \% | $5 \%$ |
| Total capital ratio |  | 14.5 \% |  | 14.6 \% |  | 15.1 \% | (1)\% | (4)\% |
| Tier 1 capital ratio |  | 12.4 \% |  | 12.5 \% |  | 12.9 \% | (1)\% | (4)\% |
| Common Equity Tier 1 capital ratio |  | 12.4 \% |  | 12.5 \% |  | 12.9 \% | (1)\% | (4)\% |
| Tier 1 leverage ratio |  | 8.7 \% |  | 8.7 \% |  | 8.6 \% | 0 \% | $1 \%$ |
| Heritage Bank of Commerce: |  |  |  |  |  |  |  |  |
| Total capital ratio |  | 14.0 \% |  | 14.1 \% |  | 14.5 \% | (1)\% | (3)\% |
| Tier 1 capital ratio |  | 12.9 \% |  | 13.0 \% |  | 13.5 \% | (1)\% | (4)\% |
| Common Equity Tier 1 capital ratio |  | 12.9 \% |  | 13.0 \% |  | 13.5 \% | (1)\% | (4)\% |
| Tier 1 leverage ratio |  | 9.0 \% |  | 9.0 \% |  | 9.0 \% | 0 \% | 0 \% |

(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)

Nonaccrual loans - held-for-investment
Restructured and loans over 90 days past due
and still accruing
Total nonperforming loans
Foreclosed assets
Total nonperforming assets
Other restructured loans still accruing
Net charge-offs (recoveries) during the quarter
Provision for (recapture of) credit losses on loans during the quarter Allowance for credit losses on loans
Classified assets
Allowance for credit losses on loans to total loans
Allowance for credit losses on loans to total nonperforming loans
Nonperforming assets to total assets
Nonperforming loans to total loans
Classified assets to Heritage Commerce Corp
Tier 1 capital plus allowance for credit losses on loans
Classified assets to Heritage Bank of Commerce
Tier 1 capital plus allowance for credit losses on loans

| $\begin{gathered} \hline \text { September 30, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { June 30, } \\ 2022 \end{gathered}$ |  | $\begin{gathered} \text { March 31, } \\ 2022 \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2021 \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2021 \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| \$ | 491 | \$ | 1,734 | \$ | 3,303 | \$ | 3,460 | \$ | 4,091 |
|  | 545 |  | 981 |  | 527 |  | 278 |  | 642 |
|  | 1,036 |  | 2,715 |  | 3,830 |  | 3,738 |  | 4,733 |
|  |  |  | - |  | - |  | - |  | - |
| \$ | 1,036 | \$ | 2,715 | \$ | 3,830 | \$ | 3,738 | \$ | 4,733 |
| \$ | 93 | \$ | 113 | \$ | 125 | \$ | 125 | \$ | 90 |
| \$ | (425) | \$ | $(2,883)$ | \$ | (65) | \$ | (225) | \$ | (238) |
| \$ | 1,006 | \$ | (181) | \$ | (567) | \$ | (615) | \$ | (514) |
| \$ | 46,921 | \$ | 45,490 | \$ | 42,788 | \$ | 43,290 | \$ | 43,680 |
| \$ | 28,570 | \$ | 28,929 | \$ | 30,579 | \$ | 33,719 | \$ | 31,937 |
|  | 1.46 \% |  | 1.48 \% |  | 1.41 \% |  | 1.40 \% |  | 1.54 \% |
|  | 4,529.05\% |  | 1,675.51 \% |  | 1,117.18\% |  | 1,158.11\% |  | 922.88 \% |
|  | 0.02 \% |  | 0.05 \% |  | 0.07 \% |  | 0.07 \% |  | 0.09 \% |
|  | 0.03 \% |  | 0.09 \% |  | 0.13 \% |  | 0.12 \% |  | 0.17 \% |
|  | 6 \% |  | 6 \% |  | 6 \% |  | 7 \% |  | 7 \% |
|  | $5 \%$ |  | 6 \% |  | $6 \%$ |  | 7 \% |  | 7 \% |

## OTHER PERIOD-END STATISTICS

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

## Heritage Commerce Corp:

Tangible common equity ${ }^{(1)}$
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

| \$ | 430,194 | \$ | 427,242 | \$ | 420,416 | \$ | 416,729 | \$ | 408,064 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 11.22 \% |  | 11.34 \% |  | 11.07 \% |  | 10.87 \% |  | 10.80 \% |
|  | 8.19 \% |  | 8.25 \% |  | 8.01 \% |  | 7.84 \% |  | 7.73 \% |
|  | 68.68 \% |  | 66.81 \% |  | 64.48 \% |  | 64.87 \% |  | 59.94 \% |
|  | 40.22 \% |  | 40.02 \% |  | 38.63 \% |  | 40.00 \% |  | 38.19 \% |
|  | 14.5 \% |  | 14.6 \% |  | 14.6 \% |  | 14.4 \% |  | 15.1 \% |
|  | 12.4 \% |  | 12.5 \% |  | 12.4 \% |  | 12.3 \% |  | 12.9 \% |
|  | 12.4 \% |  | 12.5 \% |  | 12.4 \% |  | 12.3 \% |  | 12.9 \% |
|  | 8.7 \% |  | 8.7 \% |  | 8.3 \% |  | 7.9 \% |  | 8.6 \% |
|  | 14.0 \% |  | 14.1 \% |  | 13.9 \% |  | 13.8 \% |  | 14.5 \% |
|  | 12.9 \% |  | 13.0 \% |  | 12.9 \% |  | 12.8 \% |  | 13.5 \% |
|  | 12.9 \% |  | 13.0 \% |  | 12.9 \% |  | 12.8 \% |  | 13.5 \% |
|  | 9.0 \% |  | 9.0 \% |  | 8.7 \% |  | 8.2 \% |  | 9.0 \% |

Tier 1 capital ratio
Common Equity Tier 1 capital ratio
$\begin{array}{rr}12.9 \% & 13.0 \% \\ 9.0 \% & 9.0 \%\end{array}$
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

(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 $\$ 507,000$ for the third quarter of 2022 (of which $\$ 190,000$ was from PPP loans), compared to $\$ 2,809,000$ for the third quarter of 2021 (of which $\$ 2,508,000$ was from PPP loans). Prepayment fees totaled $\$ 96,000$ for the third quarter of 2022, compared to $\$ 1,282,000$ for the third quarter of 2021.
(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 September 30, 2022 |  |  |  |  | For the Quarter Ended June 30, 2022 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average Balance |  | Interest <br> Income/ <br> Expense |  | $\begin{gathered} \hline \text { Average } \\ \text { Yield/ } \\ \text { Rate } \\ \hline \end{gathered}$ | Average Balance |  | Interest Income/ Expense | $\begin{gathered} \text { Average } \\ \text { Yield/ } \\ \text { Rate } \\ \hline \end{gathered}$ |
| Assets: |  |  |  |  |  |  |  |  |  |
| Loans, gross ${ }^{(1)(2)}$ | \$ | 3,143,987 | \$ | 38,870 | 4.90 \% | \$ | 3,050,177 | 36,538 | 4.80 \% |
| Securities - taxable |  | 1,076,742 |  | 5,874 | 2.16 \% |  | 912,408 | 4,407 | 1.94 \% |
| Securities - exempt from Federal tax ${ }^{(3)}$ |  | 38,733 |  | 329 | 3.37 \% |  | 40,447 | 343 | 3.40 \% |
| Other investments and interest-bearing deposits in other financial institutions |  | 857,911 |  | 5,170 | 2.39 \% |  | 982,579 | 2,340 | 0.96 \% |
| Total interest earning assets ${ }^{(3)}$ |  | 5,117,373 |  | 50,243 | 3.90 \% |  | 4,985,611 | 43,628 | 3.51 \% |
| Cash and due from banks |  | 37,961 |  |  |  |  | 37,172 |  |  |
| Premises and equipment, net |  | 9,591 |  |  |  |  | 9,666 |  |  |
| Goodwill and other intangible assets |  | 179,739 |  |  |  |  | 180,391 |  |  |
| Other assets |  | 121,666 |  |  |  |  | 121,796 |  |  |
| Total assets | \$ | 5,466,330 |  |  |  | \$ | 5,334,636 |  |  |
| Liabilities and shareholders' equity: |  |  |  |  |  |  |  |  |  |
| Deposits: |  |  |  |  |  |  |  |  |  |
| Demand, noninterest-bearing | \$ | 1,910,748 |  |  |  | \$ | 1,836,350 |  |  |
| Demand, interest-bearing |  | 1,205,937 |  | 543 | 0.18 \% |  | 1,249,875 | 468 | 0.15 \% |
| Savings and money market |  | 1,429,055 |  | 925 | 0.26 \% |  | 1,327,665 | 558 | 0.17 \% |
| Time deposits - under \$100 |  | 12,329 |  | 5 | 0.16 \% |  | 12,643 | 4 | 0.13 \% |
| Time deposits - \$100 and over |  | 123,458 |  | 121 | 0.39 \% |  | 125,258 | 114 | 0.37 \% |
| CDARS - money market and time deposits |  | 30,517 |  | 1 | 0.01 \% |  | 27,645 | 2 | 0.03 \% |
| Total interest-bearing deposits |  | 2,801,296 |  | 1,595 | 0.23 \% |  | 2,743,086 | 1,146 | 0.17 \% |
| Total deposits |  | 4,712,044 |  | 1,595 | 0.13 \% |  | 4,579,436 | 1,146 | 0.10 \% |
| Subordinated debt, net of issuance costs |  | 39,288 |  | 538 | 5.43 \% |  | 48,425 | 531 | 4.40 \% |
| Short-term borrowings |  | 27 |  | - | 0.00 \% |  | 16 | - | 0.00 \% |
| Total interest-bearing liabilities |  | 2,840,611 |  | 2,133 | 0.30 \% |  | 2,791,527 | 1,677 | 0.24 \% |
| Total interest-bearing liabilities and demand, noninterest-bearing / cost of funds |  | 4,751,359 |  | 2,133 | 0.18 \% |  | 4,627,877 | 1,677 | 0.15 \% |
| Other liabilities |  | 103,264 |  |  |  |  | 103,577 |  |  |
| Total liabilities |  | 4,854,623 |  |  |  |  | 4,731,454 |  |  |
| Shareholders' equity |  | 611,707 |  |  |  |  | 603,182 |  |  |
| Total liabilities and shareholders' equity |  | 5,466,330 |  |  |  | \$ | 5,334,636 |  |  |
| Net interest income ${ }^{(3)} /$ margin |  |  |  | 48,110 | 3.73 \% |  |  | 41,951 | 3.38 \% |
| Less tax equivalent adjustment ${ }^{(3)}$ |  |  |  | (69) |  |  |  | (72) |  |
| Net interest income |  |  | \$ | 48,041 |  |  |  | \$ 41,879 |  |

(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 $\$ 507,000$ for the third quarter of 2022 (of which $\$ 190,000$ was from PPP loans), compared to $\$ 816,000$ for the second quarter of 2022 (of which $\$ 493,000$ was from PPP loans). Prepayment fees totaled $\$ 96,000$ for the third quarter of 2022, compared to $\$ 549,000$ for the second quarter of 2022.
(3) Reflects the FTE adjustment for Federal tax-exempt income based on a $21 \%$ tax rate.

(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 $\$ 3,111,000$ for the first nine months of 2022 (of which $\$ 2,029,000$ was from PPP loans), compared to $\$ 8,690,000$ for the first nine months of 2021 (of which $\$ 7,784,000$ was from PPP loans). Prepayment fees totaled $\$ 1,155,000$ for the first nine months of 2022, compared to $\$ 2,303,000$ for the first nine months of 2021.
(3) Reflects the FTE adjustment for Federal tax-exempt income based on a $21 \%$ tax rate.

