## Heritage Commerce Corp Earns Record \$20.8 Million for the Fourth Quarter of 2022, and Record \$66.6 Million for Full Year 2022

San Jose, CA - January 26, 2023 - Heritage Commerce Corp (Nasdaq: HTBK), the holding company (the "Company") for Heritage Bank of Commerce (the "Bank"), today announced fourth quarter 2022 net income increased $49 \%$ to $\$ 20.8$ million, or $\$ 0.34$ per average diluted common share, compared to $\$ 14.0$ million, or $\$ 0.23$ per average diluted common share, for the fourth quarter of 2021 , and increased $15 \%$ from $\$ 18.1$ million, or $\$ 0.30$ per average diluted common share, for the third quarter of 2022 . For the year ended December 31, 2022, net income increased $40 \%$ to $\$ 66.6$ million, or $\$ 1.09$ per average diluted common share, compared to $\$ 47.7$ million, or $\$ 0.79$ per average diluted common share, for the year ended December 31, 2021. All results are unaudited.
"Our quarterly results were a strong end to what was a record year on several measures," said Clay Jones, President and Chief Executive Officer. "We achieved record net income for the fourth quarter and the year ended December 31, 2022 with a $23 \%$ increase in net interest income year-over-year, supported by solid loan growth both year-over-year and from the linked quarter. Performance metrics for the fourth quarter of 2022 were highlighted by a return on average tangible common equity of $18.89 \%$, a return on average tangible assets of $1.59 \%$, and net interest margin of $4.10 \%$. Our efficiency ratio also improved to $44.98 \%$ for the fourth quarter and $49.93 \%$ for the year ended December 31, 2022."
"Total deposits declined (6\%) from the linked quarter and (8\%) from 2021," Mr. Jones stated. "The year-over-year decline was primarily related to the decrease in balances (of approximately $\$ 170$ million) from two large depositors who had temporary high balances at December 31, 2021. Additional declines in deposits were related to the decrease in balances from the distribution of proceeds from the sale of client businesses and real estate, and to a lesser extent, clients moving funds to seek higher rates. We continue to foster our loyal client relationships as we focus on growing our Company in the Greater San Francisco Bay Area."
"Our credit metrics remained strong in the fourth quarter of 2022. Nonperforming assets declined (\$1.3) million from the fourth quarter a year ago, and classified assets decreased (57\%) year-over-year and declined (49\%) over the preceding quarter," said Mr . Jones. "We recorded a $\$ 508,000$ provision for credit losses on loans during the current quarter to support our growing loan portfolio, which resulted in an allowance for credit losses on loans to total loans of $1.44 \%$ at December 31, 2022. We continue to focus on maintaining a healthy balance sheet with strong capital. I want to thank our employees for their efforts this and every year, and for their unwavering commitment to our clients, communities and shareholders."

Fourth Quarter Ended December 31, 2022
Operating Results, Balance Sheet Review, Capital Management, and Credit Quality
(as of, or for the periods ended December 31, 2022, compared to December 31, 2021, and September 30, 2022, except as noted):

## Operating Results:

- Diluted earnings per share were $\$ 0.34$ for the fourth quarter of 2022, compared to $\$ 0.23$ for the fourth quarter of 2021, and $\$ 0.30$ for the third quarter of 2022 . Diluted earnings per share were $\$ 1.09$ for the year ended December 31, 2022, compared to $\$ 0.79$ for the year ended December 31, 2021.
- 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:

| (unaudited) |
| :--- |
| Return on average tangible assets |
| Return on average tangible common equity |


| For the Quarter Ended: |  |  |
| :---: | :---: | :---: |
| December 31, | September 30, | December 31, |
| $\mathbf{2 0 2 2}$ | $\mathbf{2 0 2 2}$ | $\mathbf{2 0 2 1}$ |
| $1.59 \%$ |  | $1.36 \%$ |
| $18.89 \%$ |  | $16.60 \%$ |


| For the Year Ended: |  |
| :---: | :---: |
| December 31, | December 31, |
| $\mathbf{2 0 2 2}$ | $\mathbf{2 0 2 1}$ |
| $1.27 \%$ | $0.96 \%$ |
| $15.57 \%$ | $11.86 \%$ |

- Net interest income, before provision for credit losses on loans, increased $36 \%$ to $\$ 51.7$ million for the fourth quarter of 2022, compared to $\$ 38.1$ million for the fourth quarter of 2021. The fully tax equivalent ("FTE") net interest margin increased 126 basis points to $4.10 \%$ for the fourth quarter of 2022 , from $2.84 \%$ for the fourth quarter of 2021 , primarily due to increases in the prime rate and the rate on overnight funds, 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 Small Business Administration ("SBA") Paycheck Protection Program ("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 $8 \%$ to $\$ 51.7$ million for the fourth quarter of 2022 , compared to $\$ 48.0$ million for the third quarter of 2022. The FTE net interest margin increased 37 basis points to $4.10 \%$ for the fourth quarter of 2022 from $3.73 \%$ for the third 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 higher cost of funds.
- Net interest income increased $23 \%$ to $\$ 179.9$ million for the year ended December 31, 2022, compared to $\$ 146.1$ million for the year ended December 31, 2021. For the year ended December 31, 2022, the FTE net interest margin increased 52 basis points to $3.57 \%$, compared to $3.05 \%$ for the year ended December 31, 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, lower prepayment fees, a lower yield on the Bay View Funding factoring portfolio, and a higher cost of funds.
- The following table, as of December 31, 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) (in \$000's, unaudited) |  |  |$)$

(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 $5.19 \%$ for the fourth quarter of 2022 , compared to $4.90 \%$ for the third quarter of 2022, primarily due to increases in the prime rate, partially offset by lower fees on PPP loans, and higher average balances of lower yielding purchased residential mortgage loans.

| (in \$000's, unaudited) | For the Quarter Ended December 31, 2022 |  |  |  | For the Quarter Ended September 30, 2022 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average Balance |  | Interest Income | Average Yield | Average Balance |  | nterest ncome | Average Yield |
| Loans, core bank | \$ 2,654,311 | \$ | 33,594 | 5.02 \% | \$ 2,573,908 | \$ | 30,490 | 4.70 \% |
| Prepayment fees | - |  | 123 | 0.02 \% | - |  | 96 | 0.01 \% |
| PPP loans | 1,255 |  | 3 | 0.95 \% | 4,593 |  | 11 | 0.95 \% |
| PPP fees, net | - |  | 25 | 7.90 \% | - |  | 190 | 16.41 \% |
| Asset-based lending | 35,519 |  | 756 | 8.44 \% | 53,514 |  | 1,032 | 7.65 \% |
| Bay View Funding factored receivables | 71,789 |  | 3,696 | 20.43 \% | 62,623 |  | 3,201 | 20.28 \% |
| Purchased residential mortgages | 485,149 |  | 3,842 | 3.14 \% | 446,190 |  | 3,414 | 3.04 \% |
| Purchased commercial real estate ("CRE") loans | 7,307 |  | 80 | 4.34 \% | 8,337 |  | 83 | 3.95 \% |
| Loan fair value mark / accretion | $(4,774)$ |  | 382 | 0.06 \% | $(5,178)$ |  | 353 | 0.05 \% |
| Total loans (includes loans held-for-sale) | \$ 3,250,556 | \$ | 42,501 | 5.19 \% | \$ 3,143,987 | \$ | 38,870 | 4.90 \% |

- The average yield on the total loan portfolio increased to $5.19 \%$ for the fourth quarter of 2022, compared to $4.93 \%$ for the fourth quarter of 2021, primarily due to increases in the prime rate, 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 higher average balances of lower yielding purchased residential mortgages.

| (in \$000's, unaudited) | For the Quarter Ended December 31, 2022 |  |  |  | For the Quarter Ended December 31, 2021 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average Balance |  | Interest Income | Average Yield | Average Balance |  | nterest ncome | Average Yield |
| Loans, core bank | \$ 2,654,311 | \$ | 33,594 | 5.02 \% | \$ 2,432,700 | \$ | 26,484 | 4.32 \% |
| Prepayment fees | - |  | 123 | 0.02 \% | - |  | 397 | 0.06 \% |
| PPP loans | 1,255 |  | 3 | 0.95 \% | 127,592 |  | 318 | 0.99 \% |
| PPP fees, net | - |  | 25 | 7.90 \% | - |  | 2,211 | 6.87 \% |
| Asset-based lending | 35,519 |  | 756 | 8.44 \% | 52,918 |  | 683 | 5.12 \% |
| Bay View Funding factored receivables | 71,789 |  | 3,696 | 20.43 \% | 62,571 |  | 3,248 | 20.59 \% |
| Purchased residential mortgages | 485,149 |  | 3,842 | 3.14 \% | 199,139 |  | 1,437 | 2.86 \% |
| Purchased CRE loans | 7,307 |  | 80 | 4.34 \% | 8,929 |  | 69 | 3.07 \% |
| Loan fair value mark / accretion | $(4,774)$ |  | 382 | 0.06 \% | $(7,728)$ |  | 915 | 0.15 \% |
| Total loans (includes loans held-for-sale) | \$ 3,250,556 | \$ | 42,501 | 5.19 \% | \$ 2,876,121 | \$ | 35,762 | 4.93 \% |

- The average yield on the total loan portfolio decreased to $4.91 \%$ for the year ended December 31, 2022, compared to 5.03\% for the year ended December 31, 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 Year Ended December 31, 2022 |  |  | For the Year Ended December 31, 2021 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average Balance | Interest Income | Average Yield | Average Balance | Interest Income | Average Yield |
| Loans, core bank | \$ 2,561,195 | \$ 117,582 | 4.59 \% | \$ 2,299,367 | \$ 101,690 | 4.42 \% |
| Prepayment fees | - | 1,278 | 0.05 \% | - | 2,700 | 0.12 \% |
| PPP loans | 21,689 | 213 | 0.98 \% | 249,253 | 2,481 | 1.00 \% |
| PPP fees, net | - | 2,054 | 9.47 \% | - | 9,995 | 4.01 \% |
| Asset-based lending | 51,990 | 3,613 | 6.95 \% | 39,798 | 2,106 | 5.29 \% |
| Bay View Funding factored receivables | 64,099 | 12,819 | 20.00 \% | 52,618 | 11,485 | $21.83 \%$ |
| Purchased residential mortgages | 417,672 | 12,395 | 2.97 \% | 122,566 | 3,555 | 2.90 \% |
| Purchased CRE loans | 8,143 | 317 | 3.89 \% | 12,436 | 441 | 3.55 \% |
| Loan fair value mark / accretion | $(5,782)$ | 2,739 | 0.11 \% | $(9,717)$ | 4,791 | 0.21 \% |
| Total loans (includes loans held-for-sale) | \$ 3,119,006 | \$ 153,010 | 4.91 \% | \$ 2,766,321 | \$ 139,244 | 5.03 \% |

- 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 \$4.6 million at December 31, 2022.
- The average cost of total deposits was $0.25 \%$ for the fourth quarter of 2022 , compared to $0.10 \%$ for the fourth quarter of 2021, and $0.13 \%$ for the third quarter of 2022. The average cost of total deposits was $0.15 \%$ for the year ended December 31, 2022, compared to $0.11 \%$ for the year ended December 31, 2021.
- During the fourth quarter of 2022 , there was a provision for credit losses on loans of $\$ 508,000$, compared to a $\$ 615,000$ negative provision for credit losses on loans for the fourth quarter of 2021, and a provision for credit losses on loans of $\$ 1.0$ million for the third quarter of 2022. There was a provision for credit losses on loans of $\$ 766,000$ for the year ended December 31, 2022, compared to a $\$ 3.1$ million negative provision for credit losses on loans for the year ended December 31, 2021.
- Total noninterest income remained relatively flat at $\$ 2.8$ million for both the fourth quarter of 2022 and 2021. The fourth quarter of 2022 included higher income on off-balance sheet deposits. The fourth quarter of 2021 included termination fees, a gain on sales of SBA loans, and a gain on proceeds from company-owned life insurance. Total noninterest income remained relatively flat at $\$ 2.8$ million for both the fourth and third quarters of 2022 , as higher service charges and fees on deposit accounts was offset by a lower gain on sales of SBA loans during the fourth quarter of 2022.
- For the year ended December 31, 2022, total noninterest income increased $4 \%$ to $\$ 10.1$ million, compared to $\$ 9.7$ million for the year ended December 31, 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 sales of SBA loans and a lower gain on proceeds from company-owned life insurance during the year ended December 31, 2022.
- Total noninterest expense for the fourth quarter of 2022 increased to $\$ 24.5$ million, compared to $\$ 22.2$ million for the fourth quarter of 2021, primarily due to higher salaries and employee benefits, higher rent included in occupancy and equipment expense, higher professional fees, and higher insurance and information technology related expenses included in other noninterest expense during the fourth quarter of 2022.
- Total noninterest expense for the fourth quarter of 2022 increased to $\$ 24.5$ million, compared to $\$ 23.9$ million for the third quarter of 2022, primarily due to approximately $\$ 900,000$ in additional expense as a result of higher bonuses, professional fees, insurance and information technology related expenses incurred during the fourth quarter of 2022. The higher salaries and employee benefits during the third quarter of 2022 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, which was partially offset by a higher bonus accrual during the fourth quarter of 2022.
- Noninterest expense for the year ended December 31, 2022 increased to $\$ 94.9$ million, compared to $\$ 93.1$ million for the year ended December 31, 2021, primarily due to higher salaries and employee benefits, higher rent included in occupancy and equipment expense, and higher insurance and information technology related expenses during the year ended December 31, 2022. These increases were partially offset by higher legal fees included in professional fees and a reserve for a legal settlement included in other noninterest expense during the year ended December 31, 2021.
- Full time equivalent employees were 331 at December 31, 2022, and 326 at December 31, 2021, and 327 at September 30, 2022.
- The efficiency ratio was $44.98 \%$ for the fourth quarter of 2022, compared to $54.32 \%$ for the fourth quarter of 2021 , and $47.02 \%$ for the third quarter of 2022. The efficiency ratio for the year ended December 31, 2022 was $49.93 \%$, compared to $59.74 \%$ for the year ended December 31, 2021. The improvement in the efficiency ratio for the fourth quarter of 2022 and the year ended December 31, 2022 was primarily due to an increase in net interest income from the rising interest rate environment.
- Income tax expense was $\$ 8.7$ million for the fourth quarter of 2022, compared to $\$ 5.3$ million for the fourth quarter of 2021, and $\$ 7.8$ million for the third quarter of 2022. The effective tax rate for the fourth quarter of 2022 was $29.5 \%$, compared to $27.7 \%$ for the fourth quarter of 2021 , and $30.3 \%$ for the third quarter of 2022. Income tax expense for the year ended December 31, 2022 was $\$ 27.8$ million, compared to $\$ 18.2$ million for the year ended December 31, 2021. The effective tax rate for the year ended December 31, 2022 was $29.5 \%$, compared to $27.6 \%$ for the year ended December 31, 2021.


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

- Total assets decreased (6\%) to $\$ 5.154$ billion at December 31, 2022, compared to $\$ 5.499$ billion at December 31, 2021, and decreased (5\%) from $\$ 5.431$ billion at September 30, 2022.
- Securities available-for-sale, at fair value, totaled $\$ 489.6$ million at December 31, 2022, compared to $\$ 102.3$ million at December 31, 2021, and $\$ 478.5$ million at September 30, 2022. At December 31, 2022, the Company's securities available-for-sale portfolio was comprised of $\$ 418.5$ million of U.S. Treasury securities and $\$ 71.1$ 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 December 31, 2022 was ( $\$ 10.3$ ) million, compared to a pre-tax unrealized loss of $(\$ 10.1)$ million at September 30, 2022. There were no U.S. Treasury securities available-for-sale at December 31, 2021. The pre-tax unrealized loss on mortgage-backed securities available-for-sale at December 31, 2022 was ( $\$ 5.8$ ) million, compared to a pre-tax unrealized gain of $\$ 2.9$ million at December 31, 2021, and a pre-tax unrealized loss of (\$7.3) million at September 30, 2022. The pre-tax unrealized loss on total securities available-for-sale at December 31, 2022 was ( $\$ 16.1$ ) million, compared to a pre-tax unrealized gain of $\$ 2.9$ million at December 31, 2021, and a pre-tax unrealized loss of (\$17.4) million at September 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 fourth quarter of 2022, the Company purchased $\$ 11.7$ million of U.S. Treasury securities available-for-sale, with a book yield of $4.53 \%$ and an average life of 1.28 years. During the year ended December 31, 2022, the Company purchased $\$ 425.7$ million of U.S. Treasury securities available-for-sale, with a book yield of $3.08 \%$ and an average life of 2.25 years.
- At December 31, 2022, securities held-to-maturity, at amortized cost, totaled $\$ 715.0$ million, compared to $\$ 658.4$ million at December 31, 2021, and $\$ 703.8$ million at September 30, 2022. At December 31, 2022, the Company's securities held-tomaturity portfolio was comprised of $\$ 677.4$ million of agency mortgage-backed securities, and $\$ 37.6$ million of tax-exempt municipal bonds.
- The pre-tax unrealized loss on mortgage-backed securities held-to-maturity at December 31, 2022 was ( $\$ 99.7$ ) million, compared to a pre-tax unrealized loss of (\$1.6) million at December 31, 2021, and a pre-tax unrealized loss of (\$108.1) million at September 30, 2022. The pre-tax unrealized loss on municipal bonds held-to-maturity at December 31, 2022 was $(\$ 810,000)$, compared to a pre-tax unrealized gain of $\$ 805,000$ at December 31, 2021, and a pre-tax unrealized loss of ( $\$ 2.1$ ) million at September 30, 2022. The pre-tax unrealized loss on total securities held-to-maturity at December 31, 2022 was ( $\$ 100.6$ ) million, compared to a pre-tax unrealized loss of $(\$ 790,000)$ at December 31, 2021, and a pre-tax unrealized loss of (\$110.2) million at September 30, 2022.
- During the fourth quarter of 2022, the Company purchased $\$ 27.1$ million of agency mortgage-backed securities held-tomaturity, with a book yield of $5.13 \%$ and an average life of 8.56 years. During the year ended December 31, 2022, the Company purchased $\$ 146.6$ million of agency mortgage-backed securities held-to-maturity, with a book yield of $2.75 \%$ and an average life of 6.92 years.
- The average life of the total investment securities portfolio was 4.93 years at December 31, 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) | December 31, 2022 |  |  | September 30, 2022 |  |  | December 31, 2021 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Balance |  | \% to Total | Balance |  | \% to Total | Balance | \% to Total |
| Commercial | \$ | 532,749 | $16 \%$ | \$ | 541,215 | 17 \% | \$ 594,108 | 19 \% |
| PPP Loans ${ }^{(1)}$ |  | 1,166 | $0 \%$ |  | 1,614 | 0 \% | 88,726 | $3 \%$ |
| Real estate: |  |  |  |  |  |  |  |  |
| CRE - owner occupied |  | 614,663 | $19 \%$ |  | 612,241 | 19 \% | 595,934 | 19 \% |
| CRE - non-owner occupied |  | 1,066,368 | $32 \%$ |  | 1,023,405 | $32 \%$ | 902,326 | 29 \% |
| Land and construction |  | 163,577 | 5 \% |  | 167,439 | $5 \%$ | 147,855 | $5 \%$ |
| Home equity |  | 120,724 | $4 \%$ |  | 116,489 | $3 \%$ | 109,579 | $4 \%$ |
| Multifamily |  | 244,882 | $7 \%$ |  | 229,455 | $7 \%$ | 218,856 | $7 \%$ |
| Residential mortgages |  | 537,905 | 16 \% |  | 508,839 | 16 \% | 416,660 | $13 \%$ |
| Consumer and other |  | 17,033 | $1 \%$ |  | 16,620 | $1 \%$ | 16,744 | $1 \%$ |
| Total Loans |  | 3,299,067 | $100 \%$ |  | 3,217,317 | $100 \%$ | 3,090,788 | $100 \%$ |
| Deferred loan costs (fees), net |  | (517) | - |  | (844) | - | $(3,462)$ | - |
| Loans, net of deferred costs and fees | \$ | 3,298,550 | $100 \%$ | \$ | 3,216,473 | $100 \%$ | \$ 3,087,326 | $100 \%$ |

(1) Less than $1 \%$ at December 31, 2022 and September 30, 2022.

- Loans, excluding loans held-for-sale, increased $\$ 211.2$ million, or $7 \%$, to $\$ 3.299$ billion at December 31, 2022, compared to $\$ 3.087$ billion at December 31, 2021, and increased $\$ 82.1$ million, or 3\%, from $\$ 3.216$ billion at September 30, 2022. Total loans at December 31, 2022 included $\$ 1.2$ million of PPP loans, compared to $\$ 88.7$ million at December 31, 2021 and $\$ 1.6$ million at September 30, 2022. Total loans at December 31, 2022 included $\$ 537.9$ million of residential mortgages, compared to $\$ 416.7$ million at December 31, 2021, and $\$ 508.8$ million at September 30, 2022. Loans, excluding loans held-for-sale, PPP loans and residential mortgages, increased $\$ 175.5$ million, or $7 \%$, to $\$ 2.760$ billion at December 31, 2022, compared to $\$ 2.584$ billion at December 31, 2021, and increased $\$ 53.4$ million, or 2\%, from $\$ 2.706$ billion at September 30, 2022.
- Commercial and industrial ("C\&I") line utilization was 29\% at both December 31, 2022 and September 30, 2022, compared to 31\% at December 31, 2021.
- At both December 31, 2022 and September 30, 2022, there was $37 \%$ of the CRE loan portfolio secured by owneroccupied real estate, compared to $40 \%$ at December 31, 2021.
- At December 31, 2022, approximately $33 \%$ of the Company's loan portfolio consisted of floating interest rate loans, compared to 38\% at December 31, 2021, and 34\% at September 30, 2022.
- During the fourth quarter of 2022, the Company purchased single family residential mortgage loans totaling $\$ 37.4$ million, tied to homes located in California, with average principal balances of approximately $\$ 1.0$ million and a bond equivalent yield of approximately $5.22 \%$, which uses the average life of the loan to recognize the discount into income. During the year ended December 31, 2022, the Company purchased single family residential mortgage loans totaling $\$ 185.4$ million, tied to homes located in California, with average principal balances of approximately $\$ 934,000$.
- 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 Year Ended: |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \hline \text { December 31, } \\ 2022 \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2021 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2021 \\ \hline \end{gathered}$ |  |
| Balance at beginning of period | \$ | 46,921 | \$ | 45,490 | \$ | 43,680 | \$ | 43,290 | \$ | 44,400 |
| Charge-offs during the period |  | (56) |  | (7) |  | (87) |  | (434) |  | (520) |
| Recoveries during the period |  | 139 |  | 432 |  | 312 |  | 3,890 |  | 2,544 |
| Net recoveries (charge-offs) during the period |  | 83 |  | 425 |  | 225 |  | 3,456 |  | 2,024 |
| Provision for (recapture of) credit losses on loans during the period |  | 508 |  | 1,006 |  | (615) |  | 766 |  | $(3,134)$ |
| Balance at end of period | \$ | 47,512 | \$ | 46,921 | \$ | 43,290 | \$ | 47,512 | \$ | 43,290 |
| Total loans, net of deferred fees | \$ | 3,298,550 | \$ | 3,216,473 | \$ | 3,087,326 | \$ | 3,298,550 | \$ | 3,087,326 |
| Total nonperforming loans | \$ | 2,425 | \$ | 1,036 | \$ | 3,738 | \$ | 2,425 | \$ | 3,738 |
| ACLL to total loans |  | 1.44 \% |  | 1.46 \% |  | 1.40 \% |  | 1.44 \% |  | 1.40 \% |
| ACLL to total nonperforming loans |  | 1,959.26 \% |  | 4,529.05 \% |  | 1,158.11\% |  | 1,959.26 \% |  | 1,158.11\% |

- The following table shows the drivers of change in ACLL under the current expected credit losses ("CECL") methodology for the full year 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 |
| Portfolio changes during the fourth quarter of 2022 including net recoveries |  | 1,316 |
| Qualitative and quantitative changes during the fourth quarter of 2022 including changes in economic forecasts |  | (725) |
| ACLL at December 31, 2022 | \$ | 47,512 |

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

| NONPERFORMING ASSETS (in \$000's, unaudited) | December 31, 2022 |  |  | September 30, 2022 |  |  | December 31, 2021 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Balance |  | \% of Total | Balance |  | \% of Total | Balance |  | \% of Total |
| Restructured and loans over 90 days past due and still accruing | \$ | 1,685 | 70 \% | \$ | 545 | 53 \% | \$ | 278 | 8 \% |
| Commercial loans |  | 642 | 26 \% |  | 491 | 47 \% |  | 1,122 | $30 \%$ |
| Home equity loans |  | 98 | $4 \%$ |  | - | - \% |  | 84 | $2 \%$ |
| CRE loans |  | - | -\% |  | - | -\% |  | 2,254 | $60 \%$ |
| Total nonperforming assets | \$ | 2,425 | $100 \%$ | \$ | 1,036 | $100 \%$ | \$ | 3,738 | $100 \%$ |

- NPAs totaled $\$ 2.4$ million, or $0.05 \%$ of total assets, at December 31, 2022, compared to $\$ 3.7$ million, or $0.07 \%$ of total assets, at December 31, 2021, and $\$ 1.0$ million, or $0.02 \%$ of total assets, at September 30, 2022.
- There were no foreclosed assets on the balance sheet at December 31, 2022, December 31, 2021, or September 30, 2022.
- Classified assets decreased to $\$ 14.5$ million, or $0.28 \%$ of total assets, at December 31, 2022, compared to $\$ 33.7$ million, or $0.61 \%$ of total assets, at December 31, 2021, and $\$ 28.6$ million, or $0.53 \%$ of total assets, at September 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) | December 31, 2022 |  |  | September 30, 2022 |  |  | December 31, 2021 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | Balance | \% to Total |  | Balance | \% to Total |  | Balance | \% to Total |
| Demand, noninterest-bearing | \$ | 1,736,722 | 40 \% | \$ | 1,883,574 | 40 \% | \$ | 1,903,768 | $40 \%$ |
| Demand, interest-bearing |  | 1,196,427 | 27 \% |  | 1,154,403 | 24 \% |  | 1,308,114 | 27 \% |
| Savings and money market |  | 1,285,444 | 29 \% |  | 1,487,400 | $32 \%$ |  | 1,375,825 | 29 \% |
| Time deposits - under \$250 |  | 32,445 | $1 \%$ |  | 34,728 | $1 \%$ |  | 38,734 | $1 \%$ |
| Time deposits - \$250 and over |  | 108,192 | 2 \% |  | 93,263 | $2 \%$ |  | 94,700 | $2 \%$ |
| CDARS - interest-bearing demand, money market and time deposits |  | 30,374 | 1\% |  | 29,897 | $1 \%$ |  | 38,271 | $1 \%$ |
| Total deposits |  | 4,389,604 | $100 \%$ | \$ | 4,683,265 | $100 \%$ | \$ | 4,759,412 | $100 \%$ |

- Total deposits decreased ( $\$ 369.8$ ) million, or $(8 \%)$, to $\$ 4.390$ billion at December 31, 2022, compared to $\$ 4.759$ billion at December 31, 2021, and decreased (\$293.7) million, or ( $6 \%$ ), from $\$ 4.683$ billion at September 30, 2022.
- Deposits, excluding all time deposits and CDARS deposits, decreased (\$369.2) million, or (8\%), to $\$ 4.219$ billion at December 31, 2022, compared to $\$ 4.588$ billion at December 31, 2021, and decreased ( $\$ 306.8$ ) million, or (7\%), compared to $\$ 4.525$ billion at September 30, 2022.
- Off-balance sheet deposits increased $\$ 9.4$ million, or $4 \%$, to $\$ 254.4$ million at December 31,2022 , compared to $\$ 245.0$ million at December 31, 2021, and increased $\$ 3.9$ million, or $2 \%$, from $\$ 250.5$ million at September 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 December 31, 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 | Basel III Minimum Regulatory Requirement ${ }^{(1)}$ |
| :---: | :---: | :---: | :---: | :---: |
| Total Capital | 14.8 \% | 14.2 \% | 10.0 \% | 10.5 \% |
| Tier 1 Capital | 12.7 \% | 13.2 \% | 8.0 \% | 8.5 \% |
| Common Equity Tier 1 Capital | 12.7 \% | 13.2 \% | $6.5 \%$ | 7.0 \% |
| Tier 1 Leverage | 9.2 \% | $9.5 \%$ | 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) | $\begin{gathered} \text { December 31, } \\ 2022 \end{gathered}$ |  | $\begin{gathered} \text { September } 30, \\ 2022 \end{gathered}$ |  | $\begin{gathered} \text { December 31, } \\ 2021 \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Unrealized (loss) gain on securities available-for-sale | \$ | $(11,506)$ | \$ | $(12,398)$ | \$ | 1,991 |
| Split dollar insurance contracts liability |  | $(3,091)$ |  | $(5,511)$ |  | $(5,480)$ |
| Supplemental executive retirement plan liability |  | $(2,371)$ |  | $(7,428)$ |  | $(7,669)$ |
| Unrealized gain on interest-only strip from SBA loans |  | 112 |  | 125 |  | 162 |
| Total accumulated other comprehensive loss | \$ | $(16,856)$ | \$ | $(25,212)$ | \$ | $(10,996)$ |

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 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; (5) 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; (6) volatility in credit and equity markets and its effect on the global economy; (7) 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; (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, the impact of the cost of deposits and our ability to retain deposits; (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 Small Business Administration ("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; and (28) our success in managing the risks involved in the foregoing factors.

For additional information, contact:

## Debbie Reuter

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| CONSOLIDATED INCOME STATEMENTS(in S000's, unaudited) | or the Quarter Ended |  |  |  |  |  | Percent Change From: |  | For the Year Ended |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | $\begin{aligned} & \text { ember 31, } \\ & 2022 \end{aligned}$ |  | $\begin{gathered} \text { tember 30, } \\ 2022 \end{gathered}$ |  | $\begin{aligned} & \text { cember 31, } \\ & 2021 \end{aligned}$ | $\begin{gathered} \hline \text { September 30, } \\ 2022 \end{gathered}$ | $\begin{gathered} \text { December 31, } \\ 2021 \end{gathered}$ |  | $\begin{aligned} & \text { ember 31, } \\ & 2022 \end{aligned}$ |  | $\begin{aligned} & \text { ember 31, } \\ & 2021 \end{aligned}$ | Percent Change |
| Interest income | \$ | 55,192 | \$ | 50,174 | \$ | 39,956 | $10 \%$ | $38 \%$ | \$ | 188,828 | \$ | 153,256 | 23 \% |
| Interest expense |  | 3,453 |  | 2,133 |  | 1,847 | 62 \% | 87 \% |  | 8,948 |  | 7,131 | 25 \% |
| Net interest income before provision for credit losses on loans |  | 51,739 |  | 48,041 |  | 38,109 | 8 \% | $36 \%$ |  | 179,880 |  | 146,125 | 23 \% |
| Provision for (recapture of) credit losses on loans |  | 508 |  | 1,006 |  | (615) | (50)\% | 183 \% |  | 766 |  | $(3,134)$ | 124 \% |
| Net interest income after provision for credit losses on loans |  | 51,231 |  | 47,035 |  | 38,724 | $9 \%$ | $32 \%$ |  | 179,114 |  | 149,259 | 20 \% |
| Noninterest income: |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Service charges and fees on deposit accounts |  | 1,801 |  | 1,360 |  | 644 | 32 \% | 180 \% |  | 4,640 |  | 2,488 | 86 \% |
| Increase in cash surrender value of |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Servicing income |  | 138 |  | 125 |  | 138 | $10 \%$ | $0 \%$ |  | 508 |  | 553 | (8)\% |
| Gain on sales of SBA loans |  | - |  | 308 |  | 491 | (100)\% | (100)\% |  | 491 |  | 1,718 | (71)\% |
| Gain on warrants |  | - |  | 32 |  | - | (100)\% | N/A |  | 669 |  | 11 | 5982 \% |
| Termination fees |  | - |  | 16 |  | 618 | (100)\% | (100)\% |  | 61 |  | 797 | (92)\% |
| Gain on proceeds from company-owned life insurance |  | - |  | - |  | 104 | N/A | (100)\% |  | 27 |  | 675 | (96)\% |
| Other |  | 352 |  | 456 |  | 361 | (23)\% | (2)\% |  | 1,790 |  | 1,608 | $11 \%$ |
| Total noninterest income |  | 2,772 |  | 2,781 |  | 2,810 | 0 \% | (1)\% |  | 10,111 |  | 9,688 | 4 \% |
| Noninterest expense: |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Salaries and employee benefits |  | 13,915 |  | 14,119 |  | 12,871 | (1)\% | 8 \% |  | 55,331 |  | 51,862 | 7 \% |
| Occupancy and equipment |  | 2,510 |  | 2,415 |  | 2,366 | $4 \%$ | $6 \%$ |  | 9,639 |  | 9,038 | 7 \% |
| Professional fees |  | 1,414 |  | 1,230 |  | 1,200 | 15 \% | 18 \% |  | 5,015 |  | 5,901 | (15)\% |
| Other |  | 6,679 |  | 6,135 |  | 5,790 | $9 \%$ | 15 \% |  | 24,874 |  | 26,276 | (5)\% |
| Total noninterest expense |  | 24,518 |  | 23,899 |  | 22,227 | $3 \%$ | $10 \%$ |  | 94,859 |  | 93,077 | 2 \% |
| Income before income taxes |  | 29,485 |  | 25,917 |  | 19,307 | 14 \% | $53 \%$ |  | 94,366 |  | 65,870 | 43 \% |
| Income tax expense |  | 8,686 |  | 7,848 |  | 5,342 | $11 \%$ | 63 \% |  | 27,811 |  | 18,170 | 53 \% |
| Net income | \$ | 20,799 | \$ | 18,069 | \$ | 13,965 | $15 \%$ | 49 \% | \$ | 66,555 | \$ | 47,700 | 40 \% |
| PER COMMON SHARE DATA (unaudited) |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic earnings per share | \$ | 0.34 | \$ | 0.30 | \$ | 0.23 | 13 \% | $48 \%$ | \$ | 1.10 | \$ | 0.79 | $39 \%$ |
| Diluted earnings per share | \$ | 0.34 | \$ | 0.30 | \$ | 0.23 | $13 \%$ | $48 \%$ | \$ | 1.09 | \$ | 0.79 | 38 \% |
| Weighted average shares outstanding - basic |  | 60,788,803 |  | 60,686,992 |  | 60,298,424 | 0 \% | $1 \%$ |  | 60,602,962 |  | 60,133,821 | $1 \%$ |
| Weighted average shares outstanding - diluted |  | 61,357,023 |  | 61,123,801 |  | 60,844,221 | 0 \% | $1 \%$ |  | 61,090,290 |  | 60,689,062 | $1 \%$ |
| Common shares outstanding at period-end |  | 60,852,723 |  | 60,716,794 |  | 60,339,837 | 0 \% | $1 \%$ |  | 60,852,723 |  | 60,339,837 | $1 \%$ |
| Dividend per share | \$ | 0.13 | \$ | 0.13 | \$ | 0.13 | $0 \%$ | $0 \%$ | \$ | 0.52 | \$ | 0.52 | 0 \% |
| Book value per share | \$ | 10.39 | \$ | 10.04 | \$ | 9.91 | $3 \%$ | $5 \%$ | \$ | 10.39 | \$ | 9.91 | $5 \%$ |
| Tangible book value per share | \$ | 7.46 | \$ | 7.09 | \$ | 6.91 | $5 \%$ | 8 \% | \$ | 7.46 | \$ | 6.91 | 8 \% |
| KEY FINANCIAL RATIOS(unaudited) |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Annualized return on average tangible common equity |  | 18.89 \% |  | 16.60 \% |  | 13.50 \% | 14 \% | $40 \%$ |  | 15.57 \% |  | 11.86 \% | $31 \%$ |
| Annualized return on average assets |  | 1.54 \% |  | 1.31 \% |  | 0.97 \% | 18 \% | 59 \% |  | 1.23 \% |  | 0.92 \% | 34 \% |
| Annualized return on average tangible assets |  | 1.59 \% |  | $1.36 \%$ |  | 1.00 \% | 17 \% | 59 \% |  | 1.27 \% |  | 0.96 \% | 32 \% |
| Net interest margin (FTE) |  | 4.10 \% |  | 3.73 \% |  | $2.84 \%$ | $10 \%$ | $44 \%$ |  | 3.57 \% |  | $3.05 \%$ | 17 \% |
| Efficiency ratio |  | 44.98 \% |  | 47.02 \% |  | 54.32 \% | (4)\% | (17)\% |  | 49.93 \% |  | 59.74 \% | (16)\% |
| AVERAGE BALANCES <br> (in \$000's, unaudited) |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Average assets | \$ | 5,360,867 | \$ | 5,466,330 | \$ | 5,695,136 | (2)\% | (6)\% | \$ | 5,401,220 | \$ | 5,166,294 | $5 \%$ |
| Average tangible assets | \$ | 5,181,793 | \$ | 5,286,591 | \$ | 5,513,359 | (2)\% | (6)\% | \$ | 5,221,159 | \$ | 4,983,407 | $5 \%$ |
| Average earning assets | \$ | 5,009,578 | \$ | 5,117,373 | \$ | 5,336,129 | (2)\% | (6)\% | \$ | 5,051,552 | \$ | 4,805,630 | 5 \% |
| Average loans held-for-sale | \$ | 2,346 | \$ | 3,282 | \$ | 4,047 | (29)\% | (42)\% | \$ | 2,238 | \$ | 4,095 | (45)\% |
| Average total loans | \$ | 3,248,210 | \$ | 3,140,705 | \$ | 2,872,074 | $3 \%$ | 13 \% | \$ | 3,116,768 | \$ | 2,762,226 | 13 \% |
| Average deposits | \$ | 4,600,533 | \$ | 4,712,044 | \$ | 4,945,204 | (2)\% | (7)\% | \$ | 4,647,200 | \$ | 4,426,885 | $5 \%$ |
| Average demand deposits - noninterest-bearing | \$ | 1,851,003 | \$ | 1,910,748 | \$ | 1,979,940 | (3)\% | (7)\% | \$ | 1,863,928 | \$ | 1,834,909 | 2 \% |
| Average interest-bearing deposits | \$ | 2,749,530 | \$ | 2,801,296 | \$ | 2,965,264 | (2)\% | (7)\% | \$ | 2,783,272 | \$ | 2,591,976 | 7 \% |
| Average interest-bearing liabilities | \$ | 2,788,880 | \$ | 2,840,611 | \$ | 3,005,212 | (2)\% | (7)\% | \$ | 2,825,035 | \$ | 2,631,848 | 7 \% |
| Average equity | \$ | 615,941 | \$ | 611,707 | \$ | 592,291 | $1 \%$ | $4 \%$ | \$ | 607,603 | \$ | 585,156 | 4 \% |
| Average tangible common equity | \$ | 436,867 | \$ | 431,968 | \$ | 410,514 | $1 \%$ | 6 \% | \$ | 427,542 | \$ | 402,269 | $6 \%$ |


| CONSOLIDATED INCOME STATEMENTS <br> (in \$000's, unaudited) | For the Quarter Ended: |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \hline \text { December 31, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2022 \\ \hline \end{gathered}$ |  | June 30, 2022 |  | $\begin{gathered} \hline \text { March 31, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2021 \\ \hline \end{gathered}$ |  |
| Interest income | \$ | 55,192 | \$ | 50,174 | \$ | 43,556 | \$ | 39,906 | \$ | 39,956 |
| Interest expense |  | 3,453 |  | 2,133 |  | 1,677 |  | 1,685 |  | 1,847 |
| Net interest income before provision for credit losses on loans |  | 51,739 |  | 48,041 |  | 41,879 |  | 38,221 |  | 38,109 |
| Provision for (recapture of) credit losses on loans |  | 508 |  | 1,006 |  | (181) |  | (567) |  | (615) |
| Net interest income after provision for credit losses on loans |  | 51,231 |  | 47,035 |  | 42,060 |  | 38,788 |  | 38,724 |
| Noninterest income: |  |  |  |  |  |  |  |  |  |  |
| Service charges and fees on deposit accounts |  | 1,801 |  | 1,360 |  | 867 |  | 612 |  | 644 |
| Increase in cash surrender value of life insurance |  | 481 |  | 484 |  | 480 |  | 480 |  | 454 |
| Servicing income |  | 138 |  | 125 |  | 139 |  | 106 |  | 138 |
| Gain on sales of SBA loans |  | - |  | 308 |  | 27 |  | 156 |  | 491 |
| Gain on warrants |  | - |  | 32 |  | - |  | 637 |  | - |
| Termination fees |  | - |  | 16 |  | 45 |  | - |  | 618 |
| Gain on proceeds from company-owned |  |  |  |  |  |  |  |  |  |  |
| life insurance |  | - |  | - |  | 27 |  | - |  | 104 |
| Other |  | 352 |  | 456 |  | 513 |  | 469 |  | 361 |
| Total noninterest income |  | 2,772 |  | 2,781 |  | 2,098 |  | 2,460 |  | 2,810 |
| Noninterest expense: |  |  |  |  |  |  |  |  |  |  |
| Salaries and employee benefits |  | 13,915 |  | 14,119 |  | 13,476 |  | 13,821 |  | 12,871 |
| Occupancy and equipment |  | 2,510 |  | 2,415 |  | 2,277 |  | 2,437 |  | 2,366 |
| Professional fees |  | 1,414 |  | 1,230 |  | 1,291 |  | 1,080 |  | 1,200 |
| Other |  | 6,679 |  | 6,135 |  | 6,146 |  | 5,914 |  | 5,790 |
| Total noninterest expense |  | 24,518 |  | 23,899 |  | 23,190 |  | 23,252 |  | 22,227 |
| Income before income taxes |  | 29,485 |  | 25,917 |  | 20,968 |  | 17,996 |  | 19,307 |
| Income tax expense |  | 8,686 |  | 7,848 |  | 6,147 |  | 5,130 |  | 5,342 |
| Net income | \$ | 20,799 | \$ | 18,069 | \$ | 14,821 | \$ | 12,866 | \$ | 13,965 |
| PER COMMON SHARE DATA (unaudited) |  |  |  |  |  |  |  |  |  |  |
| Basic earnings per share | \$ | 0.34 | \$ | 0.30 | \$ | 0.24 | \$ | 0.21 | \$ | 0.23 |
| Diluted earnings per share | \$ | 0.34 | \$ | 0.30 | \$ | 0.24 | \$ | 0.21 | \$ | 0.23 |
| Weighted average shares outstanding - basic |  | 60,788,803 |  | 60,686,992 |  | 60,542,170 |  | 60,393,883 |  | 60,298,424 |
| Weighted average shares outstanding - diluted |  | 61,357,023 |  | 61,123,801 |  | 60,969,154 |  | 60,921,835 |  | 60,844,221 |
| Common shares outstanding at period-end |  | 60,852,723 |  | 60,716,794 |  | 60,666,794 |  | 60,407,846 |  | 60,339,837 |
| Dividend per share | \$ | 0.13 | \$ | 0.13 | \$ | 0.13 | \$ | 0.13 | \$ | 0.13 |
| Book value per share | \$ | 10.39 | \$ | 10.04 | \$ | 10.01 | \$ | 9.95 | \$ | 9.91 |
| Tangible book value per share | \$ | 7.46 | \$ | 7.09 | \$ | 7.04 | \$ | 6.96 | \$ | 6.91 |
| KEY FINANCIAL RATIOS (unaudited) |  |  |  |  |  |  |  |  |  |  |
| Annualized return on average equity |  | 13.40 \% |  | 11.72 \% |  | 9.86 \% |  | 8.71 \% |  | 9.35 \% |
| Annualized return on average tangible common equity |  | 18.89 \% |  | 16.60 \% |  | 14.06 \% |  | 12.47 \% |  | 13.50 \% |
| Annualized return on average assets |  | 1.54 \% |  | 1.31 \% |  | 1.11 \% |  | 0.96 \% |  | 0.97 \% |
| Annualized return on average tangible assets |  | 1.59 \% |  | 1.36 \% |  | 1.15 \% |  | 0.99 \% |  | 1.00 \% |
| Net interest margin (FTE) |  | 4.10 \% |  | 3.73 \% |  | 3.38 \% |  | 3.05 \% |  | 2.84 \% |
| Efficiency ratio |  | 44.98 \% |  | 47.02 \% |  | 52.73 \% |  | 57.16 \% |  | 54.32 \% |
| AVERAGE BALANCES (in $\$ 000$ 's, unaudited) |  |  |  |  |  |  |  |  |  |  |
| Average assets | \$ | 5,360,867 | \$ | 5,466,330 | \$ | 5,334,636 | \$ | 5,443,240 | \$ | 5,695,136 |
| Average tangible assets | \$ | 5,181,793 | \$ | 5,286,591 | \$ | 5,154,245 | \$ | 5,262,175 | \$ | 5,513,359 |
| Average earning assets | \$ | 5,009,578 | \$ | 5,117,373 | \$ | 4,985,611 | \$ | 5,093,851 | \$ | 5,336,129 |
| Average loans held-for-sale | \$ | 2,346 | \$ | 3,282 | \$ | 1,824 | \$ | 1,478 | \$ | 4,047 |
| Average total loans | \$ | 3,248,210 | \$ | 3,140,705 | \$ | 3,048,353 | \$ | 3,027,111 | \$ | 2,872,074 |
| Average deposits | \$ | 4,600,533 | \$ | 4,712,044 | \$ | 4,579,436 | \$ | 4,697,136 | \$ | 4,945,204 |
| Average demand deposits - noninterest-bearing | \$ | 1,851,003 | \$ | 1,910,748 | \$ | 1,836,350 | \$ | 1,857,164 | \$ | 1,979,940 |
| Average interest-bearing deposits | \$ | 2,749,530 | \$ | 2,801,296 | \$ | 2,743,086 | \$ | 2,839,972 | \$ | 2,965,264 |
| Average interest-bearing liabilities | \$ | 2,788,880 | \$ | 2,840,611 | \$ | 2,791,527 | \$ | 2,879,952 | \$ | 3,005,212 |
| Average equity | \$ | 615,941 | \$ | 611,707 | \$ | 603,182 | \$ | 599,355 | \$ | 592,291 |
| Average tangible common equity | \$ | 436,867 | \$ | 431,968 | \$ | 422,791 | \$ | 418,290 | \$ | 410,514 |


| CONSOLIDATED BALANCE SHEETS (in \$000's, unaudited) | End of Period: |  |  |  |  |  | Percent Change From: |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \hline \text { December 31, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2021 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2022 \end{gathered}$ | $\begin{gathered} \text { December 31, } \\ 2021 \end{gathered}$ |
| ASSETS |  |  |  |  |  |  |  |  |
| Cash and due from banks | \$ | 27,595 | \$ | 40,500 | \$ | 15,703 | (32)\% | 76 \% |
| Other investments and interest-bearing deposits in other financial institutions |  | 279,008 |  | 641,251 |  | 1,290,513 | (56)\% | (78)\% |
| Securities available-for-sale, at fair value |  | 489,596 |  | 478,534 |  | 102,252 | $2 \%$ | 379 \% |
| Securities held-to-maturity, at amortized cost |  | 714,990 |  | 703,794 |  | 658,397 | $2 \%$ | 9 \% |
| Loans held-for-sale - SBA, including deferred costs |  | 2,456 |  | 2,081 |  | 2,367 | 18 \% | $4 \%$ |
| Loans: |  |  |  |  |  |  |  |  |
| Commercial |  | 532,749 |  | 541,215 |  | 594,108 | (2)\% | (10)\% |
| PPP loans |  | 1,166 |  | 1,614 |  | 88,726 | (28)\% | (99)\% |
| Real estate: |  |  |  |  |  |  |  |  |
| CRE - owner occupied |  | 614,663 |  | 612,241 |  | 595,934 | $0 \%$ | $3 \%$ |
| CRE - non-owner occupied |  | 1,066,368 |  | 1,023,405 |  | 902,326 | $4 \%$ | 18 \% |
| Land and construction |  | 163,577 |  | 167,439 |  | 147,855 | (2)\% | $11 \%$ |
| Home equity |  | 120,724 |  | 116,489 |  | 109,579 | $4 \%$ | $10 \%$ |
| Multifamily |  | 244,882 |  | 229,455 |  | 218,856 | $7 \%$ | 12 \% |
| Residential mortgages |  | 537,905 |  | 508,839 |  | 416,660 | 6 \% | 29 \% |
| Consumer and other |  | 17,033 |  | 16,620 |  | 16,744 | $2 \%$ | 2 \% |
| Loans |  | 3,299,067 |  | 3,217,317 |  | 3,090,788 | $3 \%$ | 7 \% |
| Deferred loan fees, net |  | (517) |  | (844) |  | $(3,462)$ | (39)\% | (85)\% |
| Total loans, net of deferred costs and fees |  | 3,298,550 |  | 3,216,473 |  | 3,087,326 | $3 \%$ | 7 \% |
| Allowance for credit losses on loans |  | $(47,512)$ |  | $(46,921)$ |  | $(43,290)$ | $1 \%$ | $10 \%$ |
| Loans, net |  | 3,251,038 |  | 3,169,552 |  | 3,044,036 | $3 \%$ | $7 \%$ |
| Company-owned life insurance |  | 78,945 |  | 78,456 |  | 77,589 | $1 \%$ | 2 \% |
| Premises and equipment, net |  | 9,301 |  | 9,428 |  | 9,639 | (1)\% | (4)\% |
| Goodwill |  | 167,631 |  | 167,631 |  | 167,631 | 0 \% | 0 \% |
| Other intangible assets |  | 11,033 |  | 11,692 |  | 13,668 | (6)\% | (19)\% |
| Accrued interest receivable and other assets |  | 122,631 |  | 128,343 |  | 117,614 | (4)\% | 4 \% |
| Total assets | \$ | 5,154,224 | \$ | 5,431,262 | \$ | 5,499,409 | (5)\% | (6)\% |
| LIABILITIES AND SHAREHOLDERS' EQUITY |  |  |  |  |  |  |  |  |
| Liabilities: |  |  |  |  |  |  |  |  |
| Deposits: |  |  |  |  |  |  |  |  |
| Demand, noninterest-bearing | \$ | 1,736,722 | \$ | 1,883,574 | \$ | 1,903,768 | (8)\% | (9)\% |
| Demand, interest-bearing |  | 1,196,427 |  | 1,154,403 |  | 1,308,114 | $4 \%$ | (9)\% |
| Savings and money market |  | 1,285,444 |  | 1,487,400 |  | 1,375,825 | (14)\% | (7)\% |
| Time deposits - under \$250 |  | 32,445 |  | 34,728 |  | 38,734 | (7)\% | (16)\% |
| Time deposits - \$250 and over |  | 108,192 |  | 93,263 |  | 94,700 | 16 \% | 14 \% |
| CDARS - money market and time deposits |  | 30,374 |  | 29,897 |  | 38,271 | 2 \% | (21)\% |
| Total deposits |  | 4,389,604 |  | 4,683,265 |  | 4,759,412 | (6)\% | (8)\% |
| Subordinated debt, net of issuance costs |  | 39,350 |  | 39,312 |  | 39,925 | 0 \% | (1)\% |
| Accrued interest payable and other liabilities |  | 92,814 |  | 99,168 |  | 102,044 | (6)\% | (9)\% |
| Total liabilities |  | 4,521,768 |  | 4,821,745 |  | 4,901,381 | (6)\% | (8)\% |
| Shareholders' Equity: |  |  |  |  |  |  |  |  |
| Common stock |  | 502,923 |  | 501,240 |  | 497,695 | 0 \% | $1 \%$ |
| Retained earnings |  | 146,389 |  | 133,489 |  | 111,329 | 10 \% | 31 \% |
| Accumulated other comprehensive loss |  | $(16,856)$ |  | $(25,212)$ |  | $(10,996)$ | 33 \% | (53)\% |
| Total shareholders' equity |  | 632,456 |  | 609,517 |  | 598,028 | 4 \% | 6 \% |
| Total liabilities and shareholders' equity | \$ | 5,154,224 | \$ | 5,431,262 | \$ | 5,499,409 | (5)\% | (6)\% |


| CONSOLIDATED BALANCE SHEETS (in \$000's, unaudited) | End of Period: |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \hline \text { December 31, } \\ 2022 \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { June 30, } \\ 2022 \end{gathered}$ |  | $\begin{gathered} \hline \text { March 31, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2021 \\ \hline \end{gathered}$ |  |
| ASSETS |  |  |  |  |  |  |  |  |  |  |
| Cash and due from banks | \$ | 27,595 | \$ | 40,500 | \$ | 35,764 | \$ | 29,729 | \$ | 15,703 |
| Other investments and interest-bearing deposits |  |  |  |  |  |  |  |  |  |  |
| Securities available-for-sale, at fair value |  | 489,596 |  | 478,534 |  | 332,129 |  | 111,217 |  | 102,252 |
| Securities held-to-maturity, at amortized cost |  | 714,990 |  | 703,794 |  | 723,716 |  | 736,823 |  | 658,397 |
| Loans held-for-sale - SBA, including deferred costs |  | 2,456 |  | 2,081 |  | 2,281 |  | 831 |  | 2,367 |
| Loans: |  |  |  |  |  |  |  |  |  |  |
| Commercial |  | 532,749 |  | 541,215 |  | 523,268 |  | 568,053 |  | 594,108 |
| PPP loans |  | 1,166 |  | 1,614 |  | 8,153 |  | 37,393 |  | 88,726 |
| Real estate: |  |  |  |  |  |  |  |  |  |  |
| CRE - owner occupied |  | 614,663 |  | 612,241 |  | 597,521 |  | 597,542 |  | 595,934 |
| CRE - non-owner occupied |  | 1,066,368 |  | 1,023,405 |  | 993,621 |  | 928,220 |  | 902,326 |
| Land and construction |  | 163,577 |  | 167,439 |  | 155,389 |  | 153,323 |  | 147,855 |
| Home equity |  | 120,724 |  | 116,489 |  | 116,641 |  | 111,609 |  | 109,579 |
| Multifamily |  | 244,882 |  | 229,455 |  | 221,938 |  | 221,767 |  | 218,856 |
| Residential mortgages |  | 537,905 |  | 508,839 |  | 448,958 |  | 391,171 |  | 416,660 |
| Consumer and other |  | 17,033 |  | 16,620 |  | 18,354 |  | 17,110 |  | 16,744 |
| Loans |  | 3,299,067 |  | 3,217,317 |  | 3,083,843 |  | 3,026,188 |  | 3,090,788 |
| Deferred loan fees, net |  | (517) |  | (844) |  | $(1,391)$ |  | $(2,124)$ |  | $(3,462)$ |
| Total loans, net of deferred fees |  | 3,298,550 |  | 3,216,473 |  | 3,082,452 |  | 3,024,064 |  | 3,087,326 |
| Allowance for credit losses on loans |  | $(47,512)$ |  | $(46,921)$ |  | $(45,490)$ |  | $(42,788)$ |  | $(43,290)$ |
| Loans, net |  | 3,251,038 |  | 3,169,552 |  | 3,036,962 |  | 2,981,276 |  | 3,044,036 |
| Company-owned life insurance |  | 78,945 |  | 78,456 |  | 77,972 |  | 78,069 |  | 77,589 |
| Premises and equipment, net |  | 9,301 |  | 9,428 |  | 9,593 |  | 9,580 |  | 9,639 |
| Goodwill |  | 167,631 |  | 167,631 |  | 167,631 |  | 167,631 |  | 167,631 |
| Other intangible assets |  | 11,033 |  | 11,692 |  | 12,351 |  | 13,009 |  | 13,668 |
| Accrued interest receivable and other assets |  | 122,631 |  | 128,343 |  | 117,621 |  | 111,797 |  | 117,614 |
| Total assets | \$ | 5,154,224 | \$ | 5,431,262 | \$ | $\underline{5,356,841}$ | \$ | $\underline{5,427,398}$ | \$ | 5,499,409 |
| LIABILITIES AND SHAREHOLDERS' EQUITY |  |  |  |  |  |  |  |  |  |  |
| Liabilities: |  |  |  |  |  |  |  |  |  |  |
| Deposits: |  |  |  |  |  |  |  |  |  |  |
| Demand, noninterest-bearing | \$ | 1,736,722 | \$ | 1,883,574 | \$ | 1,846,365 | \$ | 1,811,943 | \$ | 1,903,768 |
| Demand, interest-bearing |  | 1,196,427 |  | 1,154,403 |  | 1,218,538 |  | 1,268,942 |  | 1,308,114 |
| Savings and money market |  | 1,285,444 |  | 1,487,400 |  | 1,387,003 |  | 1,447,434 |  | 1,375,825 |
| Time deposits - under \$250 |  | 32,445 |  | 34,728 |  | 36,691 |  | 38,417 |  | 38,734 |
| Time deposits - \$250 and over |  | 108,192 |  | 93,263 |  | 98,760 |  | 93,161 |  | 94,700 |
| CDARS - money market and time deposits |  | 30,374 |  | 29,897 |  | 26,287 |  | 30,008 |  | 38,271 |
| Total deposits |  | 4,389,604 |  | 4,683,265 |  | 4,613,644 |  | 4,689,905 |  | 4,759,412 |
| Subordinated debt, net of issuance costs |  | 39,350 |  | 39,312 |  | 39,274 |  | 39,987 |  | 39,925 |
| Accrued interest payable and other liabilities |  | 92,814 |  | 99,168 |  | 96,699 |  | 96,450 |  | 102,044 |
| Total liabilities |  | 4,521,768 |  | 4,821,745 |  | 4,749,617 |  | 4,826,342 |  | 4,901,381 |
| Shareholders' Equity: |  |  |  |  |  |  |  |  |  |  |
| Common stock |  | 502,923 |  | 501,240 |  | 499,832 |  | 498,763 |  | 497,695 |
| Retained earnings |  | 146,389 |  | 133,489 |  | 123,310 |  | 116,347 |  | 111,329 |
| Accumulated other comprehensive loss |  | $(16,856)$ |  | $(25,212)$ |  | $(15,918)$ |  | $(14,054)$ |  | $(10,996)$ |
| Total shareholders' equity |  | 632,456 |  | 609,517 |  | 607,224 |  | 601,056 |  | 598,028 |
| Total liabilities and shareholders' equity | \$ | 5,154,224 | \$ | 5,431,262 | \$ | 5,356,841 | \$ | 5,427,398 | \$ | 5,499,409 |


| CREDIT QUALITY DATA (in \$000's, unaudited) | At or For the Quarter Ended: |  |  |  |  |  | Percent Change From: |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \hline \text { December 31, } \\ 2022 \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2022 \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2021 \end{gathered}$ |  | $\begin{gathered} \text { September 30, } \\ 2022 \end{gathered}$ | $\begin{gathered} \text { December 31, } \\ 2021 \end{gathered}$ |
| Nonaccrual loans - held-for-investment | \$ | 740 | \$ | 491 | \$ | 3,460 | 51 \% | (79)\% |
| Restructured and loans over 90 days past due and still accruing |  | 1,685 |  | 545 |  | 278 | 209 \% | 506 \% |
| Total nonperforming loans |  | 2,425 |  | 1,036 |  | 3,738 | 134 \% | (35)\% |
| Foreclosed assets |  | - |  | - |  | - | N/A | N/A |
| Total nonperforming assets | \$ | 2,425 | \$ | 1,036 | \$ | 3,738 | 134 \% | (35)\% |
| Other restructured loans still accruing | \$ | 171 | \$ | 93 | \$ | 125 | 84 \% | 37 \% |
| Net charge-offs (recoveries) during the quarter | \$ | (83) | \$ | (425) | \$ | (225) | $80 \%$ | 63 \% |
| Provision for (recapture of) credit losses on loans during the quarter | \$ | 508 | \$ | 1,006 | \$ | (615) | (50)\% | 183 \% |
| Allowance for credit losses on loans | \$ | 47,512 | \$ | 46,921 | \$ | 43,290 | $1 \%$ | 10 \% |
| Classified assets | \$ | 14,544 | \$ | 28,570 | \$ | 33,719 | (49)\% | (57)\% |
| Allowance for credit losses on loans to total loans |  | 1.44 \% |  | 1.46 \% |  | 1.40 \% | (1)\% | $3 \%$ |
| Allowance for credit losses on loans to total nonperforming loans |  | 1,959.26 \% |  | 4,529.05 \% |  | 1,158.11 \% | (57)\% | 69 \% |
| Nonperforming assets to total assets |  | 0.05 \% |  | 0.02 \% |  | 0.07 \% | 150 \% | (29)\% |
| Nonperforming loans to total loans |  | 0.07 \% |  | 0.03 \% |  | 0.12 \% | 133 \% | (42)\% |
| Classified assets to Heritage Commerce Corp |  |  |  |  |  |  |  |  |
| Tier 1 capital plus allowance for credit losses on loans |  | $3 \%$ |  | 6 \% |  | 7 \% | (50)\% | (57)\% |
| Classified assets to Heritage Bank of Commerce |  |  |  |  |  |  |  |  |
| Tier 1 capital plus allowance for credit losses on loans |  | $3 \%$ |  | $5 \%$ |  | 7 \% | (40)\% | (57)\% |
| OTHER PERIOD-END STATISTICS (in \$000's, unaudited) |  |  |  |  |  |  |  |  |
| Heritage Commerce Corp: |  |  |  |  |  |  |  |  |
| Tangible common equity ${ }^{(1)}$ | \$ | 453,792 | \$ | 430,194 | \$ | 416,729 | 5 \% | $9 \%$ |
| Shareholders' equity / total assets |  | 12.27 \% |  | 11.22 \% |  | 10.87 \% | $9 \%$ | $13 \%$ |
| Tangible common equity / tangible assets ${ }^{(2)}$ |  | 9.12 \% |  | 8.19 \% |  | 7.84 \% | $11 \%$ | 16 \% |
| Loan to deposit ratio |  | 75.14 \% |  | 68.68 \% |  | 64.87 \% | $9 \%$ | 16 \% |
| Noninterest-bearing deposits / total deposits |  | 39.56 \% |  | 40.22 \% |  | 40.00 \% | (2)\% | (1)\% |
| Total capital ratio |  | 14.8 \% |  | 14.5 \% |  | 14.4 \% | 2 \% | $3 \%$ |
| Tier 1 capital ratio |  | 12.7 \% |  | 12.4 \% |  | 12.3 \% | 2 \% | $3 \%$ |
| Common Equity Tier 1 capital ratio |  | 12.7 \% |  | 12.4 \% |  | 12.3 \% | 2 \% | $3 \%$ |
| Tier 1 leverage ratio |  | 9.2 \% |  | 8.7 \% |  | 7.9 \% | 6 \% | 16 \% |
| Heritage Bank of Commerce: |  |  |  |  |  |  |  |  |
| Total capital ratio |  | 14.2 \% |  | 14.0 \% |  | 13.8 \% | $1 \%$ | $3 \%$ |
| Tier 1 capital ratio |  | 13.2 \% |  | 12.9 \% |  | 12.8 \% | 2 \% | $3 \%$ |
| Common Equity Tier 1 capital ratio |  | 13.2 \% |  | 12.9 \% |  | 12.8 \% | 2 \% | $3 \%$ |
| Tier 1 leverage ratio |  | $9.5 \%$ |  | 9.0 \% |  | 8.2 \% | 6 \% | 16 \% |

(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 <br> (in \$000's, unaudited) | $\begin{gathered} \hline \text { December 31, } \\ 2022 \\ \hline \end{gathered}$ |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  | $\begin{gathered} \text { September 30, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { June 30, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { March 31, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2021 \\ \hline \end{gathered}$ |  |
| Nonaccrual loans - held-for-investment | \$ | 740 | \$ | 491 | \$ | 1,734 | \$ | 3,303 | \$ | 3,460 |
| Restructured and loans over 90 days past due |  |  |  |  |  |  |  |  |  |  |
| Total nonperforming loans |  | 2,425 |  | 1,036 |  | 2,715 |  | 3,830 |  | 3,738 |
| Foreclosed assets |  | - |  | - |  | - |  | - |  | - |
| Total nonperforming assets | \$ | 2,425 | \$ | 1,036 | \$ | 2,715 | \$ | 3,830 | \$ | 3,738 |
| Other restructured loans still accruing | \$ | 171 | \$ | 93 | \$ | 113 | \$ | 125 | \$ | 125 |
| Net charge-offs (recoveries) during the quarter | \$ | (83) | \$ | (425) | \$ | $(2,883)$ | \$ | (65) | \$ | (225) |
| Provision for (recapture of) credit losses on loans during the quarter | \$ | 508 | \$ | 1,006 | \$ | (181) | \$ | (567) | \$ | (615) |
| Allowance for credit losses on loans | \$ | 47,512 | \$ | 46,921 | \$ | 45,490 | \$ | 42,788 | \$ | 43,290 |
| Classified assets | \$ | 14,544 | \$ | 28,570 | \$ | 28,929 | \$ | 30,579 | \$ | 33,719 |
| Allowance for credit losses on loans to total loans |  | 1.44 \% |  | 1.46 \% |  | 1.48 \% |  | 1.41 \% |  | 1.40 \% |
| Allowance for credit losses on loans to total nonperforming loans |  | 1,959.26 \% |  | 4,529.05 \% |  | 1,675.51 \% |  | 1,117.18\% |  | 1,158.11\% |
| Nonperforming assets to total assets |  | 0.05 \% |  | 0.02 \% |  | 0.05 \% |  | 0.07 \% |  | 0.07 \% |
| Nonperforming loans to total loans |  | 0.07 \% |  | 0.03 \% |  | 0.09 \% |  | 0.13 \% |  | 0.12 \% |
| Classified assets to Heritage Commerce Corp |  |  |  |  |  |  |  |  |  |  |
| Tier 1 capital plus allowance for credit losses on loans |  | $3 \%$ |  | 6 \% |  | 6 \% |  | 6 \% |  | $7 \%$ |
| Classified assets to Heritage Bank of Commerce |  |  |  |  |  |  |  |  |  |  |
| Tier 1 capital plus allowance for credit losses on loans |  | $3 \%$ |  | $5 \%$ |  | 6 \% |  | 6 \% |  | 7 \% |
| OTHER PERIOD-END STATISTICS (in \$000's, unaudited) |  |  |  |  |  |  |  |  |  |  |
| Heritage Commerce Corp: |  |  |  |  |  |  |  |  |  |  |
| Tangible common equity ${ }^{(1)}$ | \$ | 453,792 | \$ | 430,194 | \$ | 427,242 | \$ | 420,416 | \$ | 416,729 |
| Shareholders' equity / total assets |  | 12.27 \% |  | 11.22 \% |  | 11.34 \% |  | 11.07 \% |  | 10.87 \% |
| Tangible common equity / tangible assets ${ }^{(2)}$ |  | 9.12 \% |  | 8.19 \% |  | 8.25 \% |  | 8.01 \% |  | 7.84 \% |
| Loan to deposit ratio |  | 75.14 \% |  | 68.68 \% |  | 66.81 \% |  | 64.48 \% |  | 64.87 \% |
| Noninterest-bearing deposits / total deposits |  | 39.56 \% |  | 40.22 \% |  | 40.02 \% |  | 38.63 \% |  | 40.00 \% |
| Total capital ratio |  | 14.8 \% |  | 14.5 \% |  | 14.6 \% |  | 14.6 \% |  | 14.4 \% |
| Tier 1 capital ratio |  | 12.7 \% |  | 12.4 \% |  | 12.5 \% |  | 12.4 \% |  | 12.3 \% |
| Common Equity Tier 1 capital ratio |  | 12.7 \% |  | 12.4 \% |  | 12.5 \% |  | 12.4 \% |  | 12.3 \% |
| Tier 1 leverage ratio |  | 9.2 \% |  | 8.7 \% |  | 8.7 \% |  | 8.3 \% |  | 7.9 \% |
| Heritage Bank of Commerce: |  |  |  |  |  |  |  |  |  |  |
| Total capital ratio |  | 14.2 \% |  | 14.0 \% |  | 14.1 \% |  | 13.9 \% |  | 13.8 \% |
| Tier 1 capital ratio |  | 13.2 \% |  | 12.9 \% |  | 13.0 \% |  | 12.9 \% |  | 12.8 \% |
| Common Equity Tier 1 capital ratio |  | 13.2 \% |  | 12.9 \% |  | 13.0 \% |  | 12.9 \% |  | 12.8 \% |
| Tier 1 leverage ratio |  | 9.5 \% |  | 9.0 \% |  | 9.0 \% |  | 8.7 \% |  | 8.2 \% |

(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 December 31, 2022 |  |  |  |  | For the Quarter Ended December 31, 2021 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average Balance |  | Interest Income/ 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 ${ }^{(1)(2)}$ | \$ | 3,250,556 | \$ | 42,501 | 5.19 \% | \$ | 2,876,121 | \$ | 35,762 | 4.93 \% |
| Securities - taxable |  | 1,156,563 |  | 6,941 | 2.38 \% |  | 660,663 |  | 2,686 | 1.61 \% |
| Securities - exempt from Federal tax ${ }^{(3)}$ |  | 37,958 |  | 324 | 3.39 \% |  | 54,965 |  | 457 | 3.30 \% |
| Other investments and interest-bearing deposits in other financial institutions |  | 564,501 |  | 5,494 | 3.86 \% |  | 1,744,380 |  | 1,147 | 0.26 \% |
| Total interest earning assets ${ }^{(3)}$ |  | 5,009,578 |  | 55,260 | 4.38 \% |  | 5,336,129 |  | 40,052 | 2.98 \% |
| Cash and due from banks |  | 36,392 |  |  |  |  | 38,178 |  |  |  |
| Premises and equipment, net |  | 9,436 |  |  |  |  | 9,755 |  |  |  |
| Goodwill and other intangible assets |  | 179,074 |  |  |  |  | 181,777 |  |  |  |
| Other assets |  | 126,387 |  |  |  |  | 129,297 |  |  |  |
| Total assets | \$ | 5,360,867 |  |  |  | \$ | 5,695,136 |  |  |  |
| Liabilities and shareholders' equity: |  |  |  |  |  |  |  |  |  |  |
| Deposits: |  |  |  |  |  |  |  |  |  |  |
| Demand, noninterest-bearing | \$ | 1,851,003 |  |  |  | \$ | 1,979,940 |  |  |  |
| Demand, interest-bearing |  | 1,164,378 |  | 945 | 0.32 \% |  | 1,346,878 |  | 559 | 0.16 \% |
| Savings and money market |  | 1,424,964 |  | 1,694 | 0.47 \% |  | 1,451,230 |  | 582 | 0.16 \% |
| Time deposits - under \$100 |  | 12,157 |  | 7 | 0.23 \% |  | 13,766 |  | 5 | 0.14 \% |
| Time deposits - \$100 and over |  | 120,246 |  | 268 | 0.88 \% |  | 118,089 |  | 116 | 0.39 \% |
| CDARS - money market and time deposits |  | 27,785 |  | 1 | 0.01 \% |  | 35,301 |  | , | 0.02 \% |
| Total interest-bearing deposits |  | 2,749,530 |  | 2,915 | 0.42 \% |  | 2,965,264 |  | 1,264 | 0.17 \% |
| Total deposits |  | 4,600,533 |  | 2,915 | 0.25 \% |  | 4,945,204 |  | 1,264 | 0.10 \% |
| Subordinated debt, net of issuance costs |  | 39,326 |  | 538 | $5.43 \%$ |  | 39,896 |  | 583 | 5.80 \% |
| Short-term borrowings |  | 24 |  | - | 0.00 \% |  | 52 |  | - | 0.00 \% |
| Total interest-bearing liabilities |  | 2,788,880 |  | 3,453 | 0.49 \% |  | 3,005,212 |  | 1,847 | 0.24 \% |
| Total interest-bearing liabilities and demand, noninterest-bearing / cost of funds |  | 4,639,883 |  | 3,453 | 0.30 \% |  | 4,985,152 |  | 1,847 | 0.15 \% |
| Other liabilities |  | 105,043 |  |  |  |  | 117,693 |  |  |  |
| Total liabilities |  | 4,744,926 |  |  |  |  | 5,102,845 |  |  |  |
| Shareholders' equity |  | 615,941 |  |  |  |  | 592,291 |  |  |  |
| Total liabilities and shareholders' equity | \$ | 5,360,867 |  |  |  | \$ | 5,695,136 |  |  |  |
| Net interest income ${ }^{(3)} /$ margin |  |  |  | 51,807 | 4.10 \% |  |  |  | 38,205 | 2.84 \% |
| Less tax equivalent adjustment ${ }^{(3)}$ |  |  |  | (68) |  |  |  |  | (96) |  |
| Net interest income |  |  | \$ | 51,739 |  |  |  | \$ | 38,109 |  |

(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 $\$ 326,000$ for the fourth quarter of 2022 (of which $\$ 25,000$ was from PPP loans), compared to $\$ 2,567,000$ for the fourth quarter of 2021 (of which $\$ 2,211,000$ was from PPP loans). Prepayment fees totaled $\$ 123,000$ for the fourth quarter of 2022, compared to $\$ 397,000$ for the fourth 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 December 31, 2022 |  |  |  |  | For the Quarter Ended September 30, 2022 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average Balance |  | Interest Income/ 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 ${ }^{(1)(2)}$ | \$ | 3,250,556 | \$ | 42,501 | 5.19 \% | \$ | 3,143,987 | \$ | 38,870 | 4.90 \% |
| Securities - taxable |  | 1,156,563 |  | 6,941 | 2.38 \% |  | 1,076,742 |  | 5,874 | 2.16 \% |
| Securities - exempt from Federal tax ${ }^{(3)}$ |  | 37,958 |  | 324 | 3.39 \% |  | 38,733 |  | 329 | 3.37 \% |
| Other investments and interest-bearing deposits in other financial institutions |  | 564,501 |  | 5,494 | 3.86 \% |  | 857,911 |  | 5,170 | 2.39 \% |
| Total interest earning assets ${ }^{(3)}$ |  | 5,009,578 |  | 55,260 | 4.38 \% |  | 5,117,373 |  | 50,243 | 3.90 \% |
| Cash and due from banks |  | 36,392 |  |  |  |  | 37,961 |  |  |  |
| Premises and equipment, net |  | 9,436 |  |  |  |  | 9,591 |  |  |  |
| Goodwill and other intangible assets |  | 179,074 |  |  |  |  | 179,739 |  |  |  |
| Other assets |  | 126,387 |  |  |  |  | 121,666 |  |  |  |
| Total assets | \$ | 5,360,867 |  |  |  | \$ | 5,466,330 |  |  |  |
| Liabilities and shareholders' equity: |  |  |  |  |  |  |  |  |  |  |
| Deposits: |  |  |  |  |  |  |  |  |  |  |
| Demand, noninterest-bearing | \$ | 1,851,003 |  |  |  | \$ | 1,910,748 |  |  |  |
| Demand, interest-bearing |  | 1,164,378 |  | 945 | 0.32 \% |  | 1,205,937 |  | 543 | 0.18 \% |
| Savings and money market |  | 1,424,964 |  | 1,694 | 0.47 \% |  | 1,429,055 |  | 925 | 0.26 \% |
| Time deposits - under \$100 |  | 12,157 |  | 7 | 0.23 \% |  | 12,329 |  | 5 | 0.16 \% |
| Time deposits - \$100 and over |  | 120,246 |  | 268 | 0.88 \% |  | 123,458 |  | 121 | 0.39 \% |
| CDARS - money market and time deposits |  | 27,785 |  | 1 | 0.01 \% |  | 30,517 |  | 1 | 0.01 \% |
| Total interest-bearing deposits |  | 2,749,530 |  | 2,915 | 0.42 \% |  | 2,801,296 |  | 1,595 | 0.23 \% |
| Total deposits |  | 4,600,533 |  | 2,915 | 0.25 \% |  | 4,712,044 |  | 1,595 | 0.13 \% |
| Subordinated debt, net of issuance costs |  | 39,326 |  | 538 | $5.43 \%$ |  | 39,288 |  | 538 | 5.43 \% |
| Short-term borrowings |  | 24 |  | - | 0.00 \% |  | 27 |  | - | 0.00 \% |
| Total interest-bearing liabilities |  | 2,788,880 |  | 3,453 | 0.49 \% |  | 2,840,611 |  | 2,133 | 0.30 \% |
| Total interest-bearing liabilities and demand, noninterest-bearing / cost of funds |  | 4,639,883 |  | 3,453 | 0.30 \% |  | 4,751,359 |  | 2,133 | 0.18 \% |
| Other liabilities |  | 105,043 |  |  |  |  | 103,264 |  |  |  |
| Total liabilities |  | 4,744,926 |  |  |  |  | 4,854,623 |  |  |  |
| Shareholders' equity |  | 615,941 |  |  |  |  | 611,707 |  |  |  |
| Total liabilities and shareholders' equity | \$ | 5,360,867 |  |  |  | \$ | 5,466,330 |  |  |  |
| Net interest income ${ }^{(3)} /$ margin |  |  |  | 51,807 | 4.10 \% |  |  |  | 48,110 | 3.73 \% |
| Less tax equivalent adjustment ${ }^{(3)}$ |  |  |  | (68) |  |  |  |  | (69) |  |
| Net interest income |  |  | \$ | 51,739 |  |  |  | \$ | 48,041 |  |

(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 $\$ 326,000$ for the fourth quarter of 2022 (of which $\$ 25,000$ was from PPP loans), compared to $\$ 507,000$ for the third quarter of 2022 (of which $\$ 190,000$ was from PPP loans). Prepayment fees totaled $\$ 123,000$ for the fourth quarter of 2022, compared to $\$ 96,000$ for the third 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 Year Ended December 31, 2022 |  |  |  |  | For the Year Ended December 31, 2021 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 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 ${ }^{(1)(2)}$ | \$ | 3,119,006 | \$ | 153,010 | 4.91 \% | \$ | 2,766,321 | \$ | 139,244 | 5.03 \% |
| Securities - taxable |  | 983,137 |  | 20,666 | 2.10 \% |  | 534,387 |  | 8,678 | 1.62 \% |
| Securities - exempt from Federal tax ${ }^{(3)}$ |  | 40,478 |  | 1,372 | 3.39 \% |  | 60,566 |  | 1,995 | 3.29 \% |
| Other investments, interest-bearing deposits in other |  |  |  |  |  |  |  |  |  |  |
| financial institutions and Federal funds sold |  | 908,931 |  | 14,068 | 1.55 \% |  | 1,444,356 |  | 3,758 | 0.26 \% |
| Total interest earning assets ${ }^{(3)}$ |  | 5,051,552 |  | 189,116 | 3.74 \% |  | 4,805,630 |  | 153,675 | 3.20 \% |
| Cash and due from banks |  | 37,287 |  |  |  |  | 39,841 |  |  |  |
| Premises and equipment, net |  | 9,574 |  |  |  |  | 10,056 |  |  |  |
| Goodwill and other intangible assets |  | 180,061 |  |  |  |  | 182,887 |  |  |  |
| Other assets |  | 122,746 |  |  |  |  | 127,880 |  |  |  |
| Total assets | \$ | 5,401,220 |  |  |  | \$ | 5,166,294 |  |  |  |
| Liabilities and shareholders' equity: |  |  |  |  |  |  |  |  |  |  |
| Deposits: |  |  |  |  |  |  |  |  |  |  |
| Demand, noninterest-bearing | \$ | 1,863,928 |  |  |  | \$ | 1,834,909 |  |  |  |
| Demand, interest-bearing |  | 1,224,676 |  | 2,415 | 0.20 \% |  | 1,164,556 |  | 1,988 | 0.17 \% |
| Savings and money market |  | 1,394,283 |  | 3,720 | 0.27 \% |  | 1,251,438 |  | 2,195 | 0.18 \% |
| Time deposits - under \$100 |  | 12,587 |  | 21 | 0.17 \% |  | 14,924 |  | 29 | 0.19 \% |
| Time deposits - \$100 and over |  | 122,018 |  | 609 | 0.50 \% |  | 128,753 |  | 598 | 0.46 \% |
| CDARS - money market and time deposits |  | 29,708 |  | 5 | 0.02 \% |  | 32,305 |  | 6 | 0.02 \% |
| Total interest-bearing deposits |  | 2,783,272 |  | 6,770 | 0.24 \% |  | 2,591,976 |  | 4,816 | 0.19 \% |
| Total deposits |  | 4,647,200 |  | 6,770 | 0.15 \% |  | 4,426,885 |  | 4,816 | 0.11 \% |
| Subordinated debt, net of issuance costs |  | 41,739 |  | 2,178 | 5.22 \% |  | 39,827 |  | 2,314 | 5.81 \% |
| Short-term borrowings |  | 24 |  | - | 0.00 \% |  | 45 |  | 1 | 2.22 \% |
| Total interest-bearing liabilities |  | 2,825,035 |  | 8,948 | 0.32 \% |  | 2,631,848 |  | 7,131 | 0.27 \% |
| Total interest-bearing liabilities and demand, noninterest-bearing / cost of funds |  | 4,688,963 |  | 8,948 | 0.19 \% |  | 4,466,757 |  | 7,131 | 0.16 \% |
| Other liabilities |  | 104,654 |  |  |  |  | 114,381 |  |  |  |
| Total liabilities |  | 4,793,617 |  |  |  |  | 4,581,138 |  |  |  |
| Shareholders' equity |  | 607,603 |  |  |  |  | 585,156 |  |  |  |
| Total liabilities and shareholders' equity |  | 5,401,220 |  |  |  | \$ | 5,166,294 |  |  |  |
| Net interest income ${ }^{(3)} /$ margin |  |  |  | 180,168 | 3.57 \% |  |  |  | 146,544 | $3.05 \%$ |
| Less tax equivalent adjustment ${ }^{(3)}$ |  |  |  | (288) |  |  |  |  | (419) |  |
| Net interest income |  |  | \$ | 179,880 |  |  |  | \$ | 146,125 |  |

(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 $\$ 3,437,000$ for the year ended December 31, 2022 (of which $\$ 2,054,000$ was from PPP loans), compared to $\$ 11,257,000$ for the year ended December 31, 2021 (of which $\$ 9,995,000$ was from PPP loans). Prepayment fees totaled $\$ 1,278,000$ for the year ended December 31, 2022, compared to $\$ 2,700,000$ for the year ended December 31, 2021.
(3) Reflects the FTE adjustment for Federal tax-exempt income based on a $21 \%$ tax rate.

