## Heritage Commerce Corp Earns \$13.3 Million for the Fourth Quarter of 2023, and \$64.4 Million for the Full Year 2023

San Jose, CA - January 25, 2024 — Heritage Commerce Corp (Nasdaq: HTBK), (the "Company"), the holding company for Heritage Bank of Commerce (the "Bank"), today announced that its fourth quarter 2023 net income was $\$ 13.3$ million, or $\$ 0.22$ per average diluted common share, compared to $\$ 20.8$ million, or $\$ 0.34$ per average diluted common share, for the fourth quarter of 2022 , and $\$ 15.8$ million, or $\$ 0.26$ per average diluted common share, for the third quarter of 2023. For the year ended December 31, 2023, net income was $\$ 64.4$ million, or $\$ 1.05$ per average diluted common share, compared to $\$ 66.6$ million, or $\$ 1.09$ per average diluted common share, for the year ended December 31, 2022. All results are unaudited.
"In 2023, despite challenges faced by many banks, the Company had a successful year with stable client deposits and $9 \%$ growth in year-over-year tangible book value. The fourth quarter showed solid performance, contributing to our second-best year in net income, surpassed only by the record profits of 2022," said Clay Jones, President and Chief Executive Officer. "Our loan growth resulted in an increase of $2 \%$ for both year-over-year and from the prior quarter. This loan growth, coupled with stable client deposits, showcases our resilience in an increasing interest rate environment. Although net interest income was impacted, as expected, we anticipate stabilization in our cost of funds following the recent Fed guidance on expected rate reductions in 2024."

Mr. Jones added, "Our focus remains on orderly organic growth, while avoiding borrowed funds and brokered deposits. Our local community retail and commercial deposit relationships serve as a stable and lower-cost funding source, reflecting our disciplined management approach. We have a strong balance sheet, evidenced by robust capital, ample liquidity, and a diversified loan portfolio. We continue to add to loan reserves reflecting our solid loan growth while credit costs are modest. I extend my gratitude to our dedicated team members for their talent and commitment in serving our community and clients, and driving our company forward."

## Current Financial Condition and Liquidity Position

The following are important factors in understanding our current financial condition and liquidity position:

## Liquidity and Available Lines of Credit:

- The following table shows our liquidity and available lines of credit at December 31, 2023:

| LIQUIDITY AND AVAILABLE LINES OF CREDIT (in $\$ 000$ 's, unaudited) | TotalAvailable |  |
| :---: | :---: | :---: |
| Excess funds at the Federal Reserve Bank ("FRB") | \$ | 365,500 |
| FRB discount window collateralized line of credit |  | 1,235,573 |
| Federal Home Loan Bank ("FHLB") collateralized borrowing capacity |  | 1,100,931 |
| Unpledged investment securities (at fair value) |  | 58,120 |
| Federal funds purchase arrangements |  | 90,000 |
| Holding company line of credit |  | 20,000 |
| Total | \$ | 2,870,124 |

- The Company's total liquidity and borrowing capacity was $\$ 2.87$ billion, all of which remained available at December 31, 2023.
- The available liquidity and borrowing capacity was $66 \%$ of the Company's total deposits and approximately $142 \%$ of the Bank's estimated uninsured deposits at December 31, 2023.
- The Bank increased its credit line availability from the FRB and the FHLB by $\$ 1.50$ billion to $\$ 2.34$ billion at December 31, 2023, from $\$ 839.5$ million at December 31, 2022.
- The loan to deposit ratio was $76.52 \%$ at December 31, 2023, compared to $75.14 \%$ at December 31, 2022, and $71.81 \%$ at September 30, 2023, providing the Bank with ample liquidity and capacity to provide future credit to the community.
- Total deposits were relatively flat at $\$ 4.38$ billion at December 31, 2023, compared to $\$ 4.39$ billion at December 31, 2022. Total deposits decreased ( $\$ 197.0$ ) million, or ( $4 \%$ ) from $\$ 4.58$ billion at September 30, 2023, as a result of deposit outflows from clients operating expenses, tax payments, one-time capital events, profit distributions, and to a lesser extent clients moving deposits to outside investment alternatives.
- Migration of client deposits into interest-bearing accounts resulted in an increase in Insured Cash Sweep ("ICS")/Certificate of Deposit Account Registry Service ("CDARS") deposits to $\$ 854.1$ million at December 31, 2023, compared to $\$ 30.4$ million at December 31, 2022, and decreased ( $\$ 67.1$ ) million from $\$ 921.2$ million at September 30, 2023.
- Noninterest-bearing demand deposits decreased (\$444.2) million, or ( $26 \%$ ), to $\$ 1.29$ billion at December 31, 2023 from $\$ 1.74$ billion at December 31, 2022, largely in response to the increasing interest rate environment. Noninterest-bearing demand deposits increased $\$ 49.0$ million, or $4 \%$, from $\$ 1.24$ billion at September 30, 2023, evidencing stabilization in deposit mix and partially helped by a single customer temporarily moving significant deposits into this category at year-end.
- The Bank had 24,737 deposit accounts at December 31, 2023, with an average balance of $\$ 177,000$, compared to 24,769 deposit accounts at September 30, 2023, with an average balance of $\$ 185,000$. At December 31, 2022, the Company had 23,833 deposit accounts, with an average balance of $\$ 184,000$.
- Deposits from the Bank's top 100 client relationships, representing $22 \%$ of the total number of accounts, totaled $\$ 1.96$ billion, representing $45 \%$ of total deposits, with an average account size of $\$ 368,000$ at December 31, 2023. At December 31, 2022, deposits from the Bank's top 100 client relationships, representing $18 \%$ of the total number of accounts, totaled $\$ 2.03$ billion, representing $46 \%$ of total deposits, with an average account size of $\$ 469,000$. At September 30, 2023, deposits from the Bank's top 100 client relationships, representing $22 \%$ of the total number of accounts, totaled $\$ 2.19$ billion, representing $48 \%$ of total deposits, with an average account size of $\$ 408,000$.


## Investment Securities:

- Investment securities totaled $\$ 1.09$ billion at December 31, 2023, of which $\$ 442.6$ million were in the securities available-for-sale portfolio (at fair value), and $\$ 650.6$ million were in the securities held-to-maturity portfolio (at amortized cost, net of allowance for credit losses of $\$ 12,000$ ). The fair value of the securities held-to-maturity portfolio was $\$ 564.1$ million at December 31, 2023.
- The weighted average life of the total investment securities portfolio was 4.40 years at December 31, 2023.
- The following are the projected cash flows from paydowns and maturities in the investment securities portfolio for the periods indicated based on the current interest rate environment:

| PROJECTED INVESTMENT SECURITIES PAYDOWNS \& MATURITIES (in \$000's, unaudited) | U.S. <br> Treasury |  | Agency Mortgagebacked and Municipal Securities |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| First quarter of 2024 | \$ | 37,000 | \$ | 28,977 | \$ | 65,977 |
| Second quarter of 2024 |  | 131,000 |  | 20,338 |  | 151,338 |
| Third quarter of 2024 |  | 37,500 |  | 20,441 |  | 57,941 |
| Fourth quarter of 2024 |  | 9,000 |  | 19,320 |  | 28,320 |
| First quarter of 2025 |  | 35,000 |  | 18,835 |  | 53,835 |
| Second quarter of 2025 |  | 118,000 |  | 18,366 |  | 136,366 |
| Third quarter of 2025 |  | 25,500 |  | 19,209 |  | 44,709 |
| Fourth quarter of 2025 |  | - |  | 17,460 |  | 17,460 |
| Total | \$ | 393,000 | \$ | 162,946 | \$ | 555,946 |

## Loans:

- Loans, excluding loans held-for-sale, increased $\$ 51.8$ million, or $2 \%$, to $\$ 3.35$ billion at December 31, 2023 from $\$ 3.30$ billion at December 31, 2022, and increased $\$ 64.9$ million, or $2 \%$, from $\$ 3.29$ billion at September 30, 2023. Core loans, excluding residential mortgages, increased $\$ 92.8$ million, or $3 \%$, to $\$ 2.85$ billion at December 31, 2023, compared to $\$ 2.76$ billion at December 31, 2022, and increased $\$ 71.0$ million, or $3 \%$, from $\$ 2.78$ billion at September 30, 2023.
- Commercial real estate ("CRE") loans totaled $\$ 1.84$ billion at December 31, 2023, of which $32 \%$ were owner occupied and $68 \%$ were investor CRE loans.
- During the fourth quarter of 2023 , there were 28 new CRE loans originated totaling $\$ 57$ million with a weighted average loan-tovalue and debt-service coverage for the non-owner occupied portfolio of $35 \%$ and 2.31 times, respectively.
- The average loan size for all CRE loans was $\$ 1.6$ million, and the average loan size for office CRE loans was also $\$ 1.6$ million.
- The Company has personal guarantees on $91 \%$ of its CRE portfolio. A substantial portion of the unguaranteed CRE loans were made to credit-worthy non-profit organizations.
- Total office exposure in the CRE portfolio was $\$ 399$ million, including 29 loans totaling approximately $\$ 75$ million in San Jose, 17 loans totaling approximately $\$ 26$ million in San Francisco, and eight loans totaling approximately $\$ 16$ million, in Oakland, at December 31, 2023. Non-owner occupied CRE with office exposure totaled $\$ 312$ million at December 31, 2023.
- Of the $\$ 399$ million of CRE loans with office exposure, approximately $\$ 36$ million, or $9 \%$, are situated in the Bay Area downtown business districts of San Jose and San Francisco, with an average loan balance of $\$ 2.1$ million.
- At December 31, 2023, the weighted average loan-to-value and debt-service coverage ratio for the entire non-owner occupied office portfolio were $42.9 \%$ and 1.82 times, respectively. For the nine non-owner occupied office loans in San Francisco at December 31, 2023, the weighted average loan-to-value and debt-service coverage ratio were $35 \%$ and 1.48 times, respectively.


## Fourth Quarter Ended December 31, 2023 <br> Operating Results, Balance Sheet Review, Capital Management, and Credit Quality

(as of, or for the periods ended December 31, 2023, compared to December 31, 2022, and September 30, 2023, except as noted):

## Operating Results:

- Diluted earnings per share were $\$ 0.22$ for the fourth quarter of 2023 , compared to $\$ 0.34$ for the fourth quarter of 2022 , and $\$ 0.26$ for the third quarter of 2023. Diluted earnings per share were $\$ 1.05$ for the year ended December 31, 2023, compared to $\$ 1.09$ for the year ended December 31, 2022.
- The following table indicates the ratios for the return on average tangible assets and the return on average tangible common equity for the periods indicated:

|  | For the Quarter Ended: |  |  | For the Year Ended: |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| (unaudited) | $\begin{gathered} \hline \text { December 31, } \\ 2023 \\ \hline \end{gathered}$ | $\begin{gathered} \text { September 30, } \\ 2023 \end{gathered}$ | $\begin{gathered} \text { December 31, } \\ 2022 \end{gathered}$ | $\begin{gathered} \hline \text { December 31, } \\ 2023 \\ \hline \end{gathered}$ | $\begin{gathered} \text { December 31, } \\ 2022 \end{gathered}$ |
| Return on average tangible assets | 1.03\% | 1.20\% | 1.59\% | 1.26\% | 1.27\% |
| Return on average tangible common equity | 10.84\% | 13.06\% | 18.89\% | 13.57\% | 15.57\% |

- Net interest income decreased ( $18 \%$ ) to $\$ 42.3$ million for the fourth quarter of 2023, compared to $\$ 51.7$ million for the fourth quarter of 2022. The fully tax equivalent ("FTE") net interest margin decreased (69) basis points to $3.41 \%$ for the fourth quarter of 2023 , from $4.10 \%$ for the fourth quarter of 2022, primarily due to higher rates paid on customer deposits, and a decrease in the average balances of noninterest-bearing demand deposits, partially offset by increases in the prime rate and the rate on overnight funds.
- Net interest income decreased ( $7 \%$ ) to $\$ 42.3$ million for the fourth quarter of 2023, compared to $\$ 45.4$ million for the third quarter of 2023. The FTE net interest margin decreased (16) basis points to $3.41 \%$ for the fourth quarter of 2023 from $3.57 \%$ for the third quarter of 2023, primarily due to higher rates paid on customer deposits, and a decrease in the average balances of noninterest bearing demand deposits, partially offset by higher average yields on overnight funds, and an increase in the average balance of loans.
- For the year ended December 31, 2023, the net interest income increased $2 \%$ to $\$ 183.2$ million, compared to $\$ 179.9$ million for the year ended December 31, 2022. The FTE net interest margin increased 13 basis points to $3.70 \%$ for the year ended December 31, 2023, from $3.57 \%$ for the year ended December 31, 2022, primarily due to increases in the prime rate and the rate on overnight funds, and a shift in the mix of earning assets as the Company invested its excess liquidity into higher yielding loans, partially offset by a higher rates paid on customer deposits, a decrease in the average balances of noninterestbearing demand deposits, and an increase in the average balances of short-term borrowings.
- The following table, as of December 31, 2023, sets forth the estimated changes in the Company’s annual net interest income that would result from an instantaneous shift in interest rates from the base rate:

| CHANGE IN INTEREST RATES (basis points) (in \$000's, unaudited) | Increase/(Decrease) in Estimated Net Interest Income ${ }^{(1)}$ |  |  |
| :---: | :---: | :---: | :---: |
|  | Amount |  | Percent |
|  |  |  |  |
| +400 | \$ | 10,703 | 5.6 \% |
| +300 | \$ | 7,997 | 4.2 \% |
| +200 | \$ | 5,311 | 2.8 \% |
| +100 | \$ | 2,648 | 1.4 \% |
| 0 |  | - | - |
| -100 | \$ | $(3,197)$ | (1.7)\% |
| -200 | \$ | $(10,513)$ | (5.5)\% |
| -300 | \$ | $(22,609)$ | (11.8)\% |
| -400 | \$ | $(37,896)$ | (19.8)\% |

(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. These projections are forward-looking and should be considered in light of the Forward-Looking Statement Disclaimer below. 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 decreased to $5.39 \%$ for the fourth quarter of 2023 , compared to $5.46 \%$ for the third quarter of 2023, primarily due to lower loan yields on the core bank, lower average balances of asset-based lending loans, a decrease in the accretion of loan purchase discount into interest income from acquired loans, and lower prepayment fees.

| (in \$000's, unaudited) | For the Quarter Ended December 31, 2023 |  |  |  |  | For the Quarter Ended September 30, 2023 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | Average Balance |  | Interest Income | Average Yield |  | Average Balance |  | nterest ncome | Average Yield |
| Loans, core bank | \$ | 2,758,935 | \$ | 37,303 | 5.36 \% | \$ | 2,720,010 | \$ | 37,171 | 5.42 \% |
| Prepayment fees |  | - |  | 91 | 0.01 \% |  | - |  | 182 | 0.03 \% |
| Asset-based lending |  | 14,717 |  | 371 | 10.00 \% |  | 23,983 |  | 593 | 9.81 \% |
| Bay View Funding factored receivables |  | 52,861 |  | 2,803 | 21.04 \% |  | 51,664 |  | 2,775 | 21.31 \% |
| Purchased residential mortgages |  | 459,268 |  | 3,812 | 3.29 \% |  | 465,471 |  | 3,811 | 3.25 \% |
| Loan fair value mark / accretion |  | $(3,352)$ |  | 255 | 0.04 \% |  | $(3,648)$ |  | 321 | 0.05 \% |
| Total loans (includes loans held-for-sale) | \$ | 3,282,429 | \$ | 44,635 | 5.39 \% | \$ | 3,257,480 | \$ | 44,853 | 5.46 \% |

- The average yield on the total loan portfolio increased to $5.39 \%$ for the fourth quarter of 2023, compared to $5.19 \%$ for the fourth quarter of 2022, primarily due to increases in the prime rate.

| (in \$000's, unaudited) | For the Quarter Ended December 31, 2023 |  |  |  |  | For the Quarter Ended December 31, 2022 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average Balance |  | Interest Income |  | $\begin{gathered} \text { Average } \\ \text { Yield } \end{gathered}$ | Average Balance |  | Interest Income |  | Average Yield |
| Loans, core bank | \$ | 2,758,935 | \$ | 37,303 | 5.36 \% | \$ | 2,662,873 | \$ | 33,702 | 5.02 \% |
| Prepayment fees |  | - |  | 91 | 0.01 \% |  | - - |  | 123 | 0.02 \% |
| Asset-based lending |  | 14,717 |  | 371 | 10.00 \% |  | 35,519 |  | 756 | 8.44 \% |
| Bay View Funding factored receivables |  | 52,861 |  | 2,803 | 21.04 \% |  | 71,789 |  | 3,696 | 20.43 \% |
| Purchased residential mortgages |  | 459,268 |  | 3,812 | 3.29 \% |  | 485,149 |  | 3,842 | 3.14 \% |
| Loan fair value mark / accretion |  | $(3,352)$ |  | 255 | 0.04 \% |  | $(4,774)$ |  | 382 | 0.06 \% |
| Total loans (includes loans held-for-sale) | \$ | 3,282,429 | \$ | 44,635 | 5.39 \% | \$ | 3,250,556 | \$ | 42,501 | 5.19 \% |

- The average yield on the total loan portfolio increased to $5.45 \%$ for the year ended December 31, 2023, compared to $4.91 \%$ for the year ended December 31, 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, and higher average balances of lower yielding purchased residential mortgages.

| (in \$000's, unaudited) | For the Year Ended December 31, 2023 |  |  |  |  | For the Year Ended December 31, 2022 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | Average Balance |  | Interest Income | $\begin{gathered} \hline \text { Average } \\ \text { Yield } \\ \hline \end{gathered}$ |  | Average Balance |  | Interest Income | Average Yield |
| Loans, core bank | \$ | 2,707,198 | \$ | 144,751 | 5.35 |  | 2,591,027 | \$ | 120,166 | 4.64 \% |
| Prepayment fees |  | - |  | 484 | 0.02 |  | - |  | 1,278 | 0.05 \% |
| Asset-based lending |  | 23,591 |  | 2,277 | 9.65 |  | 51,990 |  | 3,613 | 6.95 \% |
| Bay View Funding factored receivables |  | 62,642 |  | 13,426 | 21.43 |  | 64,099 |  | 12,819 | 20.00 \% |
| Purchased residential mortgages |  | 472,582 |  | 15,309 | $3.24 \%$ |  | 417,672 |  | 12,395 | 2.97 \% |
| Loan fair value mark / accretion |  | $(3,819)$ |  | 1,381 | 0.05 |  | $(5,782)$ |  | 2,739 | 0.11 \% |
| Total loans (includes loans held-for-sale) | \$ | 3,262,194 | \$ | 177,628 | 5.45 |  | 3,119,006 | \$ | 153,010 | 4.91 \% |

- In aggregate, the remaining net purchase discount on total loans acquired was $\$ 3.2$ million at December 31, 2023.
- The following table presents the average balance of deposits and interest-bearing liabilities, interest expense, and the average rate for the periods indicated:

| (in \$000's, unaudited) | For the Quarter Ended December 31, 2023 |  |  |  |  | For the Quarter Ended September 30, 2023 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average Balance |  | Interest <br> Expense |  | Average Rate | Average Balance |  | Interest Expense |  | Average Rate |
| Deposits: |  |  |  |  |  |  |  |  |  |  |
| Demand, noninterest-bearing | \$ | 1,243,222 |  |  |  | \$ | 1,302,606 |  |  |  |
| Demand, interest-bearing |  | 948,061 | \$ | 1,661 | 0.70 \% |  | 1,017,686 | \$ | 1,730 | 0.67 \% |
| Savings and money market |  | 1,096,962 |  | 6,216 | 2.25 \% |  | 1,087,336 |  | 5,514 | 2.01 \% |
| Time deposits - under \$100 |  | 11,389 |  | 37 | 1.29 \% |  | 11,966 |  | 30 | 0.99 \% |
| Time deposits - \$100 and over |  | 234,140 |  | 2,130 | 3.61 \% |  | 272,362 |  | 2,489 | 3.63 \% |
| ICS/CDARS - interest-bearing demand, money market and time deposits |  | 920,976 |  | 6,009 | 2.59 \% |  | 881,665 |  | 5,117 | 2.30 \% |
| Total interest-bearing deposits |  | 3,211,528 |  | 16,053 | 1.98 \% |  | 3,271,015 |  | 14,880 | 1.80 \% |
| Total deposits |  | 4,454,750 |  | 16,053 | 1.43 \% |  | 4,573,621 |  | 14,880 | 1.29 \% |
| Short-term borrowings |  | 29 |  | - | 0.00 \% |  | 31 |  | - | 0.00 \% |
| Subordinated debt, net of issuance costs |  | 39,477 |  | 538 | 5.41 \% |  | 39,439 |  | 539 | 5.42 \% |
| Total interest-bearing liabilities |  | 3,251,034 |  | 16,591 | 2.02 \% |  | 3,310,485 |  | 15,419 | 1.85 \% |
| Total interest-bearing liabilities and demand, noninterest-bearing / cost of funds | \$ | 4,494,256 | \$ | 16,591 | 1.46 \% | \$ | 4,613,091 | \$ | 15,419 | 1.33 \% |

- The average cost of total deposits increased to $1.43 \%$ for the fourth quarter of 2023 , compared to $1.29 \%$ for the third quarter of 2023. The average cost of funds increased to $1.46 \%$ for the fourth quarter of 2023 , compared to $1.33 \%$ for the third quarter of 2023. The average cost of deposits was $0.25 \%$ and the average cost of funds was $0.30 \%$ for the fourth quarter of 2022.
- The average cost of total deposits increased to $1.06 \%$ for the year ended December 31, 2023, compared to $0.15 \%$ for the year ended December 31, 2022. The average cost of funds increased to $1.13 \%$ for the year ended December 31, 2023, compared to $0.19 \%$ for the year ended December 31, 2022.
- The increase in the average cost of total deposits and the average cost of funds for the fourth quarter of 2023 and the year ended December 31, 2023 was primarily due to clients seeking higher yields and moving noninterest-bearing deposits to the Bank's interest-bearing and ICS deposits and an increase in market interest rates.
- During the fourth quarter of 2023 , we recorded a provision for credit losses on loans of $\$ 289,000$, compared to a $\$ 508,000$ provision for credit losses on loans for the fourth quarter of 2022, and a provision for credit losses on loans of $\$ 168,000$ for the third quarter of 2023. There was a provision for credit losses on loans of $\$ 749,000$ for the year ended December 31, 2023, compared to a $\$ 766,000$ provision for credit losses on loans for the year ended December 31, 2022.
- Total noninterest income decreased ( $30 \%$ ) to $\$ 1.9$ million for the fourth quarter of 2023, compared to $\$ 2.8$ million for the fourth quarter of 2022, primarily due to lower service charges and fees on deposit accounts during the fourth quarter of 2023. Total noninterest income decreased ( $12 \%$ ) to $\$ 1.9$ million for the fourth quarter of 2023 , compared to $\$ 2.2$ million for the third quarter of 2023, primarily due to no gain on sales of SBA loans, lower termination fees at Bay View Funding, and a lower gain on proceeds from company-owned life insurance during the fourth quarter of 2023.
- For the year ended December 31, 2023, total noninterest income decreased ( $11 \%$ ) to $\$ 9.0$ million, compared to $\$ 10.1$ million for the year ended December 31, 2022, primarily due to a $\$ 669,000$ gain on warrants during the year ended December 31, 2022, and lower service charges and fees on deposit accounts, servicing income, and interchange fee income on credit cards, during the year ended December 31, 2023.
- Total noninterest expense for the fourth quarter of 2023 increased to $\$ 25.5$ million, compared to $\$ 24.5$ million for the fourth quarter of 2022, primarily due to higher insurance costs, regulatory assessments, and information technology related expenses included in other noninterest expense, partially offset by lower professional fees and occupancy and equipment expense during the fourth quarter of 2023. Total noninterest expense for the fourth quarter of 2023 increased to $\$ 25.5$ million, compared to $\$ 25.2$ million for the third quarter of 2023, primarily due to higher professional fees.
- Total noninterest expense for the year ended December 31, 2023 increased to $\$ 101.1$ million, compared to $\$ 94.9$ million for the year ended December 31, 2022, primarily due to higher salaries and employee benefits, and higher insurance costs, regulatory assessments, improvements in information technology, and ICS/CDARS fee expenses included in other noninterest expense, partially offset by lower professional fees and occupancy and equipment expense during the year ended December 31, 2023.
- Full time equivalent employees were 349 at December 31, 2023, and 340 at December 31, 2022, and 348 at September 30, 2023.
- The efficiency ratio was $57.62 \%$ for the fourth quarter of 2023, compared to $44.98 \%$ for the fourth quarter of 2022 , and $52.89 \%$ for the third quarter of 2023 . The efficiency ratio was $52.57 \%$ for the year ended December 31, 2023, compared to $49.93 \%$ for the year ended December 31, 2022.
- Income tax expense was $\$ 5.1$ million for the fourth quarter of 2023 , compared to $\$ 8.7$ million for the fourth quarter of 2022, and $\$ 6.5$ million for the third quarter of 2023 . The effective tax rate for the fourth quarter of 2023 was $27.8 \%$, compared to $29.5 \%$ for the fourth quarter of 2022 , and $29.0 \%$ for the third quarter of 2023. Income tax expense for the year ended December 31, 2023 was $\$ 26.0$ million, compared to $\$ 27.8$ million for the year ended December 31, 2022. The effective tax rate for the year ended December 31, 2023 was $28.7 \%$, compared to $29.5 \%$ for the year ended December 31, 2022.


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

- Total assets increased $1 \%$ to $\$ 5.19$ billion at December 31, 2023, compared to $\$ 5.16$ billion at December 31, 2022, and decreased (4\%) from $\$ 5.40$ billion at September 30, 2023.
- The following table shows the balances of securities available-for-sale, at fair value, and the related pre-tax unrealized (loss) for the periods indicated:

| SECURITIES AVAILABLE-FOR-SALE (in \$000's, unaudited) | $\begin{gathered} \text { December 31, } \\ 2023 \end{gathered}$ |  | $\begin{gathered} \text { September 30, } \\ 2023 \end{gathered}$ |  | $\begin{gathered} \text { December 31, } \\ 2022 \\ \hline \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance (at fair value): |  |  |  |  |  |  |
| U.S. Treasury | \$ | 382,369 | \$ | 396,996 | \$ | 418,474 |
| Agency mortgage-backed securities |  | 60,267 |  | 60,198 |  | 71,122 |
| Total | \$ | 442,636 | \$ | 457,194 | \$ | 489,596 |
| Pre-tax unrealized (loss): |  |  |  |  |  |  |
| U.S. Treasury | \$ | $(5,621)$ | \$ | $(9,606)$ | \$ | $(10,323)$ |
| Agency mortgage-backed securities |  | $(4,313)$ |  | $(7,185)$ |  | $(5,794)$ |
| Total | \$ | $(9,934)$ | \$ | $(16,791)$ | \$ | $(16,117)$ |

- The pre-tax unrealized loss on the securities available-for-sale portfolio was (\$9.9) million, or (\$7.1) million net of taxes, which was $1.1 \%$ of total shareholders' equity at December 31, 2023, down from (\$16.8) million, or (\$12.0) million net of taxes, at September 30, 2023, due to lower interest rates.
- The weighted average life of the securities available-for-sale portfolio was 1.29 years at December 31, 2023.
- The following table shows the balances of securities held-to-maturity, at amortized cost, and the related pre-tax unrecognized (loss) and allowance for credit losses for the periods indicated:

| SECURITIES HELD-TO-MATURITY <br> (in \$000's, unaudited) | $\begin{gathered} \text { December 31, } \\ 2023 \\ \hline \end{gathered}$ |  | $\begin{gathered} \text { September 30, } \\ 2023 \\ \hline \end{gathered}$ |  | $\begin{gathered} \text { December 31, } \\ 2022 \\ \hline \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance (at amortized cost): |  |  |  |  |  |  |
| Agency mortgage-backed securities | \$ | 618,374 | \$ | 632,241 | \$ | 677,381 |
| Municipals - exempt from Federal tax (1) |  | 32,203 |  | 32,453 |  | 37,623 |
| Total (1) | \$ | 650,577 | \$ | 664,694 | \$ | 715,004 |
| Pre-tax unrecognized (loss): |  |  |  |  |  |  |
| Agency mortgage-backed securities | \$ | $(85,729)$ | \$ | $(119,932)$ | \$ | $(99,742)$ |
| Municipals - exempt from Federal tax |  | (721) |  | $(2,753)$ |  | (810) |
| Total | \$ | (86,450) | \$ | $(122,685)$ | \$ | $(100,552)$ |
| Allowance for credit losses on municipal securities | \$ | (12) | \$ | (13) | \$ | (14) |

(1) Gross of the allowance for credit losses of $\$ 12,000$ at December, 2023, $\$ 13,000$ at September 30, 2023, and $\$ 14,000$ at December 31, 2022.

- The pre-tax unrecognized loss on the securities held-to-maturity portfolio was (\$86.5) million, or (\$60.9) million net of taxes, which was $9.0 \%$ of total shareholders' equity at December 31, 2023, down from (\$122.7) million, or (\$86.4) million net of taxes, at September 30, 2023, due to lower interest rates.
- The weighted average life of the securities held-to-maturity portfolio was 6.57 years at December 31, 2023, which includes Community Reinvestment Act ("CRA") mortgage-backed securities with longer maturities.
- The unrealized and unrecognized losses in both the available-for-sale and held-to-maturity portfolios were due to higher interest rates at December 31, 2023 compared to when the securities were purchased. The issuers are of high credit quality and all principal amounts are expected to be repaid when the securities mature. The fair value is expected to recover as the securities approach their maturity date and/or market rates decline.
- The following table 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, 2023 |  |  | September 30, 2023 |  |  | December 31, 2022 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Balance |  | \% to Total | Balance |  | \% to Total | Balance | \% to Total |
| Commercial | \$ | 463,778 | $14 \%$ | \$ | 430,664 | $13 \%$ | \$ 533,915 | 16 \% |
| Real estate: |  |  |  |  |  |  |  |  |
| CRE - owner occupied |  | 583,253 | 17 \% |  | 589,751 | 18 \% | 614,663 | 19 \% |
| CRE - non-owner occupied |  | 1,256,590 | 37 \% |  | 1,208,324 | 37 \% | 1,066,368 | 32 \% |
| Land and construction |  | 140,513 | $4 \%$ |  | 158,138 | $5 \%$ | 163,577 | $5 \%$ |
| Home equity |  | 119,125 | 4 \% |  | 124,477 | $4 \%$ | 120,724 | 4 \% |
| Multifamily |  | 269,734 | 8 \% |  | 253,129 | $7 \%$ | 244,882 | 7 \% |
| Residential mortgages |  | 496,961 | 15 \% |  | 503,006 | $15 \%$ | 537,905 | 16 \% |
| Consumer and other |  | 20,919 | $1 \%$ |  | 18,526 | $1 \%$ | 17,033 | $1 \%$ |
| Total Loans |  | 3,350,873 | $100 \%$ |  | 3,286,015 | $100 \%$ | 3,299,067 | $100 \%$ |
| Deferred loan costs (fees), net |  | (495) | - |  | (554) | - | (517) | - |
| Loans, net of deferred costs and fees | \$ | 3,350,378 | $100 \%$ | \$ | 3,285,461 | $100 \%$ | \$ 3,298,550 | $100 \%$ |

- Loans, excluding loans held-for-sale, increased $\$ 51.8$ million, or $2 \%$, to $\$ 3.35$ billion at December 31, 2023, compared to $\$ 3.30$ billion at December 31, 2022, and increased $\$ 64.9$ million, or $2 \%$, from $\$ 3.29$ billion at September 30, 2023. Core loans, excluding residential mortgages, increased $\$ 92.8$ million, or $3 \%$, to $\$ 2.85$ billion at December, 2023, compared to $\$ 2.76$ billion at December 31, 2022, and increased $\$ 71.0$ million from $\$ 2.78$ billion at September 30, 2023.
- Commercial and industrial ("C\&I") line utilization was 29\% at both December 31, 2023 and December 31, 2022, compared to 27\% at September 30, 2023.
- At December 31, 2023, there was $32 \%$ of the CRE loan portfolio secured by owner occupied real estate, compared to $37 \%$ at December 31, 2022, and 33\% at September 30, 2023.
- The following table presents the maturity distribution of the Company's loans, excluding loans held-for-sale, as of December 31, 2023. The table shows the distribution of such loans between those loans with predetermined (fixed) interest rates and those with variable (floating) interest rates. Floating rates generally fluctuate with changes in the prime rate as reflected in the Western Edition of The Wall Street Journal, and contractual repricing dates.

| LOAN MATURITIES <br> (in \$000's, unaudited) | Due in One Year or Less |  |  | Over One Year But Less than Five Years |  |  | Over Five Years |  |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Balance |  | \% to Total | Balance |  | \% to Total | Balance |  | \% to Total |  |  |
| Loans with variable interest rates | \$ | 359,013 | 40 \% | \$ | 269,586 | 30 \% | \$ | 274,829 | 30 \% | \$ | 903,428 |
| Loans with fixed interest rates |  | 74,940 | $3 \%$ |  | 621,480 | $25 \%$ |  | 1,751,025 | 72 \% |  | 2,447,445 |
| Loans | \$ | 433,953 | $13 \%$ | \$ | 891,066 | 27 \% | \$ | 2,025,854 | 60 \% | \$ | 3,350,873 |

- At December 31, 2023, approximately $27 \%$ of the Company's loan portfolio consisted of floating interest rate loans, compared to 33\% at December 31, 2022, and 27\% at September 30, 2023.
- The following table summarizes the allowance for credit losses on loans ("ACLL") for the periods indicated:

| ALLOWANCE FOR CREDIT LOSSES ON LOANS |
| :--- |
| (in \$000's, unaudited) |
| Balance at beginning of period |
| Charge-offs during the period |
| Recoveries during the period |
| $\quad$ Net recoveries (charge-offs) during the period |
| Provision for credit losses on loans during the period |
| $\quad$ Balance at end of period |
|  |
| Total loans, net of deferred fees |
| Total nonperforming loans |
| ACLL to total loans |
| ACLL to total nonperforming loans |


| At or For the Quarter Ended: |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| $\begin{gathered} \hline \text { December 31, } \\ 2023 \end{gathered}$ |  | $\begin{gathered} \text { September 30, } \\ 2023 \end{gathered}$ |  | $\begin{gathered} \text { December 31, } \\ 2022 \end{gathered}$ |  |
| \$ | 47,702 | \$ | 47,803 | \$ | 46,921 |
|  | (160) |  | (447) |  | (56) |
|  | 127 |  | 178 |  | 139 |
|  | (33) |  | (269) |  | 83 |
|  | 289 |  | 168 |  | 508 |
| \$ | 47,958 | \$ | 47,702 | \$ | 47,512 |
| \$ | 3,350,378 | \$ | 3,285,461 | \$ | 3,298,550 |
| \$ | 7,707 | \$ | 5,484 | \$ | 2,425 |
|  | 1.43 \% |  | 1.45 \% |  | 1.44 \% |
|  | 622.27 \% |  | 869.84 \% |  | 1,959.26 \% |

At or For the Year Ended: December 31, December 31,

| $\mathbf{2 0 2 3}$ |  | $\mathbf{2 0 2 2}$ |
| :--- | :--- | :--- | :--- |
| 47,512 |  |  |


|  | $(1,011)$ |  | (434) |
| :---: | :---: | :---: | :---: |
|  | 708 |  | 3,890 |
|  | (303) |  | 3,456 |
|  | 749 |  | 766 |
| \$ | 47,958 | \$ | 47,512 |


| $\$$ | $3,350,378$ | $\$$ | $3,298,550$ |
| :--- | :---: | ---: | ---: |
| $\$$ | 7,707 | $\$$ | 2,425 |
|  | $1.43 \%$ |  | $1.44 \%$ | 1,959.26 \%

- The following table shows the drivers of change in ACLL for each of the four quarters of 2023:

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

| ACLL at December 31, 2022 | \$ | 47,512 |
| :---: | :---: | :---: |
| Portfolio changes during the first quarter of 2023 |  | (160) |
| Qualitative and quantitative changes during the first quarter of 2023 including changes in economic forecasts |  | (79) |
| ACLL at March 31, 2023 |  | 47,273 |
| Portfolio changes during the second quarter of 2023 |  | 1,652 |
| Qualitative and quantitative changes during the second quarter of 2023 including changes in economic forecasts |  | $(1,122)$ |
| ACLL at June 30, 2023 |  | 47,803 |
| Portfolio changes during the third quarter of 2023 |  | (117) |
| Qualitative and quantitative changes during the third quarter of 2023 including changes in economic forecasts |  | 16 |
| ACLL at September 30, 2023 |  | 47,702 |
| Portfolio changes during the fourth quarter of 2023 |  | 1,216 |
| Qualitative and quantitative changes during the fourth quarter of 2023 including changes in economic forecasts |  | (960) |
| ACLL at December 31, 2023 | \$ | 47,958 |

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

| NONPERFORMING ASSETS (in \$000's, unaudited) | December 31, 2023 |  |  | September 30, 2023 |  |  | December 31, 2022 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Balance |  | \% of Total | Balance |  | \% of Total | Balance |  | \% of Total |
| Land and construction loans | \$ | 4,661 | $60 \%$ | \$ | - | 0 \% | \$ | - | 0 \% |
| Commercial loans |  | 1,236 | 16 \% |  | 1,712 | $31 \%$ |  | 642 | 26 \% |
| Restructured and loans over 90 days past due and still accruing |  | 889 | 12 \% |  | 1,966 | $36 \%$ |  | 1,685 | 70 \% |
| Residential mortgages |  | 779 | $10 \%$ |  | 1,716 | $31 \%$ |  | - | 0 \% |
| Home equity loans |  | 142 | $2 \%$ |  | 90 | $2 \%$ |  | 98 | 4 \% |
| CRE loans |  | - | $0 \%$ |  | - | $0 \%$ |  | - | $0 \%$ |
| Total nonperforming assets | \$ | 7,707 | $100 \%$ | \$ | 5,484 | $100 \%$ | \$ | 2,425 | $100 \%$ |

- There were 12 borrowers included in NPAs totaling $\$ 7.7$ million, or $0.15 \%$ of total assets, at December 31, 2023, compared to 9 borrowers totaling $\$ 2.4$ million, or $0.05 \%$ of total assets, at December 31, 2022, and 11 borrowers totaling $\$ 5.5$ million, or $0.10 \%$ of total assets at September 30, 2023. The increase in NPAs at December 31, 2023, was primarily due to the downgrade of loans to one customer totaling $\$ 4.6$ million, which are well collateralized and there are no specific reserves for these loans. This increase in NPAs was partially offset by pay-offs of loans previously included in NPAs.
- There were no CRE loans included in NPAs at December 31, 2023, December 31, 2022, or September 30, 2023.
- There were no foreclosed assets on the balance sheet at December 31, 2023, December 31, 2022, or September 30, 2023.
- There were no Shared National Credits ("SNCs") or material purchased participations included in NPAs or total loans at December 31, 2023, December 31, 2022, or September 30, 2023.
- Classified assets totaled $\$ 31.8$ million, or $0.61 \%$ of total assets, at December 31, 2023, compared to $\$ 14.5$ million, or $0.28 \%$ of total assets, at December 31, 2022, and $\$ 31.1$ million, or $0.57 \%$ of total assets, at September 30, 2023.
- 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, 2023 |  |  | September 30, 2023 |  |  | December 31, 2022 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | Balance | \% to Total |  | Balance | \% to Total |  | Balance | \% to Total |
| Demand, noninterest-bearing |  | 1,292,486 | $30 \%$ | \$ | 1,243,501 | 27 \% | \$ | 1,736,722 | $40 \%$ |
| Demand, interest-bearing |  | 914,066 | 21 \% |  | 1,004,185 | 22 \% |  | 1,196,427 | 27 \% |
| Savings and money market |  | 1,087,518 | $25 \%$ |  | 1,110,640 | 24 \% |  | 1,285,444 | 29 \% |
| Time deposits - under \$250 |  | 38,055 | $1 \%$ |  | 43,906 | $1 \%$ |  | 32,445 | $1 \%$ |
| Time deposits - \$250 and over |  | 192,228 | $4 \%$ |  | 252,001 | 6 \% |  | 108,192 | $2 \%$ |
| ICS/CDARS - interest-bearing demand, money market and time deposits |  | 854,105 | $19 \%$ |  | 921,224 | $20 \%$ |  | 30,374 | $1 \%$ |
| Total deposits |  | 4,378,458 | $100 \%$ | \$ | 4,575,457 | $100 \%$ | \$ | 4,389,604 | $100 \%$ |

- The Bank's uninsured deposits were approximately $\$ 2.01$ billion, or $46 \%$ of total deposits, at December 31, 2023, compared to $\$ 2.12$ billion, or $46 \%$ of total deposits, at September 30, 2023, and $\$ 2.15$ billion, or $48 \%$ of total deposits, at June 30, 2023, and $\$ 2.56$ billion, or $58 \%$ of total deposits, at March 31, 2023, and $\$ 2.79$ billion, or $64 \%$ of total deposits, at December 31, 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, 2023, 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 <br> Minimum <br> Regulatory <br> Requirement ${ }^{(1)}$ |
| :---: | :---: | :---: | :---: | :---: |
| Total Capital | 15.4 \% | 14.8 \% | 10.0 \% | 10.5 \% |
| Tier 1 Capital | 13.2 \% | 13.7 \% | 8.0 \% | 8.5 \% |
| Common Equity Tier 1 Capital | 13.2 \% | 13.7 \% | 6.5 \% | 7.0 \% |
| Tier 1 Leverage | 10.0 \% | 10.3 \% | 5.0 \% | 4.0 \% |
| Tangible common equity / tangible assets ${ }^{(2)}$ | 9.8 \% | 10.2 \% | N/A | N/A |

(1) Basel III minimum regulatory requirements for both the Company and the Bank include a $2.5 \%$ capital conservation buffer, except the leverage ratio.
(2) Represents shareholders' equity minus goodwill and other intangible assets divided by total assets minus goodwill and other intangible assets.

- 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) | $\begin{gathered} \text { December 31, } \\ 2023 \\ \hline \end{gathered}$ |  | $\begin{gathered} \text { September 30, } \\ 2023 \end{gathered}$ |  | $\begin{gathered} \text { December 31, } \\ 2022 \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Unrealized loss on securities available-for-sale | \$ | $(7,116)$ | \$ | $(11,985)$ | \$ | $(11,506)$ |
| Split dollar insurance contracts liability |  | $(2,809)$ |  | $(3,234)$ |  | $(3,091)$ |
| Supplemental executive retirement plan liability |  | $(2,892)$ |  | $(2,343)$ |  | $(2,371)$ |
| Unrealized gain on interest-only strip from SBA loans |  | 87 |  | 93 |  | 112 |
| Total accumulated other comprehensive loss | \$ | $(12,730)$ | \$ | $(17,469)$ | \$ | $(16,856)$ |

Heritage Commerce Corp, a bank holding company established in October 1997, is the parent company of Heritage Bank of Commerce, established in 1994 and headquartered in San Jose, CA with full-service branches in Danville, Fremont, Gilroy, Hollister, Livermore, Los Altos, Los Gatos, Morgan Hill, Oakland, Palo Alto, Pleasanton, Redwood City, San Francisco, San Jose, San Mateo, San Rafael, and Walnut Creek. Heritage Bank of Commerce is an SBA Preferred Lender. Bay View Funding, a subsidiary of Heritage Bank of Commerce, is based in San Jose, CA and provides business-essential working capital factoring financing to various industries throughout the United States. For more information, please visit www.heritagecommercecorp.com. The contents of our website are not incorporated into, and do not perform a part of, this release or of our filings with the Securities and Exchange Commission.

## 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. Such forward-looking statements may be deemed to include, among other things, statements relating to the Company's future financial performance, projected cash flows of our investment securities portfolio, the performance of our loan portfolio, estimated net interest income resulting from a shift in interest rates, expectation of high credit quality issuers ability to repay, as well as statements relating to the anticipated effects on the Company's financial condition and results of operations from expected developments or events. These forward-looking statements are subject to various risks and uncertainties that may be outside our control and our actual results could differ materially from our projected results. Risks and uncertainties that could cause our financial performance to differ materially from our goals, plans, expectations and projections expressed in forward-looking statements include those set forth in our filings with the Securities and Exchange Commission ("SEC"), Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2022, and the following: (1) factors that affect our liquidity and our ability to meet customer demands for deposit withdrawals, including our cash on hand and the availability of funds from our lines of credit; (2) factors that affect the collectability of our loans, including fluctuations in interest rates as those changes affect our borrowers' ability to pay and perform on all other terms of our loans; (3) media items and consumer confidence as those factors affect depositors' confidence in the banking system generally and our bank in particular; (4) factors that affect the value and liquidity of our investment portfolios, particularly the values of securities available-for-sale; (5) the effect of our measures to assure adequate liquidity of deposits as those measures affect profitability, including increasing interest rates on deposits as a component of our interest expense; (6) our ability to estimate accurately, and to establish adequate reserves against, the risk of loss associated with our loan and lease portfolio; (7) events and circumstances that affect our borrowers' financial condition, results of operations and cash flows, which may, during periods of economic uncertainty or decline, adversely affect those borrowers' ability to repay our loans timely and in full, or to comply with their other obligations under our loan agreements with those customers; (8) geopolitical and domestic political developments, including ongoing conflicts in Ukraine and the Middle East, as well as other regions that are experiencing or that may in the future experience political or economic upheaval, that can increase levels of political and economic unpredictability, contribute to rising energy and commodity prices, and increase the volatility of financial markets; (9) 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; (10) 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 and other factors that affect market interest rates generally; (11) 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 to customers, whether held in the portfolio or in the secondary market; (12) 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; (13) volatility in credit and equity markets and its effect on the global economy; (14) conditions relating to the impact of recent and potential future pandemic response measures on our customers, employees, businesses, liquidity, financial results and overall condition including severity and duration of the associated uncertainties in U.S. and global markets; (15) our ability to compete effectively with other banks and financial services companies and the effects of competition in the financial services industry on our business; (16) our ability to achieve loan growth and attract deposits in our market area; (17) risks associated with concentrations in real estate related loans; (18) the relative strength or weakness of the commercial and real estate markets where our borrowers are located, including related vacancy rates, and asset and market prices; (19) regulatory limits on the Bank's ability to pay dividends to the Company; (20) 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; (21) 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; (22) possible adjustment of the valuation of our deferred tax assets or of the goodwill associated with previous acquisitions; (23) 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; (24) inability of our framework to manage risks associated with our business, including operational risk and credit risk; (25) risks of loss of funding of the Small Business

Administration ("SBA") or SBA loan programs, or changes in those programs; (26) 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; (27) 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; (28) the expense and uncertain resolution of litigation matters whether occurring in the ordinary course of business or otherwise; (29) availability of and competition for acquisition opportunities; (30) risks resulting from domestic or international terrorism, riots, widespread mayhem, and similar events or circumstances; (31) risks of natural disasters (including earthquakes, fires, and flooding) and other events beyond our control; and (32) 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 $\$ 000$ 's, unaudited) | For the Quarter Ended: |  |  |  |  |  | Percent Change From: |  | For the Year Ended: |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | $\begin{aligned} & \hline \text { cember 31, } \\ & 2023 \\ & \hline \end{aligned}$ |  | $\begin{aligned} & \text { tember 30, } \\ & 2023 \\ & \hline \end{aligned}$ |  | $\begin{aligned} & \text { ember 31, } \\ & 2022 \\ & \hline \end{aligned}$ | $\begin{gathered} \hline \text { September 30, } \\ 2023 \\ \hline \end{gathered}$ | $\begin{aligned} & \text { December 31, } \\ & \quad 2022 \\ & \hline \end{aligned}$ |  | $\begin{aligned} & \hline \text { cember 31, } \\ & 2023 \\ & \hline \end{aligned}$ |  | $\begin{aligned} & \text { ember 31, } \\ & 2022 \end{aligned}$ | Percent Change |
| Interest income | \$ | 58,892 | \$ | 60,791 | \$ | 55,192 | (3)\% | $7 \%$ | \$ | 234,298 | \$ | 188,828 | 24 \% |
| Interest expense |  | 16,591 |  | 15,419 |  | 3,453 | 8 \% | 380 \% |  | 51,074 |  | 8,948 | 471 \% |
| Net interest income before provision for credit losses on loans |  | 42,301 |  | 45,372 |  | 51,739 | (7)\% | (18)\% |  | 183,224 |  | 179,880 | 2 \% |
| Provision for credit losses on loans |  | 289 |  | 168 |  | 508 | 72 \% | (43)\% |  | 749 |  | 766 | (2)\% |
| Net interest income after provision for credit losses on loans |  | 42,012 |  | 45,204 |  | 51,231 | (7)\% | (18)\% |  | 182,475 |  | 179,114 | 2 \% |
| Noninterest income: |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Service charges and fees on deposit accounts |  | 838 |  | 859 |  | 1,801 | (2)\% | (53)\% |  | 4,341 |  | 4,640 | (6)\% |
| Increase in cash surrender value of life insurance |  | 519 |  | 517 |  | 481 | 0 \% | 8 \% |  | 2,031 |  | 1,925 | 6 \% |
| Servicing income |  | 103 |  | 62 |  | 138 | 66 \% | (25)\% |  | 400 |  | 508 | (21)\% |
| Termination fees |  | 25 |  | 118 |  | - | (79)\% | N/A |  | 154 |  | 61 | 152 \% |
| Gain on proceeds from company-owned life insurance |  | 25 |  | 100 |  | - | (75)\% | N/A |  | 125 |  | 27 | 363 \% |
| Gain on sales of SBA loans |  | - |  | 207 |  | - | (100)\% | N/A |  | 482 |  | 491 | (2)\% |
| Gain on warrants |  | - |  |  |  | - | N/A | N/A |  |  |  | 669 | (100)\% |
| Other |  | 432 |  | 353 |  | 352 | 22 \% | 23 \% |  | 1,465 |  | 1,790 | (18)\% |
| Total noninterest income |  | 1,942 |  | 2,216 |  | 2,772 | (12)\% | (30)\% |  | 8,998 |  | 10,111 | (11)\% |
| Noninterest expense: |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Salaries and employee benefits |  | 13,919 |  | 14,147 |  | 13,915 | (2)\% | 0 \% |  | 56,862 |  | 55,331 | 3 \% |
| Occupancy and equipment |  | 2,367 |  | 2,301 |  | 2,510 | $3 \%$ | (6)\% |  | 9,490 |  | 9,639 | (2)\% |
| Professional fees |  | 1,085 |  | 717 |  | 1,414 | 51 \% | (23)\% |  | 4,350 |  | 5,015 | (13)\% |
| Other |  | 8,120 |  | 8,006 |  | 6,679 | $1 \%$ | 22 \% |  | 30,352 |  | 24,874 | 22 \% |
| Total noninterest expense |  | 25,491 |  | 25,171 |  | 24,518 | $1 \%$ | $4 \%$ |  | 101,054 |  | 94,859 | 7 \% |
| Income before income taxes |  | 18,463 |  | 22,249 |  | 29,485 | (17)\% | (37)\% |  | 90,419 |  | 94,366 | (4)\% |
| Income tax expense |  | 5,135 |  | 6,454 |  | 8,686 | (20)\% | (41)\% |  | 25,976 |  | 27,811 | (7)\% |
| Net income | \$ | 13,328 | \$ | 15,795 | \$ | 20,799 | (16)\% | (36)\% | \$ | 64,443 | \$ | 66,555 | (3)\% |
| PER COMMON SHARE DATA (unaudited) |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic earnings per share | \$ | 0.22 | \$ | 0.26 | \$ | 0.34 | (15)\% | (35)\% | \$ | 1.06 | \$ | 1.10 | (4)\% |
| Diluted earnings per share | \$ | 0.22 | \$ | 0.26 | \$ | 0.34 | (15)\% | (35)\% | \$ | 1.05 | \$ | 1.09 | (4)\% |
| Weighted average shares outstanding - basic |  | 61,118,485 |  | 61,093,289 |  | 0,788,803 | $0 \%$ | $1 \%$ |  | 61,038,857 |  | 6,602,962 | $1 \%$ |
| Weighted average shares outstanding - diluted |  | 61,412,816 |  | 61,436,240 |  | 61,357,023 | $0 \%$ | $0 \%$ |  | 61,311,318 |  | 61,090,290 | 0 \% |
| Common shares outstanding at period-end |  | 61,146,835 |  | 61,099,155 |  | 0,852,723 | $0 \%$ | 0 \% |  | 61,146,835 |  | 6,852,723 | 0 \% |
| Dividend per share | \$ | 0.13 | \$ | 0.13 | \$ | 0.13 | $0 \%$ | $0 \%$ | \$ | 0.52 | \$ | 0.52 | 0 \% |
| Book value per share | \$ | 11.00 | \$ | 10.83 | \$ | 10.39 | $2 \%$ | $6 \%$ | \$ | 11.00 | \$ | 10.39 | 6 \% |
| Tangible book value per share | \$ | 8.12 | \$ | 7.94 | \$ | 7.46 | $2 \%$ | $9 \%$ | \$ | 8.12 | \$ | 7.46 | $9 \%$ |
| KEY FINANCIAL RATIOS <br> (unaudited) |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Annualized return on average equity |  | 7.96 \% |  | 9.54 \% |  | 13.40 \% | (17)\% | (41)\% |  | 9.88 \% |  | 10.95 \% | (10)\% |
| Annualized return on average tangible common equity |  | 10.84 \% |  | 13.06 \% |  | 18.89 \% | (17)\% | (43)\% |  | 13.57 \% |  | 15.57 \% | (13)\% |
| Annualized return on average assets |  | 1.00 \% |  | 1.16 \% |  | 1.54 \% | (14)\% | (35)\% |  | 1.21 \% |  | 1.23 \% | (2)\% |
| Annualized return on average tangible assets |  | 1.03 \% |  | 1.20 \% |  | 1.59 \% | (14)\% | (35)\% |  | 1.26 \% |  | 1.27 \% | (1)\% |
| Net interest margin (FTE) |  | 3.41 \% |  | 3.57 \% |  | 4.10 \% | (4)\% | (17)\% |  | 3.70 \% |  | 3.57 \% | 4 \% |
| Efficiency ratio |  | 57.62 \% |  | 52.89 \% |  | 44.98 \% | $9 \%$ | 28 \% |  | 52.57 \% |  | 49.93 \% | 5 \% |
| avERAGE BALANCES (in \$000's, unaudited) |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Average assets | \$ | 5,291,962 | \$ | 5,399,930 | \$ | 5,360,867 | (2)\% | (1)\% | \$ | 5,310,277 | \$ | 5,401,220 | (2)\% |
| Average tangible assets | \$ | 5,115,321 | \$ | 5,222,692 | \$ | 5,181,793 | (2)\% | (1)\% | \$ | 5,132,741 | \$ | 5,221,159 | (2)\% |
| Average earning assets | \$ | 4,923,582 | \$ | 5,051,710 | \$ | 5,009,578 | (3)\% | (2)\% | \$ | 4,955,018 | \$ | 5,051,552 | (2)\% |
| Average loans held-for-sale | \$ | 1,612 | \$ | 2,765 | \$ | 2,346 | (42)\% | (31)\% | \$ | 2,821 | \$ | 2,238 | 26 \% |
| Average total loans | \$ | 3,280,817 | \$ | 3,254,715 | \$ | 3,248,210 | $1 \%$ | $1 \%$ | \$ | 3,259,373 | \$ | 3,116,768 | 5 \% |
| Average deposits | \$ | 4,454,750 | \$ | 4,573,621 | \$ | 4,600,533 | (3)\% | (3)\% | \$ | 4,467,489 | \$ | 4,647,200 | (4)\% |
| Average demand deposits - noninterest-bearing | \$ | 1,243,222 | \$ | 1,302,606 | \$ | 1,851,003 | (5)\% | (33)\% | \$ | 1,393,949 | \$ | 1,863,928 | (25)\% |
| Average interest-bearing deposits | \$ | 3,211,528 | \$ | 3,271,015 |  | 2,749,530 | (2)\% | 17 \% | \$ | 3,073,540 | \$ | 2,783,272 | 10 \% |
| Average interest-bearing liabilities | \$ | 3,251,034 | \$ | 3,310,485 | \$ | 2,788,880 | (2)\% | 17 \% | \$ | 3,140,105 | \$ | 2,825,035 | $11 \%$ |
| Average equity | \$ | 664,638 | \$ | 656,973 | \$ | 615,941 | $1 \%$ | 8 \% | \$ | 652,449 | \$ | 607,603 | 7 \% |
| Average tangible common equity | \$ | 487,997 | \$ | 479,735 | \$ | 436,867 | $2 \%$ | 12 \% | \$ | 474,913 | \$ | 427,542 | $11 \%$ |


| CONSOLIDATED INCOME STATEMENTS(in \$000's, unaudited) | For the Quarter Ended: |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \hline \text { December 31, } \\ 2023 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2023 \\ \hline \end{gathered}$ |  | June 30,$2023$ |  | $\begin{gathered} \hline \text { March 31, } \\ 2023 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2022 \\ \hline \end{gathered}$ |  |
| Interest income | \$ | 58,892 | \$ | 60,791 | \$ | 58,341 | \$ | 56,274 | \$ | 55,192 |
| Interest expense |  | 16,591 |  | 15,419 |  | 12,048 |  | 7,016 |  | 3,453 |
| Net interest income before provision for credit losses on loans |  | 42,301 |  | 45,372 |  | 46,293 |  | 49,258 |  | 51,739 |
| Provision for credit losses on loans |  | 289 |  | 168 |  | 260 |  | 32 |  | 508 |
| Net interest income after provision for credit losses on loans |  | 42,012 |  | 45,204 |  | 46,033 |  | 49,226 |  | 51,231 |
| Noninterest income: |  |  |  |  |  |  |  |  |  |  |
| Service charges and fees on deposit accounts |  | 838 |  | 859 |  | 901 |  | 1,743 |  | 1,801 |
| Increase in cash surrender value of life insurance |  | 519 |  | 517 |  | 502 |  | 493 |  | 481 |
| Servicing income |  | 103 |  | 62 |  | 104 |  | 131 |  | 138 |
| Termination fees |  | 25 |  | 118 |  | - |  | 11 |  | - |
| Gain on proceeds from company-owned life insurance |  | 25 |  | 100 |  | - |  | - |  | - |
| Gain on sales of SBA loans |  | - |  | 207 |  | 199 |  | 76 |  | - |
| Gain on warrants |  | - |  | - |  | - |  | - |  | - |
| Other |  | 432 |  | 353 |  | 368 |  | 312 |  | 352 |
| Total noninterest income |  | 1,942 |  | 2,216 |  | 2,074 |  | 2,766 |  | 2,772 |
| Noninterest expense: |  |  |  |  |  |  |  |  |  |  |
| Salaries and employee benefits |  | 13,919 |  | 14,147 |  | 13,987 |  | 14,809 |  | 13,915 |
| Occupancy and equipment |  | 2,367 |  | 2,301 |  | 2,422 |  | 2,400 |  | 2,510 |
| Professional fees |  | 1,085 |  | 717 |  | 1,149 |  | 1,399 |  | 1,414 |
| Other |  | 8,120 |  | 8,006 |  | 7,433 |  | 6,793 |  | 6,679 |
| Total noninterest expense |  | 25,491 |  | 25,171 |  | 24,991 |  | 25,401 |  | 24,518 |
| Income before income taxes |  | 18,463 |  | 22,249 |  | 23,116 |  | 26,591 |  | 29,485 |
| Income tax expense |  | 5,135 |  | 6,454 |  | 6,713 |  | 7,674 |  | 8,686 |
| Net income | \$ | 13,328 | \$ | 15,795 | \$ | 16,403 | \$ | 18,917 | \$ | 20,799 |
| PER COMMON SHARE DATA (unaudited) |  |  |  |  |  |  |  |  |  |  |
| Basic earnings per share | \$ | 0.22 | \$ | 0.26 | \$ | 0.27 | \$ | 0.31 | \$ | 0.34 |
| Diluted earnings per share | \$ | 0.22 | \$ | 0.26 | \$ | 0.27 | \$ | 0.31 | \$ | 0.34 |
| Weighted average shares outstanding - basic |  | 61,118,485 |  | 61,093,289 |  | 61,035,435 |  | 60,908,221 |  | 60,788,803 |
| Weighted average shares outstanding - diluted |  | 61,412,816 |  | 61,436,240 |  | 61,266,059 |  | 61,268,072 |  | 61,357,023 |
| Common shares outstanding at period-end |  | 61,146,835 |  | 61,099,155 |  | 61,091,155 |  | 60,948,607 |  | 60,852,723 |
| Dividend per share | \$ | 0.13 | \$ | 0.13 | \$ | 0.13 | \$ | 0.13 | \$ | 0.13 |
| Book value per share | \$ | 11.00 | \$ | 10.83 | \$ | 10.70 | \$ | 10.62 | \$ | 10.39 |
| Tangible book value per share | \$ | 8.12 | \$ | 7.94 | \$ | 7.80 | \$ | 7.70 | \$ | 7.46 |
| KEY FINANCIAL RATIOS (unaudited) |  |  |  |  |  |  |  |  |  |  |
| Annualized return on average equity |  | 7.96 \% |  | 9.54 \% |  | 10.12 \% |  | 12.03 \% |  | 13.40 \% |
| Annualized return on average tangible common equity |  | 10.84 \% |  | 13.06 \% |  | 13.93 \% |  | 16.71 \% |  | 18.89 \% |
| Annualized return on average assets |  | 1.00 \% |  | 1.16 \% |  | 1.25 \% |  | 1.47 \% |  | 1.54 \% |
| Annualized return on average tangible assets |  | 1.03 \% |  | 1.20 \% |  | 1.29 \% |  | 1.52 \% |  | 1.59 \% |
| Net interest margin (FTE) |  | 3.41 \% |  | 3.57 \% |  | 3.76 \% |  | 4.09 \% |  | 4.10 \% |
| Efficiency ratio |  | 57.62 \% |  | 52.89 \% |  | 51.67 \% |  | 48.83 \% |  | 44.98 \% |
| AVERAGE BALANCES (in \$000's, unaudited) |  |  |  |  |  |  |  |  |  |  |
| Average assets | \$ | 5,291,962 | \$ | 5,399,930 | \$ | 5,278,243 | \$ | 5,235,506 | \$ | 5,360,867 |
| Average tangible assets | \$ | 5,115,321 | \$ | 5,222,692 | \$ | 5,100,399 | \$ | 5,057,063 | \$ | 5,181,793 |
| Average earning assets | \$ | 4,923,582 | \$ | 5,051,710 | \$ | 4,948,397 | \$ | 4,895,009 | \$ | 5,009,578 |
| Average loans held-for-sale | \$ | 1,612 | \$ | 2,765 | \$ | 4,166 | \$ | 2,755 | \$ | 2,346 |
| Average total loans | \$ | 3,280,817 | \$ | 3,254,715 | \$ | 3,227,175 | \$ | 3,274,770 | \$ | 3,248,210 |
| Average deposits | \$ | 4,454,750 | \$ | 4,573,621 | \$ | 4,424,041 | \$ | 4,415,952 | \$ | 4,600,533 |
| Average demand deposits - noninterest-bearing | \$ | 1,243,222 | \$ | 1,302,606 | \$ | 1,368,373 | \$ | 1,667,260 | \$ | 1,851,003 |
| Average interest-bearing deposits | \$ | 3,211,528 | \$ | 3,271,015 | \$ | 3,055,668 | \$ | 2,748,692 | \$ | 2,749,530 |
| Average interest-bearing liabilities | \$ | 3,251,034 | \$ | 3,310,485 | \$ | 3,157,722 | \$ | 2,834,732 | \$ | 2,788,880 |
| Average equity | \$ | 664,638 | \$ | 656,973 | \$ | 650,240 | \$ | 637,597 | \$ | 615,941 |
| Average tangible common equity | \$ | 487,997 | \$ | 479,735 | \$ | 472,396 | \$ | 459,154 | \$ | 436,867 |


| CONSOLIDATED BALANCE SHEETS (in \$000's, unaudited) | End of Period: |  |  |  |  |  | Percent Change From: |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \hline \text { December 31, } \\ 2023 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2023 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2022 \\ \hline \end{gathered}$ |  | $\begin{gathered} \text { September 30, } \\ 2023 \end{gathered}$ | $\begin{gathered} \text { December 31, } \\ 2022 \\ \hline \end{gathered}$ |
| ASSETS |  |  |  |  |  |  |  |  |
| Cash and due from banks | \$ | 41,592 | \$ | 40,076 | \$ | 27,595 | $4 \%$ | 51 \% |
| Other investments and interest-bearing deposits in other financial institutions |  | 366,537 |  | 605,476 |  | 279,008 | (39)\% | 31 \% |
| Securities available-for-sale, at fair value |  | 442,636 |  | 457,194 |  | 489,596 | (3)\% | (10)\% |
| Securities held-to-maturity, at amortized cost |  | 650,565 |  | 664,681 |  | 714,990 | (2)\% | (9)\% |
| Loans held-for-sale - SBA, including deferred costs |  | 2,205 |  | 841 |  | 2,456 | 162 \% | (10)\% |
| Loans: |  |  |  |  |  |  |  |  |
| Commercial |  | 463,778 |  | 430,664 |  | 533,915 | 8 \% | (13)\% |
| Real estate: |  |  |  |  |  |  |  |  |
| CRE - owner occupied |  | 583,253 |  | 589,751 |  | 614,663 | (1)\% | (5)\% |
| CRE - non-owner occupied |  | 1,256,590 |  | 1,208,324 |  | 1,066,368 | 4 \% | 18 \% |
| Land and construction |  | 140,513 |  | 158,138 |  | 163,577 | (11)\% | (14)\% |
| Home equity |  | 119,125 |  | 124,477 |  | 120,724 | (4)\% | (1)\% |
| Multifamily |  | 269,734 |  | 253,129 |  | 244,882 | 7 \% | 10 \% |
| Residential mortgages |  | 496,961 |  | 503,006 |  | 537,905 | (1)\% | (8)\% |
| Consumer and other |  | 20,919 |  | 18,526 |  | 17,033 | 13 \% | 23 \% |
| Loans |  | 3,350,873 |  | 3,286,015 |  | 3,299,067 | 2 \% | 2 \% |
| Deferred loan fees, net |  | (495) |  | (554) |  | (517) | (11)\% | (4)\% |
| Total loans, net of deferred costs and fees |  | 3,350,378 |  | 3,285,461 |  | 3,298,550 | 2 \% | 2 \% |
| Allowance for credit losses on loans |  | $(47,958)$ |  | $(47,702)$ |  | $(47,512)$ | $1 \%$ | $1 \%$ |
| Loans, net |  | 3,302,420 |  | 3,237,759 |  | 3,251,038 | 2 \% | 2 \% |
| Company-owned life insurance |  | 79,489 |  | 79,607 |  | 78,945 | 0 \% | $1 \%$ |
| Premises and equipment, net |  | 9,857 |  | 9,707 |  | 9,301 | 2 \% | 6 \% |
| Goodwill |  | 167,631 |  | 167,631 |  | 167,631 | 0 \% | 0 \% |
| Other intangible assets |  | 8,627 |  | 9,229 |  | 11,033 | (7)\% | (22)\% |
| Accrued interest receivable and other assets |  | 122,536 |  | 131,106 |  | 125,987 | (7)\% | (3)\% |
| Total assets | \$ | 5,194,095 | \$ | 5,403,307 | \$ | 5,157,580 | (4)\% | $1 \%$ |
| LIABILITIES AND SHAREHOLDERS' EQUITY |  |  |  |  |  |  |  |  |
| Liabilities: |  |  |  |  |  |  |  |  |
| Deposits: |  |  |  |  |  |  |  |  |
| Demand, noninterest-bearing | \$ | 1,292,486 | \$ | 1,243,501 | \$ | 1,736,722 | 4 \% | (26)\% |
| Demand, interest-bearing |  | 914,066 |  | 1,004,185 |  | 1,196,427 | (9)\% | (24)\% |
| Savings and money market |  | 1,087,518 |  | 1,110,640 |  | 1,285,444 | (2)\% | (15)\% |
| Time deposits - under \$250 |  | 38,055 |  | 43,906 |  | 32,445 | (13)\% | 17 \% |
| Time deposits - \$250 and over |  | 192,228 |  | 252,001 |  | 108,192 | (24)\% | 78 \% |
| ICS/CDARS - interest-bearing demand, money market and time deposits |  | 854,105 |  | 921,224 |  | 30,374 | (7)\% | 2712 \% |
| Total deposits |  | 4,378,458 |  | 4,575,457 |  | 4,389,604 | (4)\% | 0 \% |
| Subordinated debt, net of issuance costs |  | 39,502 |  | 39,463 |  | 39,350 | 0 \% | $0 \%$ |
| Accrued interest payable and other liabilities |  | 103,234 |  | 126,457 |  | 96,170 | (18)\% | 7 \% |
| Total liabilities |  | 4,521,194 |  | 4,741,377 |  | 4,525,124 | (5)\% | 0 \% |
| Shareholders' Equity: |  |  |  |  |  |  |  |  |
| Common stock |  | 506,539 |  | 505,692 |  | 502,923 | 0 \% | $1 \%$ |
| Retained earnings |  | 179,092 |  | 173,707 |  | 146,389 | $3 \%$ | 22 \% |
| Accumulated other comprehensive loss |  | $(12,730)$ |  | $(17,469)$ |  | $(16,856)$ | (27)\% | (24)\% |
| Total shareholders' equity |  | 672,901 |  | 661,930 |  | 632,456 | 2 \% | 6 \% |
| Total liabilities and shareholders' equity | \$ | 5,194,095 | \$ | 5,403,307 | \$ | 5,157,580 | (4)\% | $1 \%$ |


| CONSOLIDATED BALANCE SHEETS (in \$000's, unaudited) | End of Period: |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \hline \text { December 31, } \\ 2023 \end{gathered}$ |  | $\begin{gathered} \hline \text { September 30, } \\ 2023 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { June 30, } \\ 2023 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { March 31, } \\ 2023 \\ \hline \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2022 \\ \hline \end{gathered}$ |  |
| ASSETS |  |  |  |  |  |  |  |  |  |  |
| Cash and due from banks | \$ | 41,592 | \$ | 40,076 | \$ | 42,551 | \$ | 41,318 | \$ | 27,595 |
| Other investments and interest-bearing deposits |  |  |  |  |  |  |  |  |  |  |
| Securities available-for-sale, at fair value |  | 442,636 |  | 457,194 |  | 486,058 |  | 491,751 |  | 489,596 |
| Securities held-to-maturity, at amortized cost |  | 650,565 |  | 664,681 |  | 682,095 |  | 698,231 |  | 714,990 |
| Loans held-for-sale - SBA, including deferred costs |  | 2,205 |  | 841 |  | 3,136 |  | 2,792 |  | 2,456 |
| Loans: |  |  |  |  |  |  |  |  |  |  |
| Commercial |  | 463,778 |  | 430,664 |  | 466,354 |  | 506,602 |  | 533,915 |
| Real estate: |  |  |  |  |  |  |  |  |  |  |
| CRE - owner occupied |  | 583,253 |  | 589,751 |  | 608,031 |  | 603,298 |  | 614,663 |
| CRE - non-owner occupied |  | 1,256,590 |  | 1,208,324 |  | 1,147,313 |  | 1,083,852 |  | 1,066,368 |
| Land and construction |  | 140,513 |  | 158,138 |  | 162,816 |  | 166,408 |  | 163,577 |
| Home equity |  | 119,125 |  | 124,477 |  | 128,009 |  | 124,481 |  | 120,724 |
| Multifamily |  | 269,734 |  | 253,129 |  | 244,959 |  | 231,242 |  | 244,882 |
| Residential mortgages |  | 496,961 |  | 503,006 |  | 514,064 |  | 528,639 |  | 537,905 |
| Consumer and other |  | 20,919 |  | 18,526 |  | 17,635 |  | 17,905 |  | 17,033 |
| Loans |  | 3,350,873 |  | 3,286,015 |  | 3,289,181 |  | 3,262,427 |  | 3,299,067 |
| Deferred loan fees, net |  | (495) |  | (554) |  | (397) |  | (512) |  | (517) |
| Total loans, net of deferred fees |  | 3,350,378 |  | 3,285,461 |  | 3,288,784 |  | 3,261,915 |  | 3,298,550 |
| Allowance for credit losses on loans |  | $(47,958)$ |  | $(47,702)$ |  | $(47,803)$ |  | $(47,273)$ |  | $(47,512)$ |
| Loans, net |  | 3,302,420 |  | 3,237,759 |  | 3,240,981 |  | 3,214,642 |  | 3,251,038 |
| Company-owned life insurance |  | 79,489 |  | 79,607 |  | 79,940 |  | 79,438 |  | 78,945 |
| Premises and equipment, net |  | 9,857 |  | 9,707 |  | 9,197 |  | 9,142 |  | 9,301 |
| Goodwill |  | 167,631 |  | 167,631 |  | 167,631 |  | 167,631 |  | 167,631 |
| Other intangible assets |  | 8,627 |  | 9,229 |  | 9,830 |  | 10,431 |  | 11,033 |
| Accrued interest receivable and other assets |  | 122,536 |  | 131,106 |  | 121,467 |  | 122,474 |  | 125,987 |
| Total assets | \$ | 5,194,095 | \$ | 5,403,307 | \$ | 5,311,837 | \$ | 5,536,540 | \$ | 5,157,580 |
| LIABILITIES AND SHAREHOLDERS' EQUITY |  |  |  |  |  |  |  |  |  |  |
| Liabilities: |  |  |  |  |  |  |  |  |  |  |
| Deposits: |  |  |  |  |  |  |  |  |  |  |
| Demand, noninterest-bearing | \$ | 1,292,486 | \$ | 1,243,501 | \$ | 1,319,844 | \$ | 1,469,081 | \$ | 1,736,722 |
| Demand, interest-bearing |  | 914,066 |  | 1,004,185 |  | 1,064,638 |  | 1,196,789 |  | 1,196,427 |
| Savings and money market |  | 1,087,518 |  | 1,110,640 |  | 1,075,835 |  | 1,264,567 |  | 1,285,444 |
| Time deposits - under \$250 |  | 38,055 |  | 43,906 |  | 44,520 |  | 37,884 |  | 32,445 |
| Time deposits - \$250 and over |  | 192,228 |  | 252,001 |  | 171,852 |  | 172,070 |  | 108,192 |
| ICS/CDARS - interest-bearing demand, money market and time deposits |  | 854,105 |  | 921,224 |  | 824,083 |  | 304,147 |  | 30,374 |
| Total deposits |  | 4,378,458 |  | 4,575,457 |  | 4,500,772 |  | 4,444,538 |  | 4,389,604 |
| Other short-term borrowings |  | - |  | - |  | - |  | 300,000 |  | - |
| Subordinated debt, net of issuance costs |  | 39,502 |  | 39,463 |  | 39,425 |  | 39,387 |  | 39,350 |
| Accrued interest payable and other liabilities |  | 103,234 |  | 126,457 |  | 117,970 |  | 105,407 |  | 96,170 |
| Total liabilities |  | 4,521,194 |  | 4,741,377 |  | 4,658,167 |  | 4,889,332 |  | 4,525,124 |
| Shareholders' Equity: |  |  |  |  |  |  |  |  |  |  |
| Common stock |  | 506,539 |  | 505,692 |  | 505,075 |  | 504,135 |  | 502,923 |
| Retained earnings |  | 179,092 |  | 173,707 |  | 165,853 |  | 157,390 |  | 146,389 |
| Accumulated other comprehensive loss |  | $(12,730)$ |  | $(17,469)$ |  | $(17,258)$ |  | $(14,317)$ |  | $(16,856)$ |
| Total shareholders' equity |  | 672,901 |  | 661,930 |  | 653,670 |  | 647,208 |  | 632,456 |
| Total liabilities and shareholders' equity | \$ | 5,194,095 | \$ | 5,403,307 | \$ | 5,311,837 | \$ | 5,536,540 | \$ | 5,157,580 |


| CREDIT QUALITY DATA <br> (in \$000's, unaudited) | At or For the Quarter Ended: |  |  |  |  |  | Percent Change From: |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \hline \text { December 31, } \\ 2023 \end{gathered}$ |  | $\begin{gathered} \text { September 30, } \\ 2023 \end{gathered}$ |  | $\begin{gathered} \hline \text { December 31, } \\ 2022 \end{gathered}$ |  | $\begin{gathered} \text { September 30, } \\ 2023 \end{gathered}$ | $\begin{gathered} \text { December 31, } \\ 2022 \end{gathered}$ |
| Nonaccrual loans - held-for-investment | \$ | 6,818 | \$ | 3,518 | \$ | 740 | $94 \%$ | 821 \% |
| Restructured and loans over 90 days past due and still accruing |  | 889 |  | 1,966 |  | 1,685 | (55)\% | (47)\% |
| Total nonperforming loans |  | 7,707 |  | 5,484 |  | 2,425 | 41 \% | 218 \% |
| Foreclosed assets |  | - |  | - |  | - | N/A | N/A |
| Total nonperforming assets | \$ | 7,707 | \$ | 5,484 | \$ | 2,425 | $41 \%$ | 218 \% |
| Other restructured loans still accruing | \$ | - | \$ | - | \$ | 171 | N/A | (100)\% |
| Net charge-offs (recoveries) during the quarter | \$ | 33 | \$ | 269 | \$ | (83) | (88)\% | 140 \% |
| Provision for credit losses on loans during the quarter | \$ | 289 | \$ | 168 | \$ | 508 | 72 \% | (43)\% |
| Allowance for credit losses on loans | \$ | 47,958 | \$ | 47,702 | \$ | 47,512 | $1 \%$ | $1 \%$ |
| Classified assets | \$ | 31,763 | \$ | 31,062 | \$ | 14,544 | $2 \%$ | $118 \%$ |
| Allowance for credit losses on loans to total loans |  | 1.43 \% |  | 1.45 \% |  | 1.44 \% | (1)\% | (1)\% |
| Allowance for credit losses on loans to total nonperforming loans |  | 622.27 \% |  | 869.84 \% |  | 1,959.26 \% | (28)\% | (68)\% |
| Nonperforming assets to total assets |  | 0.15 \% |  | 0.10 \% |  | 0.05 \% | 50 \% | 200 \% |
| Nonperforming loans to total loans |  | 0.23 \% |  | 0.17 \% |  | 0.07 \% | 35 \% | 229 \% |
| Classified assets to Heritage Commerce Corp |  |  |  |  |  |  |  |  |
| Tier 1 capital plus allowance for credit losses on loans |  | 6 \% |  | 6 \% |  | $3 \%$ | 0 \% | 100 \% |
| Classified assets to Heritage Bank of Commerce |  |  |  |  |  |  |  |  |
| Tier 1 capital plus allowance for credit losses on loans |  | 5 \% |  | 5 \% |  | $3 \%$ | 0 \% | 67 \% |
| OTHER PERIOD-END STATISTICS (in \$000's, unaudited) |  |  |  |  |  |  |  |  |
| Heritage Commerce Corp: |  |  |  |  |  |  |  |  |
| Tangible common equity ${ }^{(1)}$ | \$ | 496,643 | \$ | 485,070 | \$ | 453,792 | $2 \%$ | $9 \%$ |
| Shareholders' equity / total assets |  | 12.88 \% |  | 12.25 \% |  | 12.26 \% | $5 \%$ | $5 \%$ |
| Tangible common equity / tangible assets ${ }^{(2)}$ |  | 9.84 \% |  | 9.28 \% |  | 9.11 \% | 6 \% | 8 \% |
| Loan to deposit ratio |  | 76.52 \% |  | 71.81 \% |  | 75.14 \% | 7 \% | 2 \% |
| Noninterest-bearing deposits / total deposits |  | 29.52 \% |  | 27.18 \% |  | 39.56 \% | $9 \%$ | (25)\% |
| Total capital ratio |  | 15.4 \% |  | 15.6 \% |  | 14.8 \% | (1)\% | 4 \% |
| Tier 1 capital ratio |  | 13.2 \% |  | 13.4 \% |  | 12.7 \% | (1)\% | $4 \%$ |
| Common Equity Tier 1 capital ratio |  | 13.2 \% |  | 13.4 \% |  | 12.7 \% | (1)\% | 4 \% |
| Tier 1 leverage ratio |  | 10.0 \% |  | 9.6 \% |  | 9.2 \% | $4 \%$ | $9 \%$ |
| Heritage Bank of Commerce: |  |  |  |  |  |  |  |  |
| Total capital ratio |  | 14.8 \% |  | 15.0 \% |  | 14.2 \% | (1)\% | $4 \%$ |
| Tier 1 capital ratio |  | 13.7 \% |  | 13.9 \% |  | 13.2 \% | (1)\% | $4 \%$ |
| Common Equity Tier 1 capital ratio |  | 13.7 \% |  | 13.9 \% |  | 13.2 \% | (1)\% | $4 \%$ |
| Tier 1 leverage ratio |  | 10.3 \% |  | 10.0 \% |  | 9.5 \% | 3 \% | 8 \% |

(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) | $\begin{gathered} \hline \text { December 31, } \\ 2023 \\ \hline \end{gathered}$ |  |  |  | $\begin{gathered} \text { June 30, } \\ 2023 \\ \hline \end{gathered}$ |  |  |  | $\begin{gathered} \text { December 31, } \\ 2022 \\ \hline \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  | September 30,2023 |  |  |  | $\begin{gathered} \text { March 31, } \\ 2023 \\ \hline \end{gathered}$ |  |  |  |
| Nonaccrual loans - held-for-investment | \$ | 6,818 | \$ | 3,518 | \$ | 3,275 | \$ | 781 | \$ | 740 |
| Restructured and loans over 90 days past due |  |  |  |  |  |  |  |  |  |  |
| Total nonperforming loans |  | 7,707 |  | 5,484 |  | 5,537 |  | 2,240 |  | 2,425 |
| Foreclosed assets |  | - |  | - |  | - |  | - |  | - |
| Total nonperforming assets | \$ | 7,707 | \$ | 5,484 | \$ | 5,537 | \$ | 2,240 | \$ | 2,425 |
| Other restructured loans still accruing | \$ | - | \$ | - | \$ | - | \$ | - | \$ | 171 |
| Net charge-offs (recoveries) during the quarter | \$ | 33 | \$ | 269 | \$ | (270) | \$ | 271 | \$ | (83) |
| Provision for credit losses on loans during the quarter | \$ | 289 | \$ | 168 | \$ | 260 | \$ | 32 | \$ | 508 |
| Allowance for credit losses on loans | \$ | 47,958 | \$ | 47,702 | \$ | 47,803 | \$ | 47,273 | \$ | 47,512 |
| Classified assets | \$ | 31,763 | \$ | 31,062 | \$ | 30,500 | \$ | 26,800 | \$ | 14,544 |
| Allowance for credit losses on loans to total loans |  | 1.43 \% |  | 1.45 \% |  | 1.45 \% |  | 1.45 \% |  | 1.44 \% |
| Allowance for credit losses on loans to total nonperforming loans |  | 622.27 \% |  | 869.84 \% |  | 863.34 \% |  | 2,110.40 \% |  | 1,959.26 \% |
| Nonperforming assets to total assets |  | 0.15 \% |  | 0.10 \% |  | 0.10 \% |  | 0.04 \% |  | 0.05 \% |
| Nonperforming loans to total loans |  | 0.23 \% |  | 0.17 \% |  | 0.17 \% |  | 0.07 \% |  | 0.07 \% |
| Classified assets to Heritage Commerce Corp |  |  |  |  |  |  |  |  |  |  |
| Tier 1 capital plus allowance for credit losses on loans |  | 6 \% |  | 6 \% |  | 6 \% |  | $5 \%$ |  | $3 \%$ |
| Classified assets to Heritage Bank of Commerce |  |  |  |  |  |  |  |  |  |  |
| Tier 1 capital plus allowance for credit losses on loans |  | 5 \% |  | $5 \%$ |  | $5 \%$ |  | 5 \% |  | $3 \%$ |
| OTHER PERIOD-END STATISTICS (in \$000's, unaudited) |  |  |  |  |  |  |  |  |  |  |
| Heritage Commerce Corp: |  |  |  |  |  |  |  |  |  |  |
| Tangible common equity ${ }^{(1)}$ | \$ | 496,643 | \$ | 485,070 | \$ | 476,209 | \$ | 469,146 | \$ | 453,792 |
| Shareholders' equity / total assets |  | 12.88 \% |  | 12.25 \% |  | 12.31 \% |  | 11.69 \% |  | 12.26 \% |
| Tangible common equity / tangible assets ${ }^{(2)}$ |  | 9.84 \% |  | 9.28 \% |  | 9.27 \% |  | 8.76 \% |  | 9.11 \% |
| Loan to deposit ratio |  | 76.52 \% |  | 71.81 \% |  | 73.07 \% |  | 73.39 \% |  | 75.14 \% |
| Noninterest-bearing deposits / total deposits |  | 29.52 \% |  | 27.18 \% |  | 29.32 \% |  | 33.05 \% |  | 39.56 \% |
| Total capital ratio |  | 15.4 \% |  | 15.6 \% |  | 15.4 \% |  | 15.3 \% |  | 14.8 \% |
| Tier 1 capital ratio |  | 13.2 \% |  | 13.4 \% |  | 13.2 \% |  | 13.1 \% |  | 12.7 \% |
| Common Equity Tier 1 capital ratio |  | 13.2 \% |  | 13.4 \% |  | 13.2 \% |  | 13.1 \% |  | 12.7 \% |
| Tier 1 leverage ratio |  | 10.0 \% |  | 9.6 \% |  | 9.7 \% |  | 9.6 \% |  | 9.2 \% |
| Heritage Bank of Commerce: |  |  |  |  |  |  |  |  |  |  |
| Total capital ratio |  | 14.8 \% |  | 15.0 \% |  | 14.8 \% |  | 14.7 \% |  | 14.2 \% |
| Tier 1 capital ratio |  | 13.7 \% |  | 13.9 \% |  | 13.7 \% |  | 13.5 \% |  | 13.2 \% |
| Common Equity Tier 1 capital ratio |  | 13.7 \% |  | 13.9 \% |  | 13.7 \% |  | 13.5 \% |  | 13.2 \% |
| Tier 1 leverage ratio |  | 10.3 \% |  | 10.0 \% |  | 10.0 \% |  | 9.9 \% |  | 9.5 \% |

(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, 2023 |  |  |  |  | For the Quarter Ended December 31, 2022 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average Balance |  | Interest <br> Income/ <br> Expense |  | Average <br> Yield/ <br> Rate | Average Balance |  | Interest <br> Income/ <br> Expense |  | $\begin{gathered} \hline \text { Average } \\ \text { Yield/ } \\ \text { Rate } \\ \hline \end{gathered}$ |
| Assets: |  |  |  |  |  |  |  |  |  |  |
| Loans, gross ${ }^{(1)(2)}$ | \$ | 3,282,429 | \$ | 44,635 | 5.39 \% | \$ | 3,250,556 | \$ | 42,501 | 5.19 \% |
| Securities - taxable |  | 1,074,638 |  | 6,516 | 2.41 \% |  | 1,156,563 |  | 6,941 | 2.38 \% |
| Securities - exempt from Federal tax ${ }^{(3)}$ |  | 32,244 |  | 288 | 3.54 \% |  | 37,958 |  | 324 | 3.39 \% |
| Other investments and interest-bearing deposits in other financial institutions |  | 534,271 |  | 7,514 | 5.58 \% |  | 564,501 |  | 5,494 | 3.86 \% |
| Total interest earning assets ${ }^{(3)}$ |  | 4,923,582 |  | 58,953 | 4.75 \% |  | 5,009,578 |  | 55,260 | 4.38 \% |
| Cash and due from banks |  | 35,214 |  |  |  |  | 36,392 |  |  |  |
| Premises and equipment, net |  | 9,843 |  |  |  |  | 9,436 |  |  |  |
| Goodwill and other intangible assets |  | 176,641 |  |  |  |  | 179,074 |  |  |  |
| Other assets |  | 146,682 |  |  |  |  | 126,387 |  |  |  |
| Total assets | \$ | 5,291,962 |  |  |  | \$ | 5,360,867 |  |  |  |
| Liabilities and shareholders' equity: |  |  |  |  |  |  |  |  |  |  |
| Deposits: |  |  |  |  |  |  |  |  |  |  |
| Demand, noninterest-bearing | \$ | 1,243,222 |  |  |  | \$ | 1,851,003 |  |  |  |
| Demand, interest-bearing |  | 948,061 |  | 1,661 | 0.70 \% |  | 1,164,378 |  | 945 | 0.32 \% |
| Savings and money market |  | 1,096,962 |  | 6,216 | 2.25 \% |  | 1,424,964 |  | 1,694 | 0.47 \% |
| Time deposits - under \$100 |  | 11,389 |  | 37 | 1.29 \% |  | 12,157 |  | 7 | 0.23 \% |
| Time deposits - \$100 and over |  | 234,140 |  | 2,130 | 3.61 \% |  | 120,246 |  | 268 | 0.88 \% |
| ICS/CDARS - interest-bearing demand, money market and time deposits |  | 920,976 |  | 6,009 | 2.59 \% |  | 27,785 |  | 1 | 0.01 \% |
| Total interest-bearing deposits |  | 3,211,528 |  | 16,053 | 1.98 \% |  | 2,749,530 |  | 2,915 | 0.42 \% |
| Total deposits |  | 4,454,750 |  | 16,053 | 1.43 \% |  | 4,600,533 |  | 2,915 | 0.25 \% |
| Short-term borrowings |  | 29 |  | - | 0.00 \% |  | 24 |  | - | 0.00 \% |
| Subordinated debt, net of issuance costs |  | 39,477 |  | 538 | 5.41 \% |  | 39,326 |  | 538 | 5.43 \% |
| Total interest-bearing liabilities |  | 3,251,034 |  | 16,591 | 2.02 \% |  | 2,788,880 |  | 3,453 | 0.49 \% |
| Total interest-bearing liabilities and demand, noninterest-bearing / cost of funds |  | 4,494,256 |  | 16,591 | 1.46 \% |  | 4,639,883 |  | 3,453 | 0.30 \% |
| Other liabilities |  | 133,068 |  |  |  |  | 105,043 |  |  |  |
| Total liabilities |  | 4,627,324 |  |  |  |  | 4,744,926 |  |  |  |
| Shareholders' equity |  | 664,638 |  |  |  |  | 615,941 |  |  |  |
| Total liabilities and shareholders' equity | \$ | 5,291,962 |  |  |  | \$ | 5,360,867 |  |  |  |
| Net interest income ${ }^{(3)} /$ margin |  |  |  | 42,362 | 3.41 \% |  |  |  | 51,807 | 4.10 \% |
| Less tax equivalent adjustment ${ }^{(3)}$ |  |  |  | (61) |  |  |  |  | (68) |  |
| Net interest income |  |  |  | 42,301 |  |  |  | \$ | 51,739 |  |

(1) Includes loans held-for-sale. Nonaccrual loans are included in average balances.
(2) Yield amounts earned on loans include fees and costs. The accretion of net deferred loan fees into loan interest income was $\$ 147,000$ for the fourth quarter of 2023 , compared to $\$ 326,000$ for the fourth quarter of 2022. Prepayment fees totaled $\$ 91,000$ for the fourth quarter of 2023, compared to $\$ 123,000$ for the fourth quarter of 2022.
(3) Reflects the FTE adjustment for Federal tax-exempt income based on a $21 \%$ tax rate.

| NET INTEREST INCOME AND NET INTEREST MARGIN(in \$000's, unaudited) | For the Quarter Ended December 31, 2023 |  |  |  |  | For the Quarter Ended September 30, 2023 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average Balance |  | Interest <br> Income/ <br> Expense |  | Average Yield/ Rate | Average Balance |  | Interest <br> Income/ <br> Expense |  | Average Yield/ Rate |
| Assets: |  |  |  |  |  |  |  |  |  |  |
| Loans, gross ${ }^{(1)(2)}$ | \$ | 3,282,429 | \$ | 44,635 | 5.39 \% | \$ | 3,257,480 | \$ | 44,853 | 5.46 \% |
| Securities - taxable |  | 1,074,638 |  | 6,516 | 2.41 \% |  | 1,114,782 |  | 6,797 | 2.42 \% |
| Securities - exempt from Federal tax ${ }^{(3)}$ |  | 32,244 |  | 288 | 3.54 \% |  | 32,947 |  | 293 | 3.53 \% |
| Other investments and interest-bearing deposits in other financial institutions |  | 534,271 |  | 7,514 | 5.58 \% |  | 646,501 |  | 8,909 | 5.47 \% |
| Total interest earning assets ${ }^{(3)}$ |  | 4,923,582 |  | 58,953 | 4.75 \% |  | 5,051,710 |  | 60,852 | 4.78 \% |
| Cash and due from banks |  | 35,214 |  |  |  |  | 35,911 |  |  |  |
| Premises and equipment, net |  | 9,843 |  |  |  |  | 9,374 |  |  |  |
| Goodwill and other intangible assets |  | 176,641 |  |  |  |  | 177,238 |  |  |  |
| Other assets |  | 146,682 |  |  |  |  | 125,697 |  |  |  |
| Total assets | \$ | 5,291,962 |  |  |  | \$ | 5,399,930 |  |  |  |
| Liabilities and shareholders' equity: |  |  |  |  |  |  |  |  |  |  |
| Deposits: |  |  |  |  |  |  |  |  |  |  |
| Demand, noninterest-bearing | \$ | 1,243,222 |  |  |  | \$ | 1,302,606 |  |  |  |
| Demand, interest-bearing |  | 948,061 |  | 1,661 | 0.70 \% |  | 1,017,686 |  | 1,730 | 0.67 \% |
| Savings and money market |  | 1,096,962 |  | 6,216 | 2.25 \% |  | 1,087,336 |  | 5,514 | 2.01 \% |
| Time deposits - under \$100 |  | 11,389 |  | 37 | 1.29 \% |  | 11,966 |  | 30 | 0.99 \% |
| Time deposits - \$100 and over |  | 234,140 |  | 2,130 | 3.61 \% |  | 272,362 |  | 2,489 | 3.63 \% |
| ICS/CDARS - interest-bearing demand, money market and time deposits |  | 920,976 |  | 6,009 | 2.59 \% |  | 881,665 |  | 5,117 | 2.30 \% |
| Total interest-bearing deposits |  | 3,211,528 |  | 16,053 | 1.98 \% |  | 3,271,015 |  | 14,880 | 1.80 \% |
| Total deposits |  | 4,454,750 |  | 16,053 | 1.43 \% |  | 4,573,621 |  | 14,880 | 1.29 \% |
| Short-term borrowings |  | 29 |  | - | 0.00 \% |  | 31 |  | - | 0.00 \% |
| Subordinated debt, net of issuance costs |  | 39,477 |  | 538 | 5.41 \% |  | 39,439 |  | 539 | 5.42 \% |
| Total interest-bearing liabilities |  | 3,251,034 |  | 16,591 | 2.02 \% |  | 3,310,485 |  | 15,419 | 1.85 \% |
| Total interest-bearing liabilities and demand, noninterest-bearing / cost of funds |  | 4,494,256 |  | 16,591 | 1.46 \% |  | 4,613,091 |  | 15,419 | 1.33 \% |
| Other liabilities |  | 133,068 |  |  |  |  | 129,866 |  |  |  |
| Total liabilities |  | 4,627,324 |  |  |  |  | 4,742,957 |  |  |  |
| Shareholders' equity |  | 664,638 |  |  |  |  | 656,973 |  |  |  |
| Total liabilities and shareholders' equity | \$ | 5,291,962 |  |  |  | \$ | 5,399,930 |  |  |  |
| Net interest income ${ }^{(3)} /$ margin |  |  |  | 42,362 | 3.41 \% |  |  |  | 45,433 | 3.57 \% |
| Less tax equivalent adjustment ${ }^{(3)}$ |  |  |  | (61) |  |  |  |  | (61) |  |
| Net interest income |  |  |  | 42,301 |  |  |  | \$ | 45,372 |  |

(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 $\$ 147,000$ for the fourth quarter of 2023 , compared to $\$ 201,000$ for the third quarter of 2023. Prepayment fees totaled $\$ 91,000$ for the fourth quarter of 2023, compared to $\$ 182,000$ for the third quarter of 2023.
(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, 2023 |  |  |  |  | For the Year Ended December 31, 2022 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average Balance |  | Interest <br> Income/ <br> Expense |  | Average <br> Yield/ <br> Rate | Average Balance |  | Interest <br> Income/ <br> Expense |  | Average Yield/ Rate |
| Assets: |  |  |  |  |  |  |  |  |  |  |
| Loans, gross ${ }^{(1)(2)}$ | \$ | 3,262,194 | \$ | 177,628 | $5.45 \%$ | \$ | 3,119,006 | \$ | 153,010 | 4.91 \% |
| Securities - taxable |  | 1,124,190 |  | 27,351 | 2.43 \% |  | 983,137 |  | 20,666 | 2.10 \% |
| Securities - exempt from Federal tax ${ }^{(3)}$ |  | 33,806 |  | 1,196 | 3.54 \% |  | 40,478 |  | 1,372 | 3.39 \% |
| Other investments, interest-bearing deposits in other |  |  |  |  |  |  |  |  |  |  |
| financial institutions and Federal funds sold |  | 534,828 |  | 28,374 | 5.31 \% |  | 908,931 |  | 14,068 | 1.55 \% |
| Total interest earning assets ${ }^{(3)}$ |  | 4,955,018 |  | 234,549 | 4.73 \% |  | 5,051,552 |  | 189,116 | 3.74 \% |
| Cash and due from banks |  | 35,955 |  |  |  |  | 37,287 |  |  |  |
| Premises and equipment, net |  | 9,421 |  |  |  |  | 9,574 |  |  |  |
| Goodwill and other intangible assets |  | 177,536 |  |  |  |  | 180,061 |  |  |  |
| Other assets |  | 132,347 |  |  |  |  | 122,746 |  |  |  |
| Total assets | \$ | 5,310,277 |  |  |  | \$ | 5,401,220 |  |  |  |
| Liabilities and shareholders' equity: |  |  |  |  |  |  |  |  |  |  |
| Deposits: |  |  |  |  |  |  |  |  |  |  |
| Demand, noninterest-bearing | \$ | 1,393,949 |  |  |  | \$ | 1,863,928 |  |  |  |
| Demand, interest-bearing |  | 1,074,523 |  | 6,655 | 0.62 \% |  | 1,224,676 |  | 2,415 | 0.20 \% |
| Savings and money market |  | 1,144,032 |  | 19,857 | 1.74 \% |  | 1,394,283 |  | 3,720 | 0.27 \% |
| Time deposits - under \$100 |  | 11,809 |  | 97 | 0.82 \% |  | 12,587 |  | 21 | 0.17 \% |
| Time deposits - \$100 and over |  | 218,131 |  | 6,874 | 3.15 \% |  | 122,018 |  | 609 | 0.50 \% |
| ICS/CDARS - interest-bearing demand, money market and time deposits |  | 625,045 |  | 14,074 | 2.25 \% |  | 29,708 |  | 5 | 0.02 \% |
| Total interest-bearing deposits |  | 3,073,540 |  | 47,557 | 1.55 \% |  | 2,783,272 |  | 6,770 | 0.24 \% |
| Total deposits |  | 4,467,489 |  | 47,557 | 1.06 \% |  | 4,647,200 |  | 6,770 | 0.15 \% |
| Short-term borrowings |  | 27,145 |  | 1,365 | 5.03 \% |  | 24 |  | - | 0.00 \% |
| Subordinated debt, net of issuance costs |  | 39,420 |  | 2,152 | 5.46 \% |  | 41,739 |  | 2,178 | 5.22 \% |
| Total interest-bearing liabilities |  | 3,140,105 |  | 51,074 | 1.63 \% |  | 2,825,035 |  | 8,948 | 0.32 \% |
| Total interest-bearing liabilities and demand, noninterest-bearing / cost of funds |  | 4,534,054 |  | 51,074 | 1.13 \% |  | 4,688,963 |  | 8,948 | 0.19 \% |
| Other liabilities |  | 123,774 |  |  |  |  | 104,654 |  |  |  |
| Total liabilities |  | 4,657,828 |  |  |  |  | 4,793,617 |  |  |  |
| Shareholders' equity |  | 652,449 |  |  |  |  | 607,603 |  |  |  |
| Total liabilities and shareholders' equity | \$ | 5,310,277 |  |  |  | \$ | 5,401,220 |  |  |  |
| Net interest income ${ }^{(3)} /$ margin |  |  |  | 183,475 | 3.70 \% |  |  |  | 180,168 | 3.57 \% |
| Less tax equivalent adjustment ${ }^{(3)}$ |  |  |  | (251) |  |  |  |  | (288) |  |
| Net interest income |  |  | \$ | 183,224 |  |  |  | \$ | 179,880 |  |

(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 $\$ 742,000$ for the year ended December 31 2023, compared to $\$ 3,437,000$ for the year ended December 31, 2022. Prepayment fees totaled $\$ 484,000$ for the year ended December 31, 2023, compared to $\$ 1,278,000$ for the year ended December 31, 2022.
(3) Reflects the FTE adjustment for Federal tax-exempt income based on a $21 \%$ tax rate.

