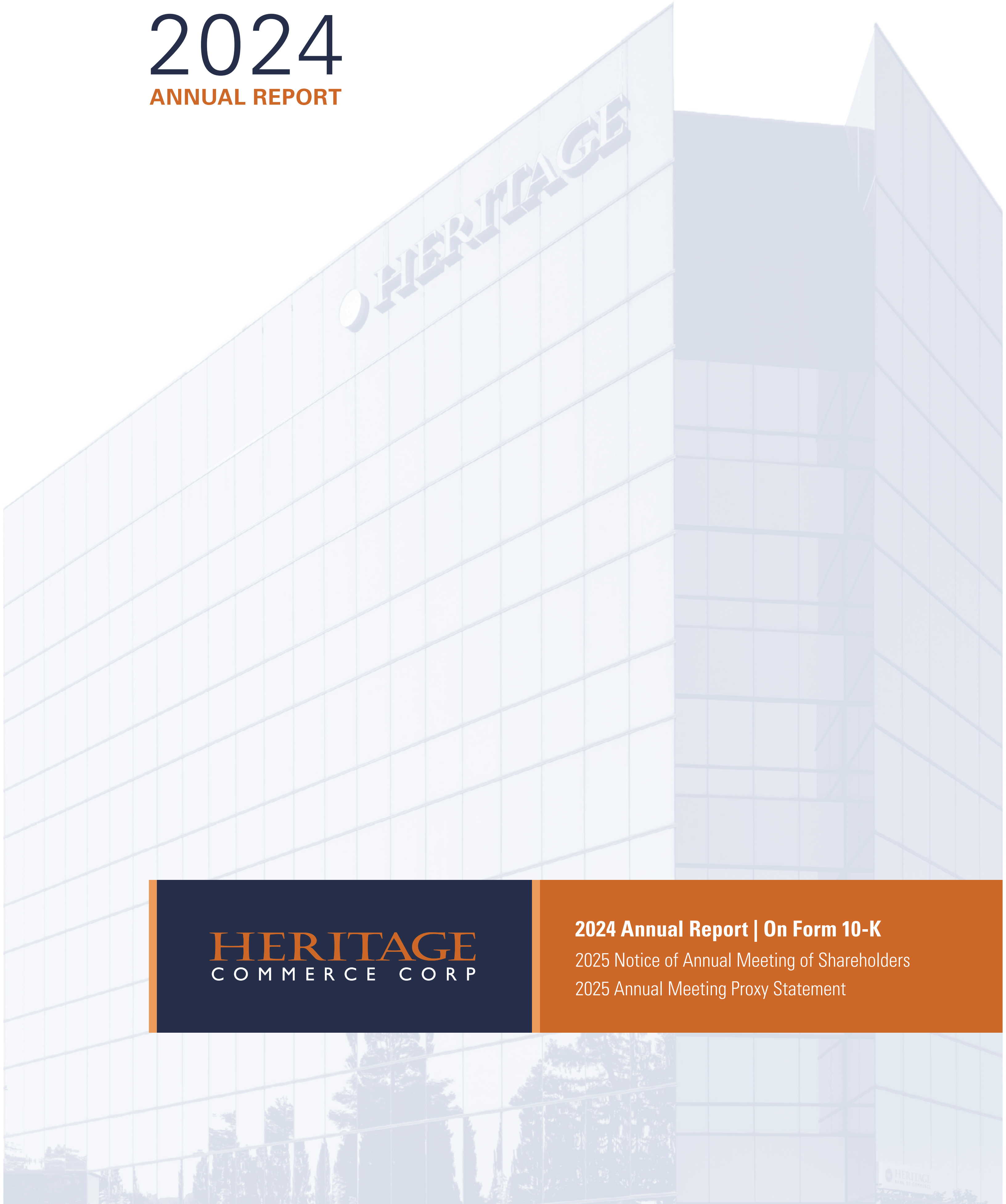
2024
ANNUAL REPORT



HERITAGE
COMMERCE CORP

2024 Annual Report | On Form 10-K

2025 Notice of Annual Meeting of Shareholders

2025 Annual Meeting Proxy Statement

Vision Statement

Heritage Commerce Corp and Heritage Bank of Commerce will be recognized by the business community as the business bank of choice in our markets and an employer of choice where everyone has the opportunity to thrive.

Mission Statement

Heritage Commerce Corp and Heritage Bank of Commerce will employ trusted values of relationship and customer-focused community business banking, combined with competitive technology, to provide solutions for the banking needs of businesses, professional organizations, non-profits and community groups and their team members. We will treat all of our stakeholders with fairness and urgency.

HERITAGE
COMMERCE CORP

Notice of 2025 Annual Meeting and Proxy Statement

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Letter to Our Shareholders

April 7, 2025

Dear Fellow Shareholders:

Thank you for your continued trust and investment in Heritage Commerce Corp. (the "Company"). This past year was especially meaningful as we celebrated the 30th anniversary of Heritage Bank of Commerce (the "Bank")—a milestone that reflects not just our longevity but our commitment to growth, resilience, and community impact.

A Year of Growth in a Challenging Environment

Although the economy in general, and the banking sector in particular, have remained challenging, 2024 was a year of solid progress. We saw deposit balances grow by 10% year-over-year as our team deepened relationships with local businesses. Loan growth was steady at 4%, reinforcing our role as a trusted financial partner in the Bay Area.

We reported net income of $40.5 million, or $0.66 per average diluted common share, reflecting the impact of relatively elevated costs of funds but also demonstrating the strength of our diversified deposit base and disciplined lending approach. Through it all, we remained focused on long-term growth while continuing to serve our clients and communities with excellence.

Investing in People, Technology, and Growth

One of our most important steps in 2024 was to invest in the future—hiring top-tier bankers, upgrading our technology, and reinforcing our operational strength. Our capital position remains strong, our loan portfolio is high quality, and we have the liquidity and earnings power to continue strengthening our franchise.

2024 Financial & Strategic Highlights:

- Total assets grew 9% to $5.6 billion, with deposits up 10% and loans up 4% year-over-year.
- Net income came in at $40.5 million ($0.66 per diluted share), compared to $64.4 million ($1.05 per diluted share) in 2023.
- Net interest margin declined 42 basis points to 3.28%, reflecting the rate environment.
- Credit quality remains strong—nonperforming loans totaled $7.7 million (0.14% of total assets), and we maintained a 1.40% allowance for credit losses on loans.
- National Recognition—We were honored to be named on Forbes' List of World's Best Banks and ranked 25th on S&P Global Market Intelligence's Top 50 Best-Performing Community Banks list.
- Raymond James Community Bankers Cup Winner—Recognized as one of the top 10% of community banks in the country for the fifth time.
- Strong Credit Ratings—Kroll Bond Rating Agency ("KBRA") reaffirmed our ratings, highlighting the stability of our deposit base and strong client relationships.

Strengthening Our Leadership Team

To support our future growth, we welcomed some outstanding new leaders over the past year:

- Thomas A. Sa, Chief Operating Officer—Bringing more than 30 years of banking experience, Tom is leading operations, risk management, and technology initiatives and is serving as our Interim Chief Financial Officer during our search for our next CFO.
- Janisha Sabnani, General Counsel—A seasoned financial services attorney, Janisha is guiding us on public company reporting, capital markets activities, corporate governance, regulatory matters, and compliance.
- Chris Edmonds-Waters, Chief People & Culture Officer—Focused on making the Company a great place to work and strengthening our culture to attract, develop and retain top talent.

Looking Ahead

As we continue expanding in the Bay Area, we remain focused on what has always set us apart—personalized, high-touch banking backed by financial strength and community commitment. While the economic landscape will always have its ups and downs, we are confident in our strategic direction, financial discipline, and ability to deliver value to our shareholders.

Thank you for being part of our journey. We appreciate your support and look forward to seeing you at our Annual Meeting on May 22, 2025 at 1:00 p.m. (held virtually). Please take the time to review the proxy materials, and we encourage you to vote your shares "FOR" each of our director nominees and "FOR" each proposal.

If you have any questions, don't hesitate to reach out. Your engagement and feedback mean a lot to us.

Sincerely,

Jack W. Conner
Chairman of the Board

Robertson Clay Jones
President and Chief Executive Officer

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Notice of Annual Meeting of Shareholders

Date:	Time:	Location:
May 22, 2025	1:00 p.m., Pacific Daylight Time (PDT)	Virtual Annual Meeting

Items of Business:

1. To elect 8 members of the Board of Directors, each for a term of one year;
2. To approve an amendment to the Company's Bylaws to increase the range of the permitted number of directors;
3. To consider an advisory proposal on the Company's 2024 executive compensation;
4. To ratify the selection of Crowe LLP as the Company's independent registered public accounting firm for the year ending December 31, 2025; and
5. To transact such other business as may properly come before the meeting, and any adjournment or postponement.

Record Date:

You can vote if you were a shareholder of record on March 31, 2025.

Mailing Date:

The proxy materials are being distributed to our shareholders on or about April 7, 2025, and include our Annual Report on Form 10-K, Notice of Annual Meeting, this proxy statement, and a proxy or voting instruction card.

Important Notice Regarding the Internet Availability of Proxy Materials:

This proxy statement and our 2024 Annual Report on Form 10-K are available at *www.heritagecommercecorp.com*. **Your Vote is Important.** Please vote as promptly as possible by using the Internet or telephone or by signing, dating and returning the enclosed proxy card.

VIRTUAL ANNUAL MEETING

The Annual Meeting will be held in a virtual-only meeting format, via live video webcast that will provide shareholders with the ability to participate in the Annual Meeting, vote their shares and ask questions. We are implementing a virtual-only meeting format in order to leverage technology to enhance shareholder access to the Annual Meeting. We believe a virtual-only meeting format facilitates shareholder attendance and participation by enabling all shareholders to participate fully and equally, and without cost, using an Internet-connected device from any location around the world. In addition, the virtual-only meeting format increases our ability to engage with all shareholders, regardless of size, resources or physical location. We will not hold an in-person meeting.

Shareholders of record and beneficial owners as of the close of the business day on March 31, 2025, the record date, will have the ability to submit questions and vote electronically at the Annual Meeting via the virtual-only meeting platform.

ATTENDANCE AT THE VIRTUAL ANNUAL MEETING

Only shareholders of record and beneficial owners of shares of our common stock as of the close of business on March 31, 2025, the record date, may attend and participate in the Annual Meeting, including voting and asking questions before and during the virtual Annual Meeting. You will not be able to attend the Annual Meeting in person.

In order to attend the Annual Meeting, you must register at *register.proxypush.com/HTBK*. Upon completing your registration, you will receive an email confirming your registration.

As part of the registration process, you must enter the control number located on your proxy card or voting instruction form. If you are a beneficial owner of shares registered in the name of a broker, bank or other nominee, you will also need to provide the registered name on your account and the name of your broker, bank or other nominee as part of the registration process.

On the day of the Annual Meeting, May 22, 2025, shareholders who register in advance of the meeting start time will receive an email one hour before. Shareholders registering near the meeting start time will receive a confirmation email and be taken directly to the meeting site. Fifteen (15) minutes prior to the meeting start time, shareholders can click the "Join Meeting" button. Once the meeting starts, shareholders will be able to hear the speakers, view presentations and submit questions. The Annual Meeting will begin promptly at 1:00 p.m., Pacific Daylight Time.

We will have technicians ready to assist you with any technical difficulties you may have accessing the Annual Meeting. If you encounter any difficulties accessing the virtual-only Annual Meeting platform, including any difficulties voting or submitting questions, you may call the technical support number that will be included in the link to the Meeting Access FAQs Guide included in your confirmation email.

QUESTIONS AT THE VIRTUAL ANNUAL MEETING

Our virtual Annual Meeting will allow shareholders to submit questions before and during the Annual Meeting. During a designated question and answer period at the Annual Meeting, we will respond to appropriate questions submitted by shareholders.

We will answer as many shareholder-submitted questions as time permits, and any questions that we are unable to address during the Annual Meeting will be answered following the meeting, with the exception of any questions that are irrelevant to the purpose of the Annual Meeting or our business or that contain inappropriate or derogatory references. If we receive substantially similar questions, we will group such questions together and provide a single response to avoid repetition.

By Order of the Board of Directors,

Deborah K. Reuter
Executive Vice President, Chief Risk Officer and Corporate Secretary

April 7, 2025
San Jose, California

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The Board and Corporate Governance

Heritage Commerce Corp (the "Company") is committed to achieving excellence in our corporate governance practices with an emphasis on a culture of accountability and the conduct of our business that is fair, ethical and responsible to our shareholders and other stakeholders. The Board of Directors (the "Board") oversees our business and monitors the performance of management. In accordance with corporate governance principles, the Board does not involve itself in day-to-day operations. The directors keep themselves informed through, among other things, frequent discussions with the Chief Executive Officer, other key executives and our principal outside advisors (legal counsel, outside auditors, and other consultants), by reading reports and other materials, and by participating in Board and committee meetings.

The Board is committed to good business practices, transparency in financial reporting, and the highest level of corporate governance. To that end, the Board continually reviews its governance policies and practices, as well as the requirements of the federal securities laws and the listing standards of The Nasdaq Stock Market, to help ensure that such policies and practices are compliant and up to date.

Corporate Governance

Accountability to Shareholders

- All directors elected annually
- Annual Say on Pay advisory vote
- Policy against pledging and hedging Company common stock by officers and directors
- Regular engagement with key shareholders and management accessibility to all shareholders
- Clawback policy to recoup excess compensation as a result of accounting restatement

Shareholder Voting Rights

- One class of voting stock
- No "poison pill"
- No super majority voting provisions in Articles of Incorporation or Bylaws

Independent Board Leadership

- Separate Board Chair and Chief Executive Officer roles
- Seven of eight nominees for election in 2025 are independent
- All members of the Audit Committee, Personnel and Compensation Committee, and the Corporate Governance and Nominating Committee are independent directors

Effective Board Policies and Practices

- ✓ A Board composed of accomplished professionals with experience, skills and knowledge relevant to our business and industry, including three former Chief Executive Officers and our current Chief Executive Officer
- ✓ A diverse Board with three out of eight directors nominated for election in 2025 self-identifying as members of diverse groups
- ✓ Each of the Audit Committee, Personnel and Compensation Committee, and Corporate Governance and Nominating Committee has a charter that is publicly available on our website and that meets applicable legal and listing requirements and reflects our Board's emphasis on independence and engagement
- ✓ Executive sessions of independent directors are held at the Board and Committee levels
- ✓ A Code of Ethics and Conduct applicable to all employees and directors
- ✓ Annual self-evaluation and assessment process for the Board and its committees through the Corporate Governance and Nominating Committee
- ✓ Special procedures and limits on related party transactions

- Board and committee access to independent advisors
- A robust insider trading policy

Regular Shareholder Engagement

- We participate in investor conferences and other shareholder engagements throughout the fiscal year
- We engage in business performance and strategic, governance, executive compensation, and human capital matters
- Our Personnel and Compensation Committee Chair and our executive leadership conduct an annual outreach to key shareholders and we actively invite all shareholders to contact the Board to express their opinions and insights

Management Compensation Program Aligned with Long-term Interests of Shareholders

- Stock ownership requirements for directors and executive officers
- Annual review by the Personnel and Compensation Committee of incentive program design, goals and objectives for alignment with business strategies
- Compensation philosophy and practices focused on using incentive programs to attract and retain talented personnel in a heavily competitive market
- Compensation claw-back policy applies to all senior management

Our Independent Board of Directors

Our directors bring diverse skills to our Board. The Board is committed to strong corporate governance practices and policies. The Board is committed to maintaining an independent Board, and a substantial majority of the Board are “independent” directors.” For this purpose, the Board relies on the definitions of “independence” and “non-employee directors” found in rules promulgated by the Securities and Exchange Commission (the “SEC”) and The Nasdaq Stock Market. Director biographies can be found under Proposal 1—Election of Directors beginning at page 26 below.

Eight of 9 members of the Board, including seven of our eight nominees, are independent as follows:

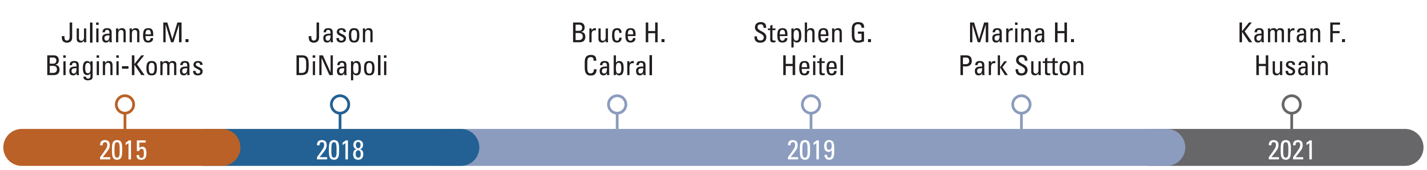
Julianne M. Biagini-Komas, Vice Chair	Jason DiNapoli	Laura Roden*
Bruce H. Cabral	Stephen G. Heitel	Marina H. Park Sutton
Jack W. Conner, Chair	Kamran F. Husain	

* Ms. Roden is not standing for reelection at the 2025 Annual Meeting.

Only our current President and Chief Executive Officer, Robertson Clay Jones, is not independent.

Board Refreshment

Over the prior ten years, six new independent directors have joined our Board as follows:



Board Leadership Structure

In addition to maintaining a Board almost entirely comprised of independent directors, it has long been our practice for many years of the Company to separate the roles of Chief Executive Officer and Chair of the Board in recognition of the differences between the two roles. The Board believes that this separation of the duties mitigates any inherent conflict of interest that may arise when the roles are combined. The Board also believes that an independent director who has not served as an executive of the Company can best provide the necessary leadership and objectivity required as Chair of the Board.

Chief Executive Officer. The Chief Executive Officer is responsible for setting the strategic direction for the Company and the day-to-day leadership and performance of the Company.

Board Chair. The Chair of the Board provides guidance to the Chief Executive Officer, sets the agenda for Board meetings, presides over meetings of the full Board (including executive sessions), and facilitates communication among the independent directors and between the independent directors and the Chief Executive Officer.

Term of Office

Directors serve a one-year term or until their successors are elected and qualified. Our current bylaws provide for a board of not fewer than nine and not more than fifteen directors, and the Board has the authority to fill vacancies created by a resignation or retirement or by the expansion of our Board. Proposal 2, if approved, would amend the bylaws to increase the range of the number of directors to not fewer than eight nor more than fifteen. The Board does not have term limits, instead relying upon the evaluation procedures described herein as the primary methods of ensuring that each director continues to act in a manner consistent with the Company's and its shareholders' best interest.

Board Expertise

The following section summarizes the specific skills, professional experience and background information of each director name that led the Board to conclude that each such person should serve on the Board.

	Julianne M. Biagini-Komas	Bruce H. Cabral	Jack W. Conner	Jason DiNapoli	Stephen G. Heitel	Kamran F. Husain	Robertson Clay Jones	Marina H. Park Sutton
Key Client Industries		X		X			X	X
Banking/Financial Services	X	X	X	X	X	X	X	
Accounting/Auditing/Financial Reporting	X	X	X	X	X	X	X	
Marketing/Sales			X	X			X	
Human Capital Management	X		X		X	X	X	X
Leadership as President and/or CEO, EVP or SVP	X		X	X	X	X	X	X
Cybersecurity/Technology/Digital Innovation						X	X	
Legal/ Regulatory	X	X	X	X	X	X		X
Public Company Governance	X		X	X	X	X	X	X
Risk Management	X	X	X		X	X	X	
Strategic Planning/Mergers & Acquisitions	X		X	X	X	X	X	X
Community Affairs/Engagement			X				X	X
Sustainability							X	

Risk Oversight

The Board has ultimate authority and responsibility for overseeing risk management of the Company arising out of its operations and business strategy. This includes overseeing the Company's enterprise-wide risk management framework, which establishes the Company's overall risk appetite and risk management strategy and enables senior management to understand, manage and report on the risks faced by the Company. The Board reviews and oversees policies and practices established by management to identify, assess, measure and manage key risks, including risk appetite metrics developed by management and approved by the Board. The Board monitors, regularly reviews and reacts to material enterprise risks identified by management. The Board receives specific reports from senior management with oversight responsibility for particular risks within the Company. These reports include strategic, operational, execution, financial, investment, credit, liquidity, interest rate, capital, technology, cyber security, compensation, legal and regulatory compliance and reputation risks, and the Company's exposure to those risks. As part of its annual strategic plan process, the Board reviews a risk tolerance matrix that identifies potential Company risks and evaluates the Board's tolerance level for each.

The Board assures that senior management is properly focused on risk and understands that it is responsible to the Board regarding the Company's risk management process, including by assessing and managing the risks faced by the Company. Senior management is responsible for creating and recommending to the Board for approval appropriate risk appetite metrics reflecting the aggregate levels and types of risk the Company would be willing to accept in connection with the operation of the Company's business and pursuit of the Company's business objectives.

Board committees are responsible for risk oversight in specific areas. The Audit Committee is responsible for monitoring the Company's overall risk program.

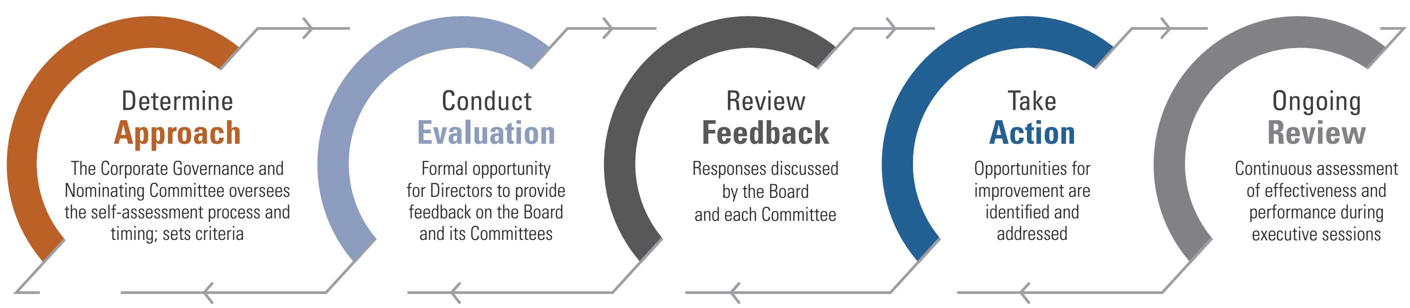
The Audit Committee is charged with the primary responsibility for risk management, overseeing financial, accounting, internal control, enterprise risk management and informational technology/ cybersecurity risk management. The Company's internal Risk Management Steering Committee reports directly to the Audit Committee. Our Chief Risk Officer chairs the internal Risk Management Steering Committee. The Audit Committee receives quarterly reports from the Risk Management Steering Committee, Chief Audit Officer and Chief Information Security Officer. The Audit Committee reports periodically to the Board on the effectiveness of risk management processes in place, risk trends, and the overall risk assessment of the Company's activities.

The Personnel and Compensation Committee assesses and monitors risks in the Company's compensation and human capital programs, with a focus on assuring that the Company's compensation programs do not promote the taking of inappropriate risks.

The Corporate Governance and Nominating Committee recommends director candidates with appropriate experience and skills who will set the proper tone for the Company's risk profile and provide competent oversight over our material risks. This Committee also monitors the Company's risk related to environmental, social and governance ("ESG") concerns.

Board Self-Assessment

The Board and its committees perform a self-assessment of their performance at least annually, ordinarily conducted through the Corporate Governance and Nominating Committee. The purpose of the assessment is to improve the functioning of the Board and its committees as a unit, as well as reviewing the performance of each individual director.



The Board's assessment in 2024 was conducted on an anonymous basis by the Corporate Governance and Nominating Committee in coordination with an independent consultant. As a result of the 2024 assessment, the Board has focused and will continue to focus on succession planning, corporate strategy, and risk management.

Stock Ownership Guidelines

Board. The Corporate Governance and Nominating Committee has adopted stock ownership guidelines to further align the interests of our non-employee directors with those of the Company's shareholders. These guidelines provide that each non-employee director is expected to hold a Board-established minimum number of shares of the Company's common stock. In 2024, each director was required to maintain ownership in the Company's shares of common stock equal to not less than three times such director's base cash compensation (excluding additional compensation paid for committee service or board leadership roles). Directors are not required to purchase shares to satisfy the director share ownership policy; however, a director may not sell or otherwise dispose of shares representing fifty percent (50%) of such director's annual compensation for the current year at any time when the director does not own a number of shares equal to or greater than the ownership target. The Corporate Governance and Nominating Committee reviews progress towards satisfying stock ownership guidelines at least annually. Each of our directors is, and at December 31, 2024, each of our directors was, in compliance with these guidelines.

Executive Management. Executive management is subject to our executive management ownership and retention guidelines. Our Chief Executive Officer is required to maintain ownership in the Company's shares of common stock having a value equal to three times his base salary, and the other executive officers are required to maintain ownership in the Company's shares of common stock equal to one times their respective base salaries. The executives are not required to purchase shares to reach these guidelines, however, they are restricted from selling shares received as equity-based compensation (net of required holding tax) until they reach their respective guideline level. Furthermore, executives are required to retain at least 50% of shares earned under equity-based compensation plans once the guidelines have been met. Stock options and unvested performance-based equity awards are not included in satisfying the guidelines. All of our executives are, and as of December 31, 2024, all such individuals were, in compliance with these guidelines.

Director and Shareholder Meetings

The Board holds eight regular meetings each year. Special meetings may be called from time to time as circumstances warrant. Directors are expected to attend all Board meetings and are asked to attend the annual shareholders meeting. Our independent directors convened five executive sessions without management participation during 2024. Such sessions are generally chaired by the Chair of the Board.

For the meetings directors were qualified to attend in 2024, each director attended at least 75% of the total number of Board meetings and at least 75% of the meetings of each committee on which such director served.

Historically, shareholder attendance has been limited, which we attribute to our policy of regular and detailed communications with our shareholders and investors through meetings with management and other investor relations activities. Since very few shareholders have historically attended our annual meetings and all of our directors typically attend, we encourage but have not adopted a policy requiring the attendance of directors at the annual meeting. All of our directors attended the 2024 annual shareholders meeting.

Shareholder Communications and Outreach

We proactively interact with our shareholders and other interested parties throughout the year in a variety of forums. Among the most significant of these, we conduct regular outreach annually, ordinarily in February, to key shareholders and to shareholders that have expressed a desire for such engagement, normally in the form of telephone calls or videoconferences from a member of our Personnel and Compensation and our Corporate Governance and Nominating Committees, along with a member of our executive leadership team. Our interactions cover a broad range of governance and business topics, including strategy and execution, compensation practices, risk oversight, sustainability, culture/human capital and ESG. The exchanges we have had with shareholders provide us with a valuable understanding of our shareholders' perspectives and meaningful opportunities to share views with them. We have outlined a brief description of our shareholder engagement efforts in 2024 below.

Whom We Engage:

- Institutional investors
- Retail Shareholders
- Portfolio Managers
- Investment analysts
- Community and business leaders
- ESG rating agencies
- Representatives of Nasdaq

How We Communicate:

- Company website
- Annual Report on Form 10-K
- Quarterly Reports on Form 10-Q
- Annual Meeting Proxy Statement
- SEC periodic reports on Form 8-K
- Periodic Press Releases
- Sustainability Report

What we discussed:

- Business strategies:
- Financial performance
- Credit quality
- Securities portfolios strategy
- Loan growth initiatives
- Deposit growth and retention
- Net interest margin
- Liquidity
- Capital requirements
- Risk management
- Corporate governance
- Succession plans
- Executive compensation
- Sustainability programs and plans

How We Engage:

- Quarterly Investment analyst calls
- In-person investor conferences
- In-person individual investor meetings
- Virtual meetings and calls
- Annual Shareholders Meeting
- On-site investor meetings

Engagements include:

- Chief Executive Officer
- Chief People and Culture Officer
- Chief Financial Officer
- Directors

During 2024 and 2025, we participated in the following engagement since we filed our 2024 Proxy Statement with the SEC on April 11, 2024 (as of March 15, 2025):

- Participated in one-on-one meetings with institutional investors at conferences and conducted conference calls or held meetings with institutional investors approximately 74 times
- Participated in 8 investor conferences
- Held 24 quarterly conference calls with investment analysts and 7 other meetings or calls with investment analysts
- Direct outreach to our top 20 institutional shareholders
- Held meetings with each investor who accepted our invitation resulting in 3 meetings as of March 15, 2025

Shareholder views are communicated to the Board throughout the year at monthly Board meetings and are instrumental in the development of our governance, compensation and environmental and social policies and inform our business strategy. Below are some of the investor priorities discussed during our meetings:

- Ongoing Company performance, financial condition and credit quality
- Executive compensation disclosure
- Implementation of performance measures for equity grants and other compensation issues discussed below in the section of this proxy statement entitled "Compensation Discussion and Analysis-Shareholder Outreach"
- Assessment of our sustainability strategy and progress

We integrated feedback from shareholders as follows:

- Enhanced and refined our Compensation Discussion and Analysis disclosures
- Continued to implement a Long-term Performance Incentive Equity Program for management that commenced with the 2023 performance year in the form of performance-based restricted stock units that vest based on the Company’s relative Return on Average Tangible Common Equity over a three-year performance period relative to our peer group
- Established individual and differentiated goals tied to qualitative performance targets and awards under the cash incentive program
- Began implementing succession plans for our Board and executive and senior management, including recruiting a new Chief Operating Officer, Chief People & Culture Officer, and General Counsel, and continuing our search for our next Chief Financial Officer and directors
- Continued communicating with shareholders about key initiatives in Sustainability and Human Capital, including by providing a Sustainability Report which is available on our website

Our management team also commits significant time meeting with our regulators. Frequent interaction helps us learn firsthand from regulators about matters of importance to them and their expectations of us in terms of safety and soundness, compliance, community reinvestment, and other key regulatory initiatives. It also gives the Board and management a forum for keeping our regulators well informed about our performance and business practices.

Communications with the Board

Shareholders may communicate with the Board, including a committee of the Board or individual directors, by writing to the Corporate Secretary, Heritage Commerce Corp, 224 Airport Parkway, San Jose, California 95110. Each communication from a shareholder should include the following information in order to permit shareholder status to be confirmed and to provide an address to forward a response if deemed appropriate:

- The name, mailing address and telephone number of the shareholder sending the communication; and
- If the shareholder is not a record holder of our common stock, the name of the record holder of our common stock beneficially owned must be identified along with the shareholder.

Our Corporate Secretary will forward all appropriate communications to the Board or individual directors specified in the communication. Shareholders are invited, but not required, to include in their outreach letter a brief summary of the topics to be covered in the Board discussion. Our Corporate Secretary may (but is not required to) review all correspondence addressed to the Board or any individual member of the Board, for any inappropriate correspondence more suitably directed to management. Communications may be deemed inappropriate for this purpose if it is reasonably apparent from the face of the correspondence that it relates principally to a client dispute or similar issue not related to an area of Board oversight. Our policies regarding the handling of security holder communications were approved by our independent directors.

Nomination of Directors

The Company has an independent Corporate Governance and Nominating Committee. The duties of the Corporate Governance and Nominating Committee include the recommendation of candidates for election to the Company’s Board, including those nominated by shareholders.

The Corporate Governance and Nominating Committee’s minimum qualifications for a director are persons of high ethical character who have both personal and professional integrity, which is consistent with the image and values of the Company. The Corporate Governance and Nominating Committee considers some or all of the following criteria in considering candidates to serve as directors:

- commitment to ethical conduct and personal and professional integrity as evidenced through the person’s business associations, diversity, service as a director or executive officer or other commitment to ethical conduct and personal and professional integrity as evidenced in organizations and/or education;
- objective perspective and mature judgment developed through business experiences and/or educational endeavors;
- the candidate’s ability to work with other members of the Board and management to further our goals and increase shareholder value;

- the ability and commitment to devote sufficient time to carry out the duties and responsibilities as a director;
- demonstrated experience at policy making levels in various organizations and in areas that are relevant to our activities;
- the skills, experience and characteristics of the potential nominee in relation to the capabilities and characteristics already represented on the Board; and
- such other attributes, including independence, relevant in constituting a board that also satisfies the requirements imposed by the SEC and The Nasdaq Stock Market.

The Corporate Governance and Nominating Committee does not have a separate policy for evaluating director candidates recommended by shareholders. Instead, the Corporate Governance and Nominating Committee considers any candidate meeting the requirements for nomination by a shareholder set forth in the Company's Bylaws (as well as applicable laws and regulations) in the same manner as any other director candidate. The Corporate Governance and Nominating Committee believes that requiring shareholder recommendations for director candidates to comply with the requirements for nominations in accordance with the Company's Bylaws ensures that the Corporate Governance and Nominating Committee receives at least the minimum information necessary for it to begin an appropriate evaluation of any such director nominee, and time and process sufficient to afford any such nominees the appropriate level of assessment.

Section 5.14 of the Company's Bylaws provide that any shareholder that desires to nominate a person for service on the Board must give advance written notice to the Company of an intention to nominate a director at a shareholder meeting. Notice of intention to make any nominations must be delivered to the Secretary of the Company at the principal executive offices of the Company not later than the close of business 90 days nor earlier than the close of business 120 days prior to the first anniversary of the preceding year's annual meeting. If the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date of the annual meeting, notice by the shareholder must be delivered not earlier than the close of business 120 days prior to such annual meeting and not later than the close of business 90 days prior to such annual meeting or 10 days following the day on which public announcement of the date of such meeting is first made by the Company.

To be in proper written form, a shareholder's notice to the Corporate Secretary must comply with the requirements of Section 5.14 of our Bylaws. Nominees for the Board also must meet certain qualifications set forth in Section 2.2(b) of our Bylaws, which prohibit the election as a director of any person who is a director, executive officer, branch manager or trustee for any unaffiliated commercial bank, savings bank, trust company, savings and loan association, building and loan association, industrial bank or credit union that is engaged in business in: (i) any city, town or village in which the Company or any affiliate or subsidiary thereof has offices; or (ii) any city, town or village adjacent to a city, town or village in which the Company or any affiliate or subsidiary thereof has offices.

This section constitutes only a summary of the material requirements for shareholder nominations of director candidates. Any shareholder considering a nomination must comply strictly in all respects with the requirements set forth in the bylaws and applicable law. Accordingly, readers intending to submit such a nomination should review carefully all applicable provisions of the bylaws, as well as the provisions of Securities Exchange Act Regulation 14A and of the California Corporations Code, prior to making any submittal.

Diversity Considerations for the Board of Directors

In considering diversity of the Board (in all aspects of that term) as a criteria for selecting nominees in accordance with its charter, the Corporate Governance and Nominating Committee takes into account various factors and perspectives, including differences of viewpoint, high quality business and professional experience, education, skills and other individual qualities and attributes that contribute to Board diversity. The Corporate Governance and Nominating Committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. The Corporate Governance and Nominating Committee seeks persons with leadership experience in a variety of contexts and industries, as well as diversity characteristics that the Committee believes tend to expand the range of perspectives and experiences that increase a candidate's value to the Company. The Corporate Governance and Nominating Committee believes that this expansive conceptualization of diversity is the most effective means to expand the Board's talent pool. The Corporate Governance and Nominating Committee assesses the effectiveness of this approach as part of its annual review of its charter. Of the eight nominees for election to our Board at the Annual Meeting, 25% are women and 37.5% are women and underrepresented minorities.

Management Performance and Compensation

The Personnel and Compensation Committee annually reviews both the Chief Executive Officer's performance, and the Chief Executive Officer's evaluation of the management team. The Board (largely through the Personnel and Compensation Committee) evaluates the compensation plans for senior management and other employees to ensure they are appropriate, competitive and properly reflect the Company's objectives and performance.

Code of Ethics

The Board expects all directors, as well as officers and employees, to display the highest standard of ethics, consistent with the principles that have guided the Company over the years.

The Board has adopted the HCC Code of Ethics and Conduct that applies to all employees and directors and the Principal Officers / Senior Management Code of Ethics that applies to the Company's Chief Executive Officer, Chief Financial Officer, other principal financial officers, and other designated senior management personnel, to help ensure that our financial affairs are conducted honestly, ethically, accurately, objectively, consistent with generally accepted accounting principles and in compliance with applicable laws, rules and regulations. We will disclose any amendment to, or a waiver from a provision of our Code of Ethics and Conduct on our website. Both documents are available on our website at *www.heritagecommercecorp.com*.

Reporting Complaints/Concerns Regarding Accounting or Auditing Matters

The Board has adopted procedures for receiving and responding to complaints or concerns regarding accounting and auditing matters. These procedures were designed to provide a confidential channel of communication for employees and others who have complaints or concerns regarding accounting or auditing matters involving the Company.

Employee concerns may be communicated to a third-party service provider in a confidential or anonymous manner, which will then be forwarded by the third-party service provider to the Chairs of the Audit Committee and the Personnel and Compensation Committee of the Board. The Audit Committee Chair and the Chair of the Personnel and Compensation Committee will make a determination on the level of inquiry, investigation or disposal of the complaint. All complaints are discussed with the Company's senior management and monitored by the Audit Committee for handling, investigation and final disposition. The Chair of the Audit Committee will report the status and disposition of all complaints to the Board. The Company maintains a strict anti-retaliation policy for all matters submitted in accordance with these procedures and for these purposes.

Board Committees

The Board routinely delegates primary oversight of certain matters to standing committees. These committees meet at regular intervals to attend to their particular areas of responsibility. Our Board has the following committees: Audit Committee, Personnel and Compensation Committee, Corporate Governance and Nominating Committee, Strategic Initiatives Committee, and Finance and Investment Committee. In addition, Heritage Bank of Commerce (the "Bank," and together with the Company, "Heritage") maintains a Loan Committee. An independent director, as defined by the applicable rules and regulations of The Nasdaq Stock Market, chairs each of these standing committees (including the Heritage Bank of Commerce's Loan Committee). The Chair determines the agenda, the frequency and the length of the meetings and receives input from Board members.

Audit Committee

Committee Chair:
Julianne M. Biagini-Komas

Committee members:
Kamran F. Husain,
Laura Roden*
Marina H. Park Sutton

*Ms. Roden is not standing for reelection at the 2025 Annual Meeting.

Meetings in 2024: 11

The Audit Committee Report for 2024 appears on page 68 of this proxy statement.

Overview:

The Company has a separately designated standing Audit Committee established in accordance with Section 10A(m) of the Securities Exchange Act of 1934, as amended, and Nasdaq Rule 5605(c). The Audit Committee charter adopted by the Board sets out the responsibilities, authority and specific duties of the Audit Committee. The Audit Committee charter is available on the Company's website at www.heritagecommercecorp.com.

The responsibilities of the Audit Committee include the following:

- oversee our corporate accounting and financial reporting processes and the quality and integrity of our financial statements and reports, including our internal control over financial reporting and disclosure controls and procedures;
- oversee the appointment, compensation, retention and oversight of our independent auditors, including conducting a review of their qualifications and independence, reviewing and approving the planned scope of our annual audit, overseeing the independent auditors' work, and reviewing and pre-approving any audit and non-audit services that may be performed by them;
- review with management and our independent auditors the effectiveness of our internal controls over financial reporting;
- oversee our information technology and cybersecurity programs, including but not limited to incident detection, response and reporting obligations;
- oversee our risk management function, including without limitation cybersecurity incident response and related reporting matters;
- approve the scope and engagement of external audit services and review significant accounting policies and adjustments recommended by the independent auditors and address any significant, unresolved disagreements between the independent auditors and management;
- review and discuss with the independent auditor our relationships and transactions with any related parties that are significant to us, including our identification of and disclosure of related party transactions;
- review and discuss quarterly earnings releases and financial statements included within our Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K with management and the independent auditors;
- review and discuss with management and the independent auditors any significant changes, significant deficiencies and material weaknesses regarding internal controls over financial reporting, and oversee the corrective action taken to mitigate any significant deficiencies and material weaknesses identified;
- review with management and the independent auditors the effect of significant regulatory and accounting initiatives, changes, and pronouncements as well as significant and unique transactions and financial relationships;
- review with the independent auditors the matters required to be discussed by Auditing Standards No. 1301, and receive and discuss with the independent auditors disclosures regarding the auditors' independence;
- oversee the internal audit function, including the appointment and evaluation of our Chief Audit Officer, and the audits directed under its auspices;
- review and discuss with management our risk assessment and risk management policies, compliance with laws, and our major risk exposures and any steps by management to monitor or control such exposures; and
- oversee and monitor the remediation of material risk management issues.

Each member of the Audit Committee meets the independence criteria as defined by applicable rules and regulations of the SEC for audit committee membership and is independent and is "financially sophisticated" as defined by the applicable rules and regulations of The Nasdaq Stock Market.

The Board has determined that Julianne M. Biagini-Komas meets the definition of "audit committee financial expert" under the applicable rules and regulations of the SEC and is "financially sophisticated" as defined by the applicable rules and regulations of The Nasdaq Stock Market. The designation of a person as an audit committee financial expert does not result in the person being deemed an expert for any purpose, including under Section 11 of the Securities Act of 1933. The designation does not impose on the person any duties, obligations or liability greater than those imposed on any other audit committee member or any other director and does not affect the duties, obligations or liability of any other member of the Audit Committee or Board.

Personnel and Compensation Committee

Committee Chair:
Marina H. Park Sutton

Committee members:
Julianne M. Biagini-Komas
Jack W. Conner
Ranson W. Webster*

* Mr. Webster retired from the Board as of October 1, 2024.

Meetings in 2024: 10

Overview:

The Company has a separately designated Personnel and Compensation Committee, which consists entirely of independent directors as defined by the applicable rules and regulations of The Nasdaq Stock Market. The Personnel and Compensation Committee has adopted a charter, which is available on the Company's website at www.heritagecommercecorp.com.

The Personnel and Compensation Committee has the following responsibilities:

- review and approve our total rewards philosophy and human capital strategies, based in part upon industry compensation practices and our relative compensation positioning;
- evaluate, review, and determine the types and amounts of compensation for the Company's executive officers;
- oversee a periodic risk assessment of the Company's compensation programs to determine whether such programs are reasonably likely to encourage the taking of unusual or imprudent risk ;
- establish and measure compliance with Company goals and objectives relevant to executive officer compensation;
- review director compensation programs, plans and awards;
- oversee the Company's employee benefits and equity compensation plans and programs, including management incentive plans and retirement plans;
- administer the Company's Incentive Compensation Recovery Policy, including determining events giving rise to the interpretation of the policy, amounts to be recovered and the timing and method of recovery;
- oversee the development, implementation, and effectiveness of the Company's human capital management function and succession planning processes;
- review and approve corporate goals and objectives relevant to the compensation of our Chief Executive Officer, evaluate the Chief Executive Officer's performance in light of those goals, and determine and recommend for Board approval compensation based on such performance; and
- review and approve the Compensation Discussion and Analysis and Pay-for-Performance disclosures included in our proxy statement.

Corporate Governance and Nominating Committee

Committee Chair:
Ranson W. Webster*
Jason DiNapoli**

* Mr. Webster retired from the Board as of October 1, 2024.

** Mr. DiNapoli served as a committee member and was appointed Chair subsequent to Mr. Webster's departure.

Committee members:
Marina H. Park Sutton
Jack W. Conner
Bruce Cabral***

*** Mr. Cabral joined the committee on October 1, 2024

Meetings in 2024: 7

Overview:

The Company has a separately designated Corporate Governance and Nominating Committee, which consists entirely of independent directors as defined by the applicable rules and regulations of The Nasdaq Stock Market. The Corporate Governance and Nominating Committee have adopted a charter, which is available on the Company's website at www.heritagecommercecorp.com.

The purposes of the Corporate Governance and Nominating Committee include the following responsibilities:

- establish, monitor, oversee the operation of, and propose revisions or amendments to the Company's policies regarding matters of corporate governance, corporate ethics and business conduct;
- assess conflicts of interests involving directors or executive management;
- identify and review candidates for the Board and recommend to the full Board candidates for nomination and election to the Board or for appointment by the Board to fill a vacancy;
- recommend director appointments to Board committees;
- review shareholder nominations and shareholder proposals to amend the Company's bylaws, and propose responses;
- conduct annual evaluations of each director and of the Board as a whole;
- work with our Chief Executive Officer to review and approve management's recommendations regarding management succession policies; and
- provide oversight of practices on sustainability matters.

Strategic Initiatives Committee

Committee Chair:
Kamran F. Husain

Committee members:
Jack W. Conner
Robertson Clay Jones
Ranson W. Webster*

* Mr. Webster retired from the Board as of October 1, 2024.

Meetings in 2024: 5

Overview:

The principal duties of the Strategic Initiatives Committee are to provide oversight and guidance to senior management regarding the strategic direction of the Company, including development of an overall strategic business plan.

Finance and Investment Committee

Committee Chair:
Laura Roden*

*Ms. Roden is not standing for reelection at the 2025 Annual Meeting.

Committee members:
Bruce H. Cabral
Jason DiNapoli
Stephen G. Heitel
Robertson Clay Jones

Meetings in 2024: 8

Overview:

The Finance and Investment Committee is responsible for the development of policies and procedures related to liquidity, asset-liability management, and supervision of the Company's investments. The Committee also oversees and reviews internal financial reports including annual forecasts and budgets, and stress test analysis prepared by management.

Heritage Bank of Commerce Loan Committee

Committee Chair:
Bruce H. Cabral

Committee members:
Jason DiNapoli
Stephen G. Heitel
Robertson Clay Jones

Meetings in 2024: 20

Overview:

The Heritage Bank of Commerce Loan Committee is responsible for the approval and supervision of loans and the development of the Company's loan policies and procedures.

Transactions with Management

Some of the Company's directors and executive officers, as well as other related persons (as defined under "Policies and Procedures for Approving Related Party Transactions" below), are clients of, and have banking transactions with, the Company's subsidiary, Heritage Bank of Commerce, in the ordinary course of business, and Heritage Bank of Commerce expects to have such ordinary banking transactions with these persons in the future. In the opinion of the management of the Company and Heritage Bank of

Commerce, any loans and commitments to lend included in such transactions would be made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing for comparable transactions with other persons of similar creditworthiness, and do not involve more than the normal risk of collectability or present other unfavorable features. Loans to individual directors, officers and related persons must comply with Heritage Bank of Commerce's lending policies and statutory lending limits. In addition, prior approval of the Board is required for all loans advanced to directors and executive officers. These loans are exempt from the loan prohibitions of the Sarbanes-Oxley Act.

Policies and Procedures for Approving Related Party Transactions

The Board has adopted a written Statement of Policy with Respect to Related Party Transactions. Under this policy, any "related party transaction" may be consummated or may continue only if the Audit Committee approves or ratifies the transaction in accordance with the guidelines in the policy and if the transaction is on terms comparable to those that could be obtained in arm's length dealings with an unrelated third party. For purposes of this policy, a "related person" means: (i) any person who is, or at any time since the beginning of the Company's last fiscal year was, a director or executive officer of the Company or a nominee to become a director of the Company; (ii) any person who is known to be the beneficial owner of more than 5% of any class of the Company's voting securities; (iii) any immediate family member of any of the foregoing persons, which means any child, stepchild, parent, stepparent, spouse, sibling, mother in law, father in law, son in law, daughter in law, brother in law, or sister in law of the director, executive officer, nominee or more than 5% beneficial owner, and any person (other than a tenant or employee) sharing the household of such director, executive officer, nominee or more than 5% beneficial owner; and (iv) any firm, corporation or other entity in which any of the foregoing persons is employed or is a partner, principal or in a similar position, or in which such person has a 10% or greater beneficial ownership interest.

A "related party transaction" is a transaction in which the Company or any of its subsidiaries is a participant and in which a related person had or will have a direct or indirect interest, other than transactions involving: (i) less than $5,000 when aggregated with all similar transactions; (ii) customary bank deposits and accounts (including certificates of deposit); and (iii) loans and commitments to lend included in such transactions that are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing for comparable transactions with other persons of similar creditworthiness, and do not involve more than the normal risk of collectability or present other unfavorable features to the Company.

A related party who has a position or relationship with a firm, corporation, or other entity that engaged in a transaction with the Company shall not be deemed to have an indirect material interest within the meaning of this policy where the interest in the transaction arises only: (i) from such related party's position as a director of another corporation or organization that is party to the transaction; (ii) from the direct or indirect ownership by the related party of less than a 10% equity interest in another person (other than a partnership) which is a party to the transaction; or (iii) from the related party's position as a limited partner in a partnership in which the related party has an interest of less than 10%, and the related party is not a general partner of and does not hold another position in the partnership.

The Board has determined that the Audit Committee is best suited to review and approve related party transactions. The Audit Committee considers all of the relevant facts and circumstances available to the Audit Committee, including (if applicable) but not limited to: (i) the benefits to the Company; (ii) the impact on a director's independence in the event the related person is a director, an immediate family member of a director or an entity in which a director is a partner, shareholder or executive officer; (iii) the availability of other sources for comparable solutions or services; (iv) the terms of the transaction; and (v) the terms available to unrelated third parties or to employees generally. No member of the Audit Committee may participate in any review, consideration or approval of any related person transaction with respect to which such member or any of his or her immediate family members is the related person. The Audit Committee will approve only those related person transactions that are in, or are not inconsistent with, the best interests of the Company and its shareholders, as the Audit Committee determines in good faith. The Audit Committee conveys its decision to the Chief Executive Officer, who conveys the decision to the appropriate persons within the Company.

Delinquent Section 16(a) Reports

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors, executive officers and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities. They are required by SEC rules and regulations to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge based solely on review of the copies of such reports furnished to the Company and written representations that no other reports were required, all Section 16(a) filing requirements applicable to our executive officers and directors were complied with during the year ended December 31, 2024.

Role of Compensation Consultant

Beginning in 2022, the Personnel and Compensation Committee retained Meridian Compensation Partners, LLC ("Meridian") as its compensation consultant in to advise the Personnel and Compensation Committee on executive compensation matters.

The Personnel and Compensation Committee has the authority to obtain assistance and advice from advisors for evaluating compensation matters. The Personnel and Compensation Committee uses advisors to obtain candid and direct advice independent of management, and takes steps to satisfy this objective. First, in evaluating firms to potentially provide advisory services to the Personnel and Compensation Committee, the Personnel and Compensation Committee considers whether the firm provides or has recently provided any other services to the Company or its affiliates. In addition, while members of management may assist the Personnel and Compensation Committee in the search for advisors, the Personnel and Compensation Committee ultimately and in its sole discretion makes the decision to hire or engage a consultant and provides direction as to the scope of work to be conducted. The Chair of the Personnel and Compensation Committee has evaluated the relationship of the compensation consultant with both the Company and the Personnel and Compensation Committee, including the nature and amount of work performed for the Personnel and Compensation Committee during 2024. The Personnel and Compensation Committee retained Meridian to provide independent advice regarding existing compensation programs for directors and executive officers.

Director Compensation

In order to attract and retain qualified directors, our practice is to set non-employee director compensation within a competitive range of pay at comparable companies. We engage our independent compensation consultant, Meridian, from time to time to present a benchmarking analysis using the same peer group used to assess executive compensation levels. In setting director compensation for 2024, the Committee relied on an analysis prepared for us by Meridian for 2023 based on the Company's performance and goals, the Committee recommended, and the Board determined, to keep director compensation at 2023 levels.

The following tables set forth compensation information for the fiscal year ended December 31, 2024, for the Company's non-employee directors. Each of our directors also serves as a director of our wholly owned subsidiary, Heritage Bank of Commerce. Mr. Jones, our President and Chief Executive Officer whose term as a director started September 15, 2022, does not receive any additional compensation for serving as a director of the Company or the Bank.

Cash Compensation

For 2024, the Personnel and Compensation Committee recommended and the Board approved an annual retainer fee of $50,000 for each director, except for the Chair of the Board, whose cash retainer was $85,000, in recognition of the Chair's additional responsibilities. In addition to the $50,000 annual retainer fee, our Vice Chair, Julianne Biagini-Komas, who assumed the Vice Chair role upon Mr. Webster's retirement on October 1, 2024, received an additional $12,500 cash retainer adjusted pro-rata for the portion of the year she served in that position, in recognition of additional responsibilities. In addition, the chair of each standing committee of the Board received an additional $8,000 per year, except for the Chair of the Audit Committee, who received an additional $15,000, the Chair of the Finance and Investment Committee, who received $12,000, and the Chair of the Heritage Bank of Commerce Loan Committee, who received $10,000. Board members are not paid separate fees for attending Board or committee meetings.

Restricted Stock Awards

The Personnel and Compensation Committee also has adopted a policy to grant directors restricted stock on an annual basis in an amount equal to the directors' base cash compensation and including additional compensation for the Chair and Vice Chair leadership roles. These awards are generally granted as of March 8th of the year following the year of service, with the value of the award based on the closing stock price on the preceding trading day. The awards are subject to one year "cliff" vesting and prorated for partial years of service (except that Mr. Webster's vesting for his 2024 awards was accelerated upon his retirement). Based on this policy the Personnel and Compensation Committee reviewed the compensation consultant report and recommended and the Board approved awards of restricted stock with an economic value on the date of grant as follows:

Board Chair	$85,000
Board Vice Chair*	$62,500
Board members (non-chair)	$50,000

* Board Vice Chair compensation beginning on October 1, 2024.

The following table summarizes the compensation of non-employee directors for the year ended December 31, 2024, with stock awards depicted based on the value on the award date March 8, 2024:

Name (a)	Fees Earned or Paid in Cash (b)	Stock Awards (c)(1)	Options Awards (d)	Non-Equity Incentive Plan Compensation (e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (f)(2)	All Other Compensation (g)(3)	Total (h)
Julianne M. Biagini-Komas	$65,000	$49,998	—	—	—	$3,174	$118,172
Bruce H. Cabral	$60,000	$49,998	—	—	—	$3,174	$113,172
Jack W. Conner	$85,000	$84,993	—	—	—	$7,010	$177,003
Jason DiNapoli	$52,000	$49,998	—	—	—	$3,174	$105,172
Stephen G. Heitel	$50,000	$49,998	—	—	—	$3,174	$103,172
Kamran F. Husain	$58,000	$49,998	—	—	—	$3,174	$111,172
Laura Roden	$62,000	$49,998	—	—	—	$3,174	$115,172
Marina H. Park Sutton	$58,000	$49,998	—	—	—	$3,174	$111,172
Ranson W. Webster(4)	$48,333	$49,998	—	—	$1,700	$8,683	$108,714

(1) The amounts shown in column (c) reflect the applicable full grant date value for stock awards in accordance with ASC 718 (excluding the effect of forfeitures). See Note 12 to the Company's consolidated financial statements for the year ended December 31, 2024, included in the Company's Annual Report on Form 10-K, filed with the SEC on March 10, 2025.

(2) The amounts shown in column (f) represent only the aggregate change in the actuarial present value of the accumulated benefit measured from December 31, 2023 to December 31, 2024, under the respective director compensation benefits agreements. The amounts in column (f) were determined using interest rate and mortality rate assumptions, consistent with those used in the Company's consolidated financial statements, and include amounts which the named director may not currently be entitled to receive because such amounts are not vested. Assumptions used in the calculation of these amounts are included in Note 12 to the Company's consolidated financial statements for the year ended December 31, 2024, included in the Company's Annual Report on Form 10-K filed with the SEC on March 10, 2025.

(3) The amounts shown reflect (i) $3,174 in cash dividends on unvested restricted stock awards for each director, except $5,395 for Jack W. Conner and $2,408 for Ranson W. Webster, and (ii) an annual income of $1,615 and $1,019 imputed to each Jack W. Conner and Ranson W. Webster, respectively, in connection with Company owned split dollar life insurance policies for which the Company has fully paid the applicable premiums.

(4) Amounts reflect Mr. Webster's service on the Board until his retirement from the Board as of October 1, 2024, including in column (g) $5,256 paid under the SERP in fiscal year 2024. The amounts paid under the SERP have previously been accrued and did not result in the incurrence of additional expense.

Director Outstanding Stock Options and Stock Awards

Each of the non-employee directors owned the following stock options and stock awards as of December 31, 2024:

Director	Stock Options(1)	Stock Awards
Julianne M. Biagini-Komas	—	5,889
Bruce H. Cabral(1)	7,410	5,889
Jack W. Conner	—	10,011
Jason DiNapoli	—	5,889
Stephen G. Heitel(1)	30,875	5,889
Kamran F. Husain	—	5,889
Laura Roden	—	5,889
Marina H. Park Sutton(1)	12,350	5,889
Ranson W. Webster(2)	—	—

(1) The stock options were granted by Presidio Bank prior to its acquisition by the Company and were assumed by the Company in connection with the acquisition.

(2) Mr. Webster retired from the Board as of October 1, 2024. His restricted stock award vesting was accelerated in 2024.

Director Compensation Benefits Agreement

Prior to 2007, the Company entered into individual director compensation benefits agreements with each of its then directors. These agreements were amended and restated in December 2008 ("*Benefit Agreements*"), and following the retirement of Ranson W. Webster effective October 1, 2024, the only remaining agreement pending for directors is to Chair of the Board Jack Conner. The Benefit Agreement provides an annual benefit equal to a designated applicable percentage of $1,000 times each year served as a director, up to a maximum of 20 years and subject to a 2% increase each year from the date of the commencement of payments. Payments of benefits will be made in equal monthly payments on the first day of each month, commencing on the first day of the month following the month in which the director separates from service on the Board and continuing until the director's death (unless the joint survivor option is elected). The Benefit Agreement terminates at any time a director is removed from the Board for cause.

Company-owned split dollar life insurance policies support the Company's obligations under the Benefit Agreements. The premiums on the policies are paid by the Company. The cash value accrued on the policies supports the payment of the supplemental benefits for each participant. In the case of death of the participant, the participant's designated beneficiaries will receive 80% of the net at risk insurance (which means the amount of the death benefit in excess of the cash value of the policy).

The following table shows the present value of the accumulated benefit payable to each director who has a director compensation benefit agreement, including the number of service years credited to each director under the Benefit Agreements at December 31, 2024:

Name (a)	Plan Name (b)	Number of Years Credited Service (#)(c)	Present Value of Accumulated Benefit[1][2] ($)(d)	Payments During Last Fiscal Year ($)(e)
Jack W. Conner	Heritage Commerce Corp SERP	21	$103,500	—
Ranson W. Webster[3]	Heritage Commerce Corp SERP	21	$164,400	$5,256

(1) The amounts in column (d) were determined using interest rate and mortality rate assumptions consistent with those used in the Company's consolidated financial statements and include amounts which the director may not currently be entitled to receive because such amounts are not vested. Assumptions used in the calculation of these amounts are included in Note 13 to the Company's consolidated financial statements for the year ended December 31, 2024, included in the Company's Annual Report on Form 10-K, filed with the SEC on March 10, 2025.

(2) Each participant is fully vested.

(3) Mr. Webster retired from the Board as of October 1, 2024.

Commitment to Sustainability

We believe the Company's wholly-owned operating subsidiary, Heritage Bank of Commerce, is recognized by the business community as *the business bank of choice* in our markets and an employer of choice where everyone has the opportunity to thrive. The Company employs trusted values of relationship and customer-focused community business banking, and combines them with competitive technology, to provide solutions for the banking needs of businesses, professional organizations, non-profits and community groups, and their team members. Founded in 1994, we are now a $5.6 billion premier community business bank based in the heart of Silicon Valley. With 17 offices across the Bay Area, we are committed to building long-term relationships with our clients and communities.

At Heritage Bank of Commerce, we are dedicated to helping each client make their vision a reality. Our experienced market leaders live and work in the communities they serve, making all their decisions local ones. Since formally launching our sustainability program in 2021, we have continued to build upon and improve our long-standing corporate responsibility commitment. Our executive leadership and our Board, recognizing the importance of these responsibilities, established an internal cross-functional team in 2022 tasked with driving additional progress in the initiatives that promote sustainability and further transparency. In 2023 and 2024, we further aligned our sustainability strategy with our broader vision, focusing on what truly sets us apart—resilient, enduring relationships and a continued focus on strong risk management. We remain committed to making informed decisions based on the best interests of Heritage and its stakeholders.

Sustainability Oversight

Our Board ultimately oversees the management of sustainability-related matters. Much of this work is done through the Board's committees. In particular, the Corporate Governance and Nominating Committee provides oversight of Heritage's practices on sustainability matters. This Committee oversees the management team as they lead the Company's efforts to integrate sustainability into day-to-day operations. Against this backdrop, the Company has emphasized that our sustainability pillars include: (1) Environmental Responsibility; (2) Our People; (3) Our Community; and (4) Governance:

THE FOUR TENETS OF OUR SUSTAINABILITY STRATEGY ARE:

Our four pillars arose after reviewing an interrelated set of sustainability standards, in line with best practices. This integrated approach to sustainability facilitated recognition of several sustainability priorities, which we discuss in our annual Sustainability Reports. In preparation for our 2024 Sustainability Report, we retained a third party to again update our priority-assessment. The 2024 Sustainability Report aligns to the Sustainability Accounting Standard Board taxonomy.

Environmental Responsibility

We strive to create a more environmentally sustainable future for all, with a goal to reduce our impact on the environment and promote environmentally friendly projects and practices. We are committed to addressing environmental risks throughout our business. By focusing on environmental responsibility, we believe we can reduce costs and improve the long-term sustainability of our operations. Highlights of our environmental efforts and accomplishments include:

IN 2024, WE:

- Encouraged environmentally friendly work practices by supporting the recycling of plastic, glass, and paper.
- Continued the use of e-records and e-signing technology including utilizing digital solutions such as mobile/online banking, e-Statements, electronic bill pay and remote deposit capture.
- Collected data on client business location and collateral related to physical risks, such as wildfire, drought, flood and rising sea levels.

We are committed to making the necessary investments in systems and technology to ensure compliance and to meet or exceed these standards. Currently, 61.5% of our total office space, including our headquarters building, is Leadership in Energy and Environmental Design ("LEED") certified. The certification, awarded by the U.S. Green Building Council, is based on the properties' use of sustainable materials, water and energy efficiency, indoor environmental quality, location and transportation, and overall innovation. We continue to evaluate green equipment for office use such as Energy-Star® appliances, motion detector lighting, as well as high-efficiency HVAC units. Over 72% of our total office space utilizes LED lighting.

We routinely integrate information on environmental factors into credit analyses. We have always innately incorporated environmental issues into our credit decisions, such as monitoring areas prone to increased risk from natural disasters. Recently, our working group started to evaluate other environmental considerations as part of our broader commitment to identifying risk. After review, we determined that we would initiate data gathering on wildfire, drought, flood, and rising sea levels as it relates to our clients and their loan collateral.

LED LIGHTING IN OVER

72%

TOTAL OFFICE SPACE

LEED CERTIFICATION FOR

61.5%

TOTAL OFFICE SPACE

Our People

We believe Heritage Bank of Commerce has long been a leader in the business community and strives to be the business bank of choice in our markets. We strive to hire, develop and promote a workforce that shares our mission and values, while cultivating teamwork. To foster these goals and to attract and retain quality employees, we aim to ensure an inclusive, safe and healthy workplace, and we provide our employees with competitive and comprehensive compensation, professional development opportunities along with robust health and wellness programs.

Engaging Our Workforce

We believe that our greatest differentiator is not our physical or financial assets; instead, it is our people. Our foundation is built on caring for our nearly 400 employees. Our commitment starts with our goal of attracting, developing, and retaining a workforce with different backgrounds, knowledge, skills, and experiences. We endeavor to hire the best possible talent for our Company, and this is set against the backdrop of providing opportunities in recruiting, compensation, performance, and promotion decisions based on merit, without discriminating on the basis of gender, gender identity, sexual orientation, age, family status, ethnic origin, nationality, disability, religious belief, and any other characteristics that are legally protected.

In 2024, we had 357 full-time equivalent team members (inclusive of 10 part-time team members) with an average tenure of 8.2 years. Our turnover rate was 17%, which was a 4% increase from the prior year, and of those, 25% were due to retirement, health reasons, or relocation out of our service footprint. We are proud to share that our workforce is multifaceted representing an array of experiences and perspectives. In 2024, females accounted for 51% of all new hires, while racially and/or ethnically diverse individuals accounted for 63% of all new hires.

In 2024, we furthered our commitment to our people to ensure each employee could do their best work. Some highlights include:

- Quarterly all-hands meetings to share business and initiative updates.
- Implementing training to mitigate unconscious bias — establishing methods to notice when and how it occurs — and to identify effective solutions available to all employees to remedy this dynamic.
- Increasing efforts around our Culture Ambassador Group (akin to employee resource groups for larger organizations). Culture Ambassadors serve an important role to help shape enterprise initiatives such as creation of corporate values, promoting awareness of various cultures, as well as provide timely and ongoing feedback to the employee-driven Steering Committee.
- Continuing to provide Company-wide listening sessions to solicit feedback and enhance engagement.

Our Culture

Teamwork is promoted and celebrated through various recognition programs. We have continued our “Core Values Champions” recognition program, which recognizes individuals who demonstrate our Core Values through their work and interactions. Throughout the year, employees are encouraged to nominate colleagues who go above and beyond their regular duties in showcasing one or more of our core values. The CEO highlights broadly shares Core Value Champions’ stories, celebrating their exemplary accomplishments and contributions.

We continued developing our managers through our Leadership Essentials Workshop series with modules consisting of (1) Recruiting and Hiring and Retaining Top Talent; (2) Leveraging Individual and Team Strengths; (3) Talent Development, Performance Management and Effective Coaching; (4) Handling Employee Relations Matters, Decision Making and Accountability; and (5) Communicating Effectively and Inspiring Positive Change. We conduct regular talent assessments along with individual performance reviews in which managers provide regular feedback and coaching to assist with the development of our people, including the use of individual development plans to assist with career development.

Our Company’s Code of Ethics and Conduct Policy provides specificity to members of our board of directors and employees across various topics, such as workplace safety, protection of client and employee information, conflict of interest guidelines, anti-retaliation policy, and procedures for reporting concerns. Senior leadership employees are subject to a more restrictive Executive and Principal Financial Officer Code of Ethics, as well.

We continually promote a speak-up, open-door culture, so our workplace feels welcoming and safe. We take all complaints seriously and promptly investigate concerns. Employees have the ability to report concerns through a variety of channels including their immediate manager, any leader at the company, Human Resources or through our external anonymous complaints telephone hotline and/or intranet site. We have a zero tolerance, non-retaliation policy.

Human Capital Management

We have begun to transform and modernize our culture and talent management function by implementing a Human Capital Management technology platform to enable leaders to better attract, develop and manage talent. These practices include developing standards for setting goals, performance evaluations, succession planning, and learning and development. We are committed to pay equity and regularly review our compensation model to ensure fair and inclusive pay practices across our business.

We are dedicated to recruiting, nurturing, advancing and retaining a workforce that embraces and cultivates a culture of excellence, teamwork, customer focus, inclusivity, belonging and accountability. To foster these goals and to attract and retain quality employees, we aim to ensure an inclusive, safe, and healthy workplace, and to provide our employees with training and development, and competitive and comprehensive health and wellness offerings.

Throughout the year, employees are offered a variety of opportunities to participate in learning and education programs such as attending internal and external seminars/workshops, on-line training courses, panel discussions and trade group conferences to enrich one's own development. Additionally, we offer a generous tuition reimbursement to support employees' desire to pursue higher education degrees. Employees also can earn industry related and/or role related professional certifications, and our Company reimburses for classes, materials, test fees, and ongoing required education costs. Each year, we also offer certain identified leaders an opportunity to attend Pacific Coast Banking School as part of their career development plan.

The health, safety and well-being of our employees is paramount, and our success is fundamentally connected with the well-being of our people. To ensure the health and well-being of our team members, we aim to provide a robust health and wellness package.

Various Benefits include:

- Medical, dental and vision benefits for employee, spouse and dependents
- Health savings accounts and health reimbursement accounts
- 401(k) retirement savings program with matching contributions
- Generous paid time off policy
- Flexible spending accounts for both healthcare and dependent care
- Life insurance and short- and long- term disability insurance
- Access to wellness programs and counseling sessions through our Team Member Assistance Program, including a recent increase from 3 to 5 counseling sessions
- The package also includes various wellness programs, including a monthly fitness stipend, tuition reimbursement, and paid time off for volunteer initiatives

We are committed to pay equity and regularly review our compensation model to ensure fair pay practices across our business, while also avoiding pay practices that would incentivize inappropriate or unnecessary risk-taking with the Company's assets. The Personnel and Compensation Committee reviews the Chief Executive Officer's performance annually and also reviews and approves the Chief Executive Officer's evaluation of the management team on an annual basis. The Board (largely through the Personnel and Compensation Committee) evaluates the compensation plans for senior management and other employees to ensure they are appropriate, competitive and properly reflect the Company's objectives.

Our dedicated health and safety function ensures that employees are trained on best practices to create a safe and healthy workplace for all. Members of our People & Culture department annually review benefit offerings to ensure the wellbeing of our people and their families.

Our Community

Since our inception in 1994, we have been deeply committed to building relationships and making a difference in our local communities. Investing in people, neighborhoods and local businesses is part of our mission. We are extremely grateful for the efforts of so many local nonprofit organizations and are proud of our long-standing history of supporting these organizations. In 2024, Heritage was proud to receive an overall CRA rating of "Satisfactory" demonstrating our commitment to the communities we serve.

We focus our philanthropic giving on initiatives that promote community and economic development, affordable housing, asset building, financial education, and youth programs, as well as those that support human service organizations with programs that assist low and moderate income or minority individuals. In addition, we donated over $800,000 to over 300 nonprofit organizations while serving on over 55 nonprofit boards of directors. We are perennially named a Top Corporate Philanthropist by both the Silicon Valley Business Journal and San Francisco Business Times, which recognizes for-profit companies that make contributions to charitable organizations in the San Francisco Bay Area. We also invest in our local communities through the unwavering commitment of our employees as they volunteered over 2,100 hours.

Community engagement highlights include:

- Supporting strong employee participation in volunteer events with the help and encouragement of the Heritage Hearts ambassadors.
- Leading internal drives to support Family Giving Tree's Holiday Wish drive, collecting over 350 physical gifts in addition to money raised in our virtual drive for gifts to be purchased.
- Organizing and hosting an Entrepreneurship Workshop for Rudsdale High School students and volunteering at their student Career Symposiums.
- Supporting nonprofits through event sponsorships.
- Offering financial literacy classes, career resources, staff support and other annual donations to local students including low income.
- Maintaining our long-time support of Catholic Charities of Santa Clara County whose mission is to alleviate the conditions of chronic poverty, reduce the effects of situational poverty, and prevent the cycle of generational poverty.

Governance

As a publicly-traded community financial institution, it is incumbent upon us to assure that we operate in a manner that is both consistent with our sustainability initiative and supportive of our communities. Our Board and senior leadership actively support and promote sound corporate governance and prudent risk management across the Company. This culture of accountability, integrity and transparency affirms our unwavering commitment to building sustainable value. We conduct our business in a fair, ethical and responsible manner to earn and maintain the trust of our stakeholders. Our corporate governance policies and practices include self-evaluations of the Board and its committees, as well as continuing director education.

Our Principal Officers/Senior Management Code of Ethics is available on our website and, in conjunction with other Company and Board policies, communicates our values and expectations for our directors, officers and team members. These policies are reviewed periodically by our Board. Our Board of Directors is comprised of a majority of independent directors as defined by the NASDAQ listing standards and our Charter for the Corporate Governance and Nominating Committee. Our Board maintains fully independent Audit, Personnel and Compensation and Corporate Governance and Nominating committees, and each has an independent chair.

The Corporate Governance and Nominating Committee is engaged in an ongoing recruitment process designed to build a strong pipeline of prospective directors for the near and long term. Of the 8 nominees for election to our Board at the 2025 Annual Meeting, 25% are women and at least 37.5% are women and underrepresented minorities. It has long been the practice of the Company to separate the roles of Chief Executive Officer and Chair of the Board. This approach is designed to allow the Board to choose the leadership structure that will best serve the interests of our shareholders.

The Board has ultimate authority and responsibility for overseeing the Company's risk management arising out of its operations and business strategy. This includes overseeing the Company's enterprise-wide risk management framework, which establishes the Company's overall risk appetite and risk management strategy and enables senior management to understand, manage and report on the risks faced by the Company.

The Board monitors, regularly reviews and reacts to material enterprise risks identified by management. The Board receives specific reports from senior management with oversight responsibility for particular risks within the Company. These reports include strategic, operational, execution, financial, investment, credit, liquidity, interest rate, capital, technology, cyber security, legal and regulatory compliance and reputation risks, and the Company's degree of exposure to those risks. The Board is also heavily engaged, through the Audit Committee, in the oversight of cybersecurity incident detection and response, including the related disclosure and notification requirements.

Heritage implements what we believe are effective risk management programs to ensure compliance with applicable laws and regulations governing ethical business practices. We maintain a publicly available Employee Complaint and Whistleblower Policy monitored by an independent third party to receive notice of financial irregularities, breaches of internal controls, conflicts of interest, and fraud. The Company is subject to rigorous controls and audits. Our risk management teams ensure compliance with applicable laws and regulations and coordinate with subject-matter experts ("SMEs") throughout the business to identify, monitor, and mitigate material risks. Management provides mandatory ongoing team member and director training on a variety of topics including, but not limited to, the areas of Cybersecurity, Fair Lending, Fraud and Anti-Money Laundering ("AML"), which includes recognizing and reporting unusual or suspicious activity.

We have strategically integrated cybersecurity risk management into our broader risk management framework to promote a company-wide culture of cybersecurity risk management. We enhanced our cybersecurity expertise by adding, in 2023, a Chief Information Security Officer (CISO) and strengthening our response and disclosure policies in 2024 to assure the timely and appropriate detection of cybersecurity incidents. Our cybersecurity program provides what we believe is an effective level of protection of client information and our operating systems while also promoting the timely detection of, and defense against, cyberattacks and other unauthorized access to our information technology systems. We use industry leading tools to help protect stakeholders against cybercriminals.

We also leverage the latest encryption practices and cyber technologies on our systems, devices, and third-party connections and further review third party encryption to ensure proper information security safeguards are maintained. Our employees are responsible for complying with our cybersecurity standards and complete training to understand the behaviors and technical requirements to keep information secure.

In order to accomplish our cybersecurity goals, we invest in up-to-date information security and monitoring controls, which we believe provide the best mechanism to mitigate cybersecurity risks and threats. We maintain an Artificial Intelligence ("AI") Policy that provides guidelines for usage of AI. In order to further mitigate our cybersecurity risks, our Chief Information Security Officer, who reports directly to the Chief Operating Officer and who reports regularly to our Board's Audit Committee, oversees certain policies and procedures that are intended to guard against, detect, and respond to potential breaches of our IT systems.

We routinely engage with our stakeholders to better understand their views on sustainability matters, carefully considering the feedback we receive and acting when appropriate. Heritage is committed to being transparent about our approach to and performance on sustainability topics. We publish a Sustainability Report, which provides information on how we are addressing the sustainability-related matters that we and our stakeholders view as important to our business. For more information on our sustainability program or policies, please visit: **www.heritagecommercecorp.com.**

Our Executive Officers

The Board has designated the following individuals as executive officers of the Company and/or Heritage Bank of Commerce. Set forth below is certain information with respect to the executive officers:

Name	Position
Robertson Clay Jones	President and Chief Executive Officer of Heritage Commerce Corp and Heritage Bank of Commerce
Thomas A. Sa	Executive Vice President, Chief Operating Officer and Interim Chief Financial Officer of Heritage Commerce Corp and Heritage Bank of Commerce
Susan S. Just	Executive Vice President and Chief Credit Officer of Heritage Bank of Commerce
Janisha Sabnani	Executive Vice President and General Counsel of Heritage Commerce Corp and Heritage Bank of Commerce
Chris Edmonds-Waters	Executive Vice President and Chief People and Culture Officer of Heritage Bank of Commerce
Deborah K. Reuter	Executive Vice President, Chief Risk Officer and Corporate Secretary of Heritage Commerce Corp and Heritage Bank of Commerce
Glen E. Shu	Executive Vice President, President of Specialty Finance Group of Heritage Bank of Commerce and President of Bay View Funding
Dustin M. Warford	Executive Vice President, Chief Banking Officer of Heritage Bank of Commerce

Biographical information for Robertson Clay Jones is found under “Proposal 1—Election of Directors.”

Thomas A. Sa, age 63, has served as Executive Vice President, Chief Operating Officer of Heritage Commerce Corp and Heritage Bank of Commerce since September 2024. In November 2024, he was appointed as Interim Chief Financial Officer of Heritage Commerce Corp and Heritage Bank of Commerce. Mr. Sa served most recently as President, Chief Operating Officer and Chief Financial Officer at California BanCorp and its subsidiary, California Bank of Commerce, a position he had held from May 2019 until July 2024, when that company completed a merger of equals with Southern California Bancorp. Mr. Sa continued in a transitional role with the surviving company until September 2024. Mr. Sa had previously served in various executive positions, including Chief Risk Officer, with Western Alliance Bancorp and Chief Financial Officer of Bridge Capital Holdings and its subsidiary Bridge Bank, N.A. Mr. Sa also served as a director of Bridge Capital Holdings and Bridge Bank. He began his career as a CPA with Deloitte & Touche, specializing in financial institutions and technology companies in Silicon Valley. Mr. Sa holds a Bachelor of Science in Business Administration and Accounting from Humboldt State University and is a licensed CPA in California.

Susan S. Just, age 59 has served as Executive Vice President and Chief Credit Officer of Heritage Bank of Commerce since September 2023. Prior to joining Heritage Bank of Commerce, Ms. Just served as Executive Vice President and Chief Credit Officer of Santa Cruz County Bank from July 2021 until September 2023. Prior to that she served as a consultant to Salo LLC and Noumena Partners, Inc. from October 2018 until July 2021. Ms. Just has also previously served in senior credit administration roles at J.P. Morgan Chase, First Chicago Bank & Trust, Northern Trust Bank and TCF Bank. Ms. Just holds a Bachelor of Business Administration from Loyola University of Chicago and a Master of Business Administration from Kellogg School of Management at Northwestern University.

Janisha Sabnani, age 42, has served as Executive Vice President and General Counsel of Heritage Commerce Corp and Heritage Bank of Commerce since February 2025. Prior to her time at Heritage, Ms. Sabnani served in a progression of roles, since July 2014, at First Republic Bank, culminating as Senior Vice President, Deputy General Counsel and Assistant Secretary from March 2018 until First Republic’s acquisition by JPMorgan Chase (“JPMC”) in May 2023. From that acquisition until her departure from JPMC, she served as a leader assisting with the integration of First Republic Bank into JPMC. Ms. Sabnani also spent several years in private practice as a corporate attorney at Skadden, Arps, Slate, Meagher & Flom, LLP. She currently serves in a variety of advisory and board roles in Northern California, including with The BASIC Fund. Ms. Sabnani comes to us with more than 15 years of experience in the financial services industry and private practice. Ms. Sabnani holds a J.D. from the New York University School of Law, an M.B.A. from the New York University Leonard N. Stern School of Business, and a B.A. in Political Science and Mass Communications from the University of California, Berkeley.

Chris Edmonds-Waters, age 62, joined Heritage Bank of Commerce in April 2024 serving as the Executive Vice President, Chief People and Culture Officer. Mr. Edmonds-Waters joined Heritage Bank of Commerce after having led the human resources function at Silicon Valley Financial Group, Inc., the parent company of Silicon Valley Bank ("SVB"), where he began in 2003, increasing his responsibilities over time. Of note, during Mr. Edmonds-Waters' tenure, as Chief Human Resources Officer from 2006 to 2023, he played a key role in preparing the workforce-and the company as a whole-for expansion into new off-shore markets and new product lines. He accomplished this through partnering with the Chief Executive Officer and executive team in establishing a culture known for its strong values and the belief that in order to support their clients, SVB needed to first support their employees. Prior to SVB, Chris honed his expertise through various Human Resources Director positions at Charles Schwab & Co., Inc. Mr. Edmonds-Waters holds a Master of Arts in Human Resources & Organization Development from the University of San Francisco, complemented by a Bachelor of Arts in Intercultural Communication and a Spanish Minor from Arizona State University.

Deborah K. Reuter, age 71, has served as Executive Vice President, Chief Risk Officer and Corporate Secretary of Heritage Commerce Corp and Heritage Bank of Commerce since April 2014. She was appointed Corporate Secretary in January 2010. Ms. Reuter joined Heritage Bank of Commerce in June 1994, as Vice President/Loan Support Services Manager. She formerly served with several independent community banks in the San Francisco Bay Area including Cupertino National Bank. Ms. Reuter is a graduate of the ABA National Compliance School and a Certified Regulatory Compliance Manager.

Glen E. Shu, age 56, has served as Executive Vice President, President of Specialty Finance Group of Heritage Bank of Commerce and President of Bay View Funding since October 2019. As President of Heritage Bank of Commerce's Specialty Finance Group, he has led the factoring, asset-based lending, Small Business Administration and Homeowners Associations business units. Prior to that, Mr. Shu served as Executive Vice President of underwriting and operations for the factoring division of Bay View Commercial Finance Group, a division of Bay View Bank. A graduate of San Jose State University with a Bachelor of Science degree in Finance, he has spent more than 30 years in the financial services industry including various roles with KBK Financial and Concord Growth Corporation from 1992 to 1998.

Dustin M. Warford, age 45, has served as the Executive Vice President, Chief Banking Officer since June 2022. He joined Heritage Bank of Commerce in 2006, starting in Commercial and Private Banking. In 2012, he was chosen to lead the Real Estate Industries Division and Peninsula market, where he was consistently a key contributor to the Bank's growth and success. He earned a Bachelor of Science degree in Finance and an MBA in Finance from Santa Clara University and is also a graduate of The Pacific Coast Banking School. Over the years, he has stayed connected to his community by serving on numerous boards and finance committees, including 19 for Life, The Bronco Bench Foundation, San Jose Sports Hall of Fame and Sacred Heart Nativity School.

Proposal 1 — Election of Directors

The Bylaws of the Company currently provide that the number of directors shall not be less than 9 nor more than 15, with the Board having the authority to fix the number within that range. The Board is currently comprised of 9 directors. In anticipation of the matter set forth in Proposal 2 — Approval of an Amendment to the Company's Bylaws, the board is currently nominating 8 directors. Proxies may not be voted for a number of persons greater than the number of nominees named herein. All of our directors serve one year terms that expire at the next following annual meeting. For information on our nomination and election procedures see "Corporate Governance and Board Matters — Nomination of Directors." Nominations not made in accordance with the procedures may be disregarded by the Chair of the Annual Meeting and upon his instructions, the inspector of election will disregard all votes cast for such nominees.

The Board, upon the recommendation of the Corporate Governance and Nominating Committee, has recommended the nomination of 8 of the current members of the Board for one year terms that will expire at the Annual Meeting to be held in 2026. If any nominee should become unable or unwilling to serve as a director, the proxies will be voted at the Annual Meeting for substitute nominees designated by the Board. Each nominee has expressed a willingness to serve if elected, and the Board presently has no knowledge that any of the nominees will be unable or unwilling to serve.

The following provides information with respect to each individual nominated and recommended to be elected to the Board. Each individual below is also a director on the Board of Heritage Bank of Commerce:

Julianne M. Biagini-Komas	
Age 62	**Background:** Formerly a member on the Focus Business Bank board of directors and joined the Board of Directors of the Company in August 2015 and has served as Vice Chair of the Board since October 2024. Ms. Biagini-Komas was formerly the Vice President, Finance and Human Resources of CNEX Labs, Inc., from March 2015 until her retirement in April 2021. She was also previously the Chief Financial Officer of Quantumscape Corporation, from 2011 to 2014. Prior to that, she was the Chief Financial Officer of Endwave Corporation, a previously Nasdaq-listed company, from 1994 to 2007. Ms. Biagini-Komas has a Bachelor of Science degree in Accounting from San Jose State University and a Masters in Business Administration degree from Santa Clara University. With her experience as a chief financial officer and her background as a Certified Public Accountant, Ms. Biagini-Komas provides valuable insight and perspective regarding accounting and tax issues and is particularly suited to serve as the Chair of the Audit Committee. Ms. Biagini-Komas also brings 20 years of human resource administration experience, as a member of the Personnel and Compensation Committee.

Bruce H. Cabral	
Age 70	**Background:** Became a director of the Company in October 2019 when the Company acquired Presidio Bank, where he had also served as a director. Mr. Cabral is the former Senior Executive Vice President and Chief Credit Officer of Union Bank. Mr. Cabral retired from Union Bank in January, 2010 after a 32 year tenure which lasted from 1977 until his retirement. Mr. Cabral brings to the Board his previous experience and knowledge of the business of Presidio Bank and his vast experience in the banking industry. He serves as a member of the Corporate Governance and Nominating Committee and Finance and Investment Committee and as Chair of the Bank's Loan Committee.

Jack W. Conner

Age 85

Background:

Became a director of the Company in 2004 and has served as Chairman of the Board since July, 2006. Mr. Conner was elected Chairman of the Board in July, 2006. Mr. Conner was Chairman and Chief Executive Officer of Comerica California from 1991 until his retirement in 1998 and remained a director until 2002. He was President and a director of Plaza Bank of Commerce from 1979 to 1991. Prior to joining Plaza Bank of Commerce, he held various positions with Union Bank of California (formerly Union Bank) where he began his banking career in 1964. Mr. Conner has a Bachelor of Arts degree from San Jose State University. Mr. Conner contributes to the Board over 20 years of executive leadership and substantial experience in the community banking industry. Having served as a Chief Executive Officer and President at several successful community banks in the Company's primary market, he brings a wide-ranging understanding of bank management, finance, operations and strategic planning. His demonstrated leadership ability, judgment and executive experience led the Board to elect him as Chairman of the Board. Mr. Conner is also a member of the Strategic Initiatives Committee, Corporate Governance and Nominating Committee and the Personnel and Compensation Committee.

Jason DiNapoli

Age 56

Background:

Became a director of the Company in 2018. In 2003 he co-founded 1st Century Bank, N.A., a wholly owned subsidiary of 1st Century Bancshares, Inc., headquartered in Los Angeles, California. In 2008, Mr. DiNapoli assumed the role of the President and Chief Executive Officer of 1st Century Bank and President of 1st Century Bancshares, Inc. He served in this role until July 1, 2016, when 1st Century Bancshares, Inc. was acquired by Midland Financial Co., a privately held bank holding company based in Oklahoma City, Oklahoma, as a division of MidFirst Bank, a subsidiary of Midland. Mr. DiNapoli presently serves as an Executive Vice President of MidFirst Bank and President and Chief Executive Officer of the 1st Century Bank division. Before joining 1st Century Bank, Mr. DiNapoli was Vice President of Finance for JP DiNapoli Companies Inc., a real estate investment, development and property management organization. Prior thereto, he served as a Vice President at Union Bank of California (formerly Union Bank). Mr. DiNapoli earned a bachelor's degree from the University of California, Berkeley. He is active in numerous community organizations. Mr. DiNapoli brings to the Board his extensive experience and knowledge in banking and finance and management experience in the financial industry as well as experience as a board member of a publicly traded bank holding company. Mr. DiNapoli serves as Chair of the Corporate Governance and Nominating Committee and a member of the Finance and Investment Committee and the Bank's Loan Committee.

Stephen G. Heitel

Age 66

Background:

Became a director of the Company in October 2019 when the Company acquired Presidio Bank. Mr. Heitel formerly served as the Chief Executive Officer and director of Presidio Bank from October 2008 until the acquisition. Prior to joining Presidio Bank in October 2008, he served as President and Chief Executive Officer of Mid-Peninsula Bank based in Palo Alto, California. Mr. Heitel served in other senior positions at Greater Bay Bancorp, including President and Chief Executive Officer of San Jose National Bank from December 2003 to November 2005, and as Executive Vice President and Chief Operating Officer of Cupertino National Bank from August 2001 to December 2003. Mr. Heitel's additional experience also includes executive roles with Bank of America including serving as head of Commercial Banking activities for the Bay Area, focusing on middle market businesses. Mr. Heitel brings to the Board an understanding and knowledge of the business and personnel of Presidio Bank as well as his previous executive experience and knowledge of the community banking industry. Mr. Heitel is a member of the Finance and Investment Committee and the Bank's Loan Committee.

Kamran F. Husain

Age 59

Background:

Became a director of the Company in December 2021. Mr. Husain is an experienced finance and accounting executive with deep banking and financial services experience and almost 30 years in the financial services industry. Most recently he served as the Chief Financial Officer at Tribal Credit, a B2B payments FinTech focused serving SMBs in Latin America and MENA from December 2021 to August 2023. Prior to that, he was the Chief Accounting Officer of SVB Financial Group and Silicon Valley Bank from September 2008 to November 2019. He started his career in investment banking followed by seven years at PwC in the audit practice and nine years at Greater Bay Bancorp. Throughout his career, he has also worked on and led several merger and acquisition projects. Over the last fifteen years, he has directly managed relationships and communications with auditors as well as with bank regulators on matters related to reporting and compliance. Mr. Husain is also experienced in corporate governance matters from his prior positions. Mr. Husain holds a Masters in Business Administration degree from the Haas School of Business at University of California, Berkeley and a Bachelor of Arts degree from Ohio Wesleyan University. With his background and experience Mr. Husain is particularly suited to serve as Chair of the Strategic Initiatives Committee and as a member of the Audit Committee.

Robertson Clay Jones	
Age 54	**Background:** Became a director and President and Chief Executive officer of the Company and the Bank in September 2022. Previously he served as President and Chief Operating Officer of the Bank from December 2021 after joining as Executive Vice President/ President Community Business Banking Group for the Bank in October 2019. Mr. Jones was formerly the President of Presidio Bank assuming the position in July 2018. Mr. Jones joined Presidio Bank in 2010 as Executive Vice President and Mid-Peninsula Market President. Prior to joining Presidio Bank, Mr. Jones was the organizing and initial President and Chief Executive Officer of New Resource Bank. From October 1993 to May 2005, Mr. Jones served in ever increasing corporate capacities for subsidiaries of Greater Bay Bancorp and Comerica Bank, including his position as Executive Vice President and Chief Operating Officer at Cupertino National Bank and Executive Vice President and Manager of the Venture Banking Group. As the Company's President and Chief Executive Officer, Mr. Jones provides the Board with an overall perspective of the Company's business, financial condition and its strategic direction. Mr. Jones serves on the Finance and Investment Committee, the Strategic Initiatives Committee and the Bank's Loan Committee.

Marina H. Park Sutton	
Age 68	**Background:** Became a director of the Company in October 2019 when the Company acquired Presidio Bank, where she had previously served as a director. Ms. Park Sutton retired in December 2022 as Chief Executive Officer of Girl Scouts of Northern California, which serves 19 counties in Northern California with almost 30,000 girls and 25,000 adults taking part in programs each year. Prior to joining Girl Scouts of Northern California in 2007, Ms. Park Sutton held a variety of progressively more senior positions at Pillsbury Winthrop Shaw Pittman LLP, an international law firm. Ms. Park Sutton has a Bachelor of Arts degree from the University of California, Berkeley and a Juris Doctor degree from the University of Michigan Law School. The Board benefits from Ms. Park Sutton's experience as a director and member of the audit, corporate governance and compensation committees at Presidio Bank, as well as her valuable general business insight and legal experience. With her background she is suited to serve as the Chair of the Personnel and Compensation Committee, and as a member of the Audit Committee and the Corporate Governance and Nominating Committee.

Recommendation of the Board of Directors

The Board of Directors recommends the election of each nominee. The proxy holders intend to vote all proxies they hold in favor of the election of each of the nominees. If no instruction is given, the proxy holders intend to vote FOR each nominee listed.

Proposal 2—Approval of an Amendment to the Company's Bylaws

Our Board regularly reviews corporate governance matters and has considered from time to time increasing the range of the size of the Board to provide greater flexibility for evaluating, recruiting and appointing desirable director candidates. Consistent with these objectives, the Board has authorized, and has recommended that the shareholders approve, an amendment to Section 2.2(a) of the Company's Bylaws ("Bylaws") that would increase the range of the permitted number of directors to eight (8) to fifteen (15) directors (the "Bylaw Amendment"). The Board believes providing greater flexibility for evaluating, recruiting and appointing desirable director candidates pursuant to the Bylaw Amendment is in the best interest of the Company and will allow the Board continue in its succession and refreshment activities in order to assure an orderly transition following Mr. Webster and Ms. Roden's retirements, allowing us to recruit and retain well-qualified directors whose perspectives are advantageous to the Company and our shareholders. By expanding this range, we believe we can assure an orderly process that will allow us to optimize the breadth of experience, capabilities, backgrounds and insights and to provide for an appropriate allocation of workload among directors.

Article II, Section 2.2(a) of the Bylaws, will be amended in its entirety to read as follows:

(a) The number of directors of the Corporation shall be not less than eight (8) nor more than fifteen (15). The exact number of directors shall be set, from time to time, within the limits specified above from time to time by resolution of the Board of Directors. The maximum number or minimum number of directors may be changed, or a definite number fixed without provision for a maximum or minimum number, by a duly adopted amendment to the Articles of Incorporation or by amendment to these Bylaws duly adopted by the vote of holders of a majority of the outstanding shares entitled to vote; provided, however, that an amendment reducing the fixed number or the minimum number of directors to a number less than five (5) cannot be adopted if the votes cast against its adoption at a meeting of the shareholders, or the shares not consenting in the case of action by written consent, are equal to more than sixteen and two-thirds percent (16-2/3%) of the outstanding shares entitled to vote. No amendment may change the stated maximum number of authorized directors to a number greater than two times the stated minimum number minus one.

Section 2.2(a) of the Company's Bylaws and applicable law require that any change in the range of the authorized number of directors must be approved by the shareholders. The amendment requires the affirmative vote of a majority of the outstanding shares entitled to vote. If the Bylaw Amendment is approved, it will become effective immediately.

Recommendation of the Board of Directors

The Board of Directors recommends a vote FOR the approval of the amendment to the Company's Bylaws to increase the range of the size of the permitted number of directors to 8 to 15. The proxy holders intend to vote all proxies in favor of the Bylaw Amendment. If no instruction is given, the proxy holders intend to vote FOR the proposal.

Proposal 3—Approval of the Advisory Proposal on 2024 Executive Compensation

The Dodd-Frank Act requires, among other things, that we permit a non-binding, advisory vote on the 2024 compensation of our named executive officers, as described in the Compensation Discussion and Analysis, compensation tables and accompanying narrative discussion contained in this proxy statement.

As described in greater detail under the heading "Compensation Discussion and Analysis," we seek to closely align the interests of our named executive officers with the interests of our shareholders. Our compensation practices are designed to encourage and motivate our named executive officers to achieve superior performance on both a short term and long-term basis while at the same time avoiding the encouragement of unnecessary or excessive risk taking. The Personnel and Compensation Committee of the Board believes that the executive compensation for 2024 was reasonable and appropriate, and was the result of a carefully considered approach.

Accordingly, the Company is presenting this proposal, which gives you as a shareholder the opportunity to endorse or not endorse our executive pay program by voting for or against the following resolution:

"RESOLVED, that the shareholders approve the 2024 compensation of our named executive officers, as disclosed in the Compensation Discussion and Analysis, the compensation tables, and the related disclosures required by Item 402 of Regulation S-K contained in the proxy statement."

The vote on this resolution is not intended to address any specific item of compensation, but rather that the overall compensation of our named executive officers and the policies and practices described in this proxy statement. In the event this non-binding proposal is not approved by our shareholders, such a vote shall not be construed as overruling a decision by the Board or the Personnel and Compensation Committee, nor create or imply any additional fiduciary duty of the Board or the Personnel and Compensation Committee, nor shall such a vote be construed to restrict or omit the ability of our shareholders to make proposals for inclusion in proxy materials related to executive compensation. Notwithstanding the foregoing, the Board and the Personnel and Compensation Committee will consider the non-binding vote of our shareholders to this proposal when reviewing compensation policies and practices in the future.

Recommendation of the Board of Directors

The Board of Directors recommends a vote FOR the Advisory Proposal on 2024 Executive Compensation. The proxy holders intend to vote all proxies they hold in favor of this proposal. If no instruction is given, the proxy holders intend to vote FOR the proposal.

Executive Compensation

Compensation Discussion and Analysis

This Compensation Discussion and Analysis outlines our executive compensation philosophy and objectives, describes the elements of our executive compensation program, and explains how the Personnel and Compensation Committee ("Committee") of the Company's Board arrived at its compensation decisions for our 2024 named executive officers ("NEOs"). This section also comprises the annual report of the Committee, which is charged with the independent oversight of our compensation philosophies, programs and policies for all employees, including our NEOs, listed below:

Name of NEO	Title
Robertson Clay Jones	President and Chief Executive Officer of Heritage Commerce Corp and Heritage Bank of Commerce
Susan Just	Executive Vice President and Chief Credit Officer of Heritage Bank of Commerce
Lawrence D. McGovern[(1)]	Former Executive Vice President and Chief Financial Officer of Heritage Commerce Corp and Heritage Bank of Commerce
Deborah K. Reuter	Executive Vice President, Chief Risk Officer and Corporate Secretary of Heritage Commerce Corp and Heritage Bank of Commerce
Thomas A. Sa	Executive Vice President, Chief Operating Officer and Interim Chief Financial Officer of Heritage Commerce Corp and Heritage Bank of Commerce
Dustin M. Warford	Executive Vice President, Chief Banking Officer of Heritage Bank of Commerce

(1) On November 18, 2024, Mr. Sa succeeded Lawrence D. McGovern on an interim basis following Mr. McGovern's departure from the role of Chief Financial Officer. Mr. McGovern continued in a transitional role with the Company's executive management team until his final departure on February 14, 2025. Mr. McGovern's compensation data through December 31, 2024, is disclosed herein. Mr. McGovern has been included as a named executive officer pursuant to Item 402(a)(3)(ii) of Regulation S-K as an individual who served as the principal financial officer, or in a similar capacity, at any time during the last fiscal year.

EXECUTIVE SUMMARY

The compensation programs in which our NEOs participate are designed to drive our financial results, align with our business strategy and create long-term value for our shareholders. Our pay-for-performance compensation philosophy places a heavy emphasis on variable (at-risk) compensation through short- and long-term incentive programs.

In 2024, Committee took the following actions:

- Continued our standing policy of responding and affirmatively reaching out to shareholders to engage in meaningful and transparent discussions regarding executive compensation programs, practices and policies. As discussed in greater detail under "*Compensation Discussion and Analysis—Role of Shareholder Input*," below, we believe shareholder feedback is critical, facilitating the Committee's design and administration of our executive compensation program.
- Reviewed and considered the appropriate peer groups for measuring performance and compensation metrics.
- Established and measured individualized, qualitative goals in our Executive Officer Cash Incentive Program based on executives' individual roles, tied to the participants' identified roles in promoting the Board's strategic priorities.
- Maintained our Long-term Incentive Equity Program ("LTIEP"), in which 50% of the NEOs' award values were in the form of performance-based restricted stock units ("PRSUs").
- Continued our longstanding policy of reviewing incentive programs to ensure metrics and goals do not encourage undue risk taking or imprudent actions by our executives.

	Our ongoing endeavors
Link Pay for Performance to Equity Based Compensation	In 2024, NEOs participated in the LTIEP, in which 50% of the NEO's award value were in the form of performance-based restricted stock units. Vesting is contingent on Return on Average Tangible Common Equity ("ROATCE") which is measured on a relative basis to a peer group at the end of a three-year performance period. The remaining 50% of the NEO's award value were in the form of time-based restricted stock units ("RSUs") with ratably 3-year vesting to encourage stock ownership and satisfy the stock ownership and retention guidelines.
Considered Other Metrics for Performance Based Equity Awards	In addition to ROATCE, Shareholders have suggested using other metrics such as Total Shareholder Return ("TSR") and/or Earnings Per Share ("EPS"). The Committee continued to work with management and our compensation consultant to consider other metrics as well as to refine our peer group.
Created Differentiated Qualitative Goals for Individual NEOs	In 2024, the Executive Officer Cash Incentive Program (the "Program") included differentiated qualitative goals based on executive's individual roles.

Advisory Vote on Executive Compensation

Our shareholders approved the compensation of our NEOs in an advisory vote at our 2024 annual meeting of shareholders. The advisory vote received the support of 97.2% of the votes cast. The Committee considered the results of this advisory vote to be overwhelmingly favorable.

2024 Financial Accomplishments

In many ways, the Company successfully confronted the same challenges that continue to plague the banking and financial institutions industry throughout 2024: elevated and unstable interest rate markets; fluctuating values in investment portfolios; increases in personnel and operating expenses; and growing competition from both within and outside the traditional banking market. In spite of these challenges, the Company had a successful year, growing total deposits by 10%, and total loans by 4%, in comparison to 2023 by focusing on opportunities in our local business market.

Our earnings performance, while relatively lower than the previous year, reflects substantial strategic investments, including hiring a new Chief Operating Officer, Thomas A. Sa; beginning a succession process and search for our next Chief Financial Officer; continuing to invest in our information technology and cybersecurity infrastructure; increasing our loan loss reserves while maintaining low levels of classified and non-performing assets; and successfully resolving two litigation matters that had created uncertainty and risk for several years.

Our focus remains on orderly organic growth, minimizing our reliance on borrowed funds and eschewing brokered deposits. Our local 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 continued to add to loan reserves reflecting solid loan growth while credit costs were modest. Nonperforming assets totaled $7.7 million, or 0.22% of total loans, at December 31, 2024, and our loan loss reserves represented 638% of nonperforming assets as of that date.

Net income decreased

(37)% to $40.5M

Net interest income decreased

(11)% to $163.6M

Total deposits increased

10%

The efficiency ratio

65.88%

Nonperforming assets totaled

$7.7M

Governance Best Practices

The Company aims to support the long-term interests of shareholders through best-practice compensation programs, practices and policies. The Committee reviews the Company's executive compensation program on an ongoing basis to evaluate whether it supports the Company's executive compensation philosophies and objectives and is aligned with shareholder interests. Our executive compensation practices are comprised of the following, each of which the Committee believes reinforces our executive compensation objectives:

	What We Do
✔	**Shareholder Outreach.** Our Committee, in conjunction with our executive management conduct regular and transparent outreach to our shareholders, seeking their feedback in the determination of pay levels, practices, and policies and offering an opportunity for those shareholders to ask questions regarding our philosophies, objectives and decision-making.
✔	**Incentive Plans with Pre-Established Financial Criteria.** Our Executive Officer Cash Incentive Plan is comprised primarily of formula-based objective financial measures. Qualitative goals, which represent a minority weighting, seek to balance the financial goals with objectives that support the Company's strategic goals and long-term sustainability. NEOs received 50% of their long-term incentive value in the form of Performance Restricted Stock Units, in which vesting is contingent on achieving certain levels of relative ROATCE performance over a three-year performance period.
✔	**Incentive Plan Risk Mitigation.** The Executive Officer Cash Incentive Program uses multiple measures to reduce overreliance on any one metric. An Executive Officer Cash Incentive Program risk review is conducted annually to ensure prudent risk management.
✔	**Clawback Policy.** We were among the earliest public companies in our industry to adopt a recoupment policy that provides the Board with the ability to recover compensation in the case of fraud or if the Company is required to restate its financial statements to correct a material error.
✔	**Share Ownership Guidelines.** We require our President and Chief Executive Officer owns shares with a market value equal to three times base salary and that the other NEOs own shares equal to one times base salary. NEOs who have not satisfied their ownership requirements must retain 50% of their vested shares earned under equity-based compensation plans. We maintain similar policies for directors. After giving effect to the accumulation period established under these guidelines, all our executives and directors were in compliance with this policy at December 31, 2024.
✔	**Anti-Hedging/Pledging Policy.** We have "anti-hedging" and "anti-pledging" policies on Company shares.
✔	**Independent Compensation Consultant.** The Committee retains an independent compensation consultant that provides no other services to the Company and that is free from relationships that would call into question the validity of their advice.

	What We Don't Do
X	**No Tax Gross Ups.** We do not provide for tax gross-ups in the event of a change of control.
X	**No Repricing or Repurchase of Underwater Equity Awards.** We do not permit the repricing or repurchase of underwater stock options or stock appreciation rights without shareholder approval.
X	**No Multi-Year Guarantees.** We do not provide multi-year guaranteed salary increases, equity awards or non-Heritage performance incentive arrangements.
X	**No "Single Trigger" Cash Severance Payments on Change in Control in Executive Contracts.** In the event of a change in control, our executive employment agreements require both completion of the change in control and an involuntary or Good Reason termination in order to receive cash severance benefits.

Summary of Executive Compensation Actions

The Committee made the following decisions in 2024.

	Action
✔	Adjusted Mr. Jones' base salary from $622,000 to $673,014 based on performance and market adjustment due to results of market compensation benchmarking data included in the Company's Compensation Peer Group.
✔	Adjusted other NEO base salaries 3.7%, and approved an additional market adjustment of 11.1% for Mr. Warford, based on a review of peer market data.
✔	Approved award payouts under the 2023 Executive Officer Cash Incentive Program and grants under the 2024 Long-term Performance Incentive Equity Program.
✔	Granted restricted stock awards to two new executive officers who joined in May and October 2024.
✔	Participated in discussions with shareholders concerning the Company's executive compensation programs.
✔	Continued its engagement with Meridian to provide data and advice; and assist in the further development of market-based programs for 2025 based on shareholder input received in 2024 and during the first quarter of 2025.
✔	Continued to review performance-based incentive equity program for our NEO's, including PRSU performance metrics.

HOW COMPENSATION DECISIONS ARE MADE

Primary Role and Responsibilities Relating to Compensation Decisions

Responsible Party	Primary Role and Responsibilities Relating to Compensation Decisions
Personnel & Compensation Committee (Composed solely of independent, non-employee Directors and reports to the Board)(1)	• Oversees our executive compensation program, policies, and practices • Conducts an annual evaluation of the President and CEO's performance in consultation with the full Board • Reviews and approves the President and CEO's recommendations for compensation for the other NEOs • Approves performance goals for purposes of compensation decisions for the NEOs • At least annually, reviews the executive compensation program overall, and establishes base salaries, target annual variable cash incentive opportunities and equity grants (if any) for the fiscal year • Approves all changes to the composition of the Compensation and PRSU Peer Groups • Reviews compensation risk on an annual basis • Reviews and makes recommendations to the Board with respect to director compensation
Independent Consultant to the Committee (Meridian(2))	• Provides the Committee with analysis and advice pertaining to compensation program design, including proxy and survey analysis, explanation of current and developing best practices, and regulatory changes • Recommends and assists in identifying and refining a relevant group of peer companies and appropriate sources of survey data in which to compare the competitiveness and structure of the amounts and forms of compensation, (e.g., cash and equity) • Analyzes peer company data to assist the Committee in determining the appropriateness and competitiveness of compensation levels • Reviews proposed changes to compensation program design • Reviews compensation disclosure materials • Provides specific analysis and advice periodically as requested by the Committee
Executive Management	• The President and CEO recommends to the Committee annual compensation for the other NEOs and other senior executives based on his assessment of their performance • Members of management support the Committee in establishing agendas with the Chair, developing materials for Committee meetings, attending meetings at the request of the Committee and preparing meeting minutes • No member of management is present in Committee meetings when matters related to his or her individual compensation is under discussion, or when the Committee is approving or deliberating on the President and Chief Executive Officer's compensation

(1) The Committee Charter can be found at *www.heritagecommercecorp.com* which provides a complete listing of duties.

(2) The Committee has concluded that Meridian is independent of the Company and services performed by Meridian and the individual consultants employed by Meridian raised no conflicts of interest.

Role of Shareholder Input

Our Board and Committee value investors' views on our executive compensation program, as gathered from our shareholder outreach and reflected in our shareholders' voting decisions. More specifically:

- The Committee takes seriously, and believes it is important to respond to, shareholders' input on our executive compensation program.
- The Committee also considers the views and recommendations provided by proxy advisors who can help us contextualize our executive compensation programs by comparison to similarly situated companies and who make recommendations and provide analyses to their institutional investor clients.
- We have historically welcomed comments and suggestions from shareholders, and beginning in 2023 we began a more proactive outreach to key shareholders with regard to executive compensation matters. These contacts ordinarily involve one or two Committee members along with our Chief People and Culture Officer.

Based on that extensive shareholder input, our Committee has focused on the following initiatives:

- Align pay with performance by implementing the use of performance-based equity awards by using one or more financial metrics.
- Enhance disclosure about our compensation practices, philosophies and objectives.
- Review compensation peer groups for both compensation and PRSU performance, to assure a close correlation with the Company and its business.
- Review use of linear interpolation for cash incentives and PRSUs.

At our 2024 Annual Meeting, our non-binding advisory proposal was approved with the vast majority of the shareholders casting their votes in favor of the Say-on-Pay resolution. Our management team and Board continue to reach out to shareholders and provide them with opportunities to discuss our executive compensation program. Since the 2024 Annual Meeting, our Chief Executive Officer, Chief Financial Officer and other invited members of our executive team attended eight investment conferences and held approximately 74 one-on-one meetings with shareholders and potential investors. Also during this period, we contacted our top 20 institutional shareholders as a part of our routine outreach process. The Chair of our Personnel & Compensation Committee, together with executive team members, held meetings with eight of these investors in 2024 and three of these investors in 2025. This outreach affords us valuable shareholder perspectives, as a result of which, in 2024, we:

- Refined our Executive Officer Cash Incentive Program to focus each executive's differentiated goals in a manner that promotes profitability, safety and soundness, and workforce development.
- Continued the LTIEP established in 2023 such that 50% of the NEO's award value are in the form of PRSUs. Vesting is contingent on ROATCE which is measured on a relative basis to our peer group at the end of a three-year performance period. The remaining 50% of the NEO's award value are in the form of RSUs.
- Maintain robust stock ownership and retention guidelines for our executive officers.
- Continue to monitor the prevalence of single-trigger equity vesting acceleration on a change of control for current and/or future NEOs. This practice is prevalent for banks of similar size and enables award recipients to share in value creation alongside shareholders on a change in control.

We welcome feedback regarding our executive compensation program and will continue to engage with our shareholders in 2025.

Overview of Total Rewards Philosophy

The Committee believes that the Company's continued success in achieving its strategic objectives depends in large part on the talent and leadership at all levels, including the alignment of our employees' interests with those of our shareholders. We view all of the elements our employees enjoy as "Total Rewards," meaning that we take into account both the relative and the absolute values of base salaries, short-term and long-term incentives and other benefits plans.

- **Competitive Total Rewards.** We provide total rewards opportunities to our employees that, in the aggregate, reflect the median practices of similarly sized banks in our geographical region, adjusted for individual performance, skills, and expertise. This approach promotes attracting and retaining the best talent in our industry and markets. By benchmarking our total rewards against peers, we maintain competitiveness and fairness, ensuring our employees are rewarded for their unique contributions on the basis of our overall mission and their individualized goals and performance.
- **Pay-for-Performance.** To earn competitive total pay levels, employees must achieve financial and operating objectives derived from our internal business plan. Pay is aligned with short-and long-term performance that is comparable or exceeds the performance of our peers. This alignment incents our employees to drive the Company's success in ways that benefit all stakeholders, including shareholders, customers, and employees.
- **Link Compensation and Accountability.** To attract, retain and develop superior talent, we assess the leadership skills of our employees as part of an assessment of their individual performance. Managers at all levels (executives included) are held accountable for providing leadership within the organization and for achieving financial and non-financial objectives, as well as identifying and developing successors. These assessments are used in deliberations regarding salary increases and incentive awards. This ensures our managers continually develop—and that the Company is well-prepared for future leadership transitions.
- **Avoid Encouraging Excessive Risk Taking.** To reduce compensation risk, the NEO's compensation programs are developed to include risk mitigation elements. We balance fixed and variable pay opportunities, use short-and long-term incentive plan horizons and subject payments to our clawback recovery policy. Furthermore, the Executive Officer Cash Incentive Program uses multiple performance measures and includes meeting a capital requirement threshold as a condition to receiving a payout.
- **Provide Reasonable Income Security.** Specific to our executives are employment agreements designed to be consistent with market practices. These agreements are designed to foster stability and retain well-qualified executives by providing reasonable income protection upon termination of employment following a change of control. Our executive equity incentive programs provide for accelerated vesting of equity awards upon a change of control (i.e. "single trigger equity vesting"). The Committee continues to monitor this practice with input from our compensation consultant, and we believe that this approach ensures that our executives are secure in their positions, allowing them to focus on driving the Company's success.

COMPENSATION PROGRAM OBJECTIVES AND REWARDS

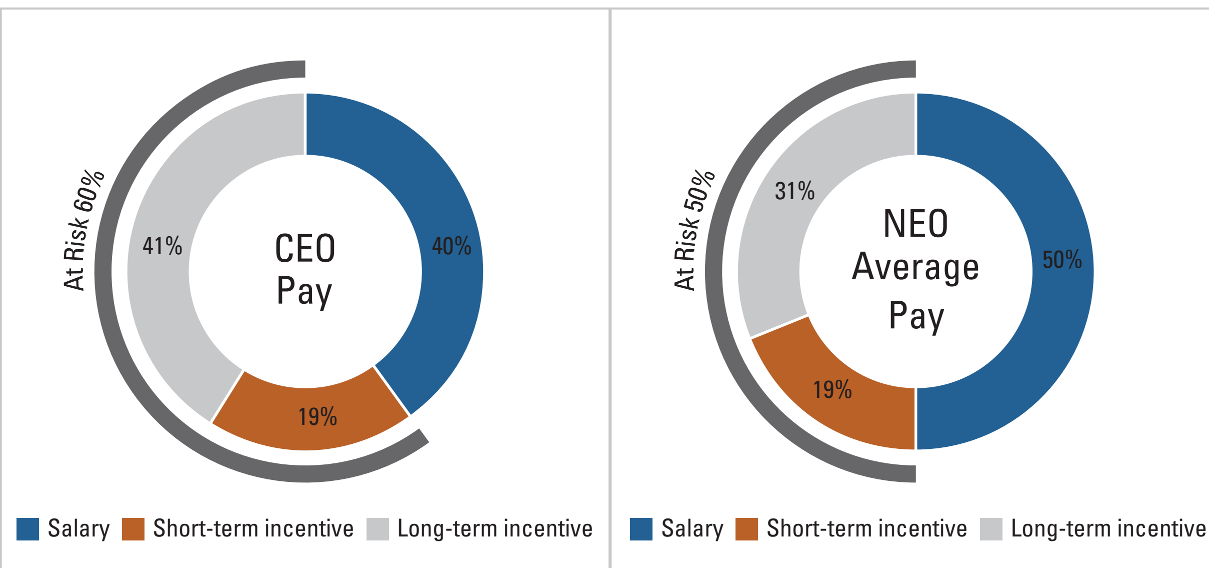
Summary of Components of Executive Compensation

Total compensation for our NEOs consists of base salary, cash and equity-based incentive compensation. Each of these elements of compensation is described below.

Compensation Element	Purpose
Base Salary	• Provides a fixed amount of compensation to recognize the duties, responsibilities, and scope of influence of the executive's role. The level of base salary also takes into consideration the executive's experience, skills, and performance.
Executive Officer Cash Incentive Program	• Rewards the achievement of annual goals for financial performance, as well as key annual individual goals that strengthen the business and position the Company for long-term success.
Long-Term Incentives	• Rewards long-term performance through increases in share appreciation and aligns executives with shareholder interests. In 2024, 50% of each NEO's award value was in the form of PRSUs. Vesting is contingent on ROATCE which is measured on a relative basis to our peer group at the end of a three-year performance period.
Other Compensation	• NEOs participate in the benefit and retirement programs generally available to all full-time Company employees with the purpose of providing health, welfare and financial stability. Perquisites are generally limited to those that assist our NEOs in conducting their business duties productively. Employment agreements and other separation benefits are provided to ensure that executives act in the best interest of the Company regardless of future employment status.

Compensation Mix

The Committee evaluates the mix of compensation components. Pay mix is balanced considering short-and long-term time horizons, allocation between cash and equity, and between fixed and variable compensation components. In determining the compensation mix, the Committee strives to motivate near-term performance, while also focusing the executives on longer-term corporate goals that drive shareholder value. The following reflects the compensation mix for 2024.



Pay Positioning

Generally, base salaries are targeted near the median of the market, adjusted for wage rates in the California Bay Area, which are higher than the national average. Individual factors also may be considered by the Committee including individual performance, the importance of the role in achieving strategic objectives, and other factors that the Committee deems relevant on an individualized or Company-wide basis.

Use of Peer Group and Market Data

The Committee engaged Meridian to conduct a competitive review of the Company's executive compensation program, which was used to inform 2023 and 2024 pay decisions. One data source used in setting market-competitive guidelines for the executive officers is the information publicly disclosed by a peer group of other publicly traded banks which the Committee uses as a competitive reference point.

Banks selected as peers for compensation purposes are public and actively traded banks which align with some or all of the following criteria:

- Asset sizes between $2.4 billion and $13 billion
- Similarity of product lines and business focus
- Comparable performance criteria including, asset growth, profitability, credit quality, capitalization and total shareholder return

Based on these criteria, the following companies were included in the Company's Compensation Peer Group for 2024 decision making:

Banc of California, Inc.
Bank of Marin Bancorp
BayCom Corp
Central Valley Community Bancorp*
Farmers & Merchants Bancorp
First Foundation Inc.
Five Star Bancorp
Heritage Financial Corporation
HomeStreet Inc.
Luther Burbank Corporation*
PCB Bancorp
Sierra Bancorp
TriCo Bancshares
Westamerica Bancorporation

* Subsequently aquired

The competitive review also included Data from McLagan's Regional & Community Banking Survey database. National survey data was adjusted upward 29.5% to account for wage rates in San Jose, California, relative to the national average. Subsequently, we applied a 4% anticipated salary adjustment factor to ensure competitiveness of our compensation, helping retain executive talent.

Chief Executive Officer Compensation

The Committee annually reviews and approves goals and objectives relevant to the Chief Executive Officer and evaluates the Chief Executive Officer's performance against those objectives and other relevant factors. The Committee typically considers company-wide financial performance, and the Company's achievement of its short and long-term goals versus its strategic objectives and financial targets. With the assistance of our compensation consultant, the Committee also considers the compensation data related to the Compensation Peer Group for base pay, total cash compensation, and total direct compensation. The Chief Executive Officer does not participate in any deliberations regarding his own compensation.

Base Salary Decisions for the Other Named Executive Officers

The Committee approved the following salaries and adjustments for the other named executive officers effective April 1, 2024:

	Base Salary		
NEO	**2023**	**2024**	**Change from 2023**
Robertson Clay Jones	$622,000	$673,014	8.2%
Susan Just	$340,000	$352,580	3.7%
Lawrence D. McGovern[(1)]	$415,880	$431,268	3.7%
Deborah K. Reuter	$348,395	$361,286	3.7%
Thomas A. Sa	N/A	$475,000	N/A
Dustin M. Warford	$315,400	$362,070	14.87%

(1) Mr. McGovern served as Executive Vice President and Chief Financial Officer until November 18, 2024, after which he continued to serve in an advisory role to assist with the transition of the new Interim Chief Financial Officer until his departure on February 14, 2025. Mr. McGovern did not receive cash bonus or LTIEP awards for performance in 2024.

Executive Officer Cash Incentive Program

Our NEOs participate in the Executive Officer Cash Incentive Program, which is an annual cash-based incentive program linked to achievement of certain corporate and individual performance goals.

Taking into consideration the recommendations of its independent compensation consultant and the President and Chief Executive Officer's recommendations for the other participating NEOs, as well as soliciting and considering the input of other directors who are not committee members, the Committee approves an incentive award target as a percentage of base salary for those NEOs.

	% of Base Salary		
Named Executive(	**Threshold**	**Target**	**Maximum**
Robertson Clay Jones	37.5%	75%	112.5%
Susan Just	22.5%	45%	67.5%
Lawrence D. McGovern	25%	50%	75%
Deborah K. Reuter	22.5%	45%	67.5%
Thomas A. Sa	25%	50%	75%
Dustin M. Warford	22.5%	45%	67.5%

The Committee also assigned weightings between a Company scorecard based on financial metrics (75%) and a qualitative scorecard based on differentiated goals for each executive that further our growth, safety and soundness, and the development of a strong and diverse workforce (25%). The following performance metrics along with the relative weights of each metric were established by the Committee in the first quarter of 2024 and results were calculated as of December 31, 2024:

Performance Metrics	Weight	Threshold	Target	Maximum
YTD Pre-Tax Income	20%	$ 54,933,205	$ 70,628,407	$ 86,323,609
Nonperforming Assets	20%	$ 17,142,857	$ 13,333,333	$ 10,909,091
Loan Growth[(1)]	17.5%	$2,061,012,723	$2,649,873,566	$3,238,734,358
Deposit Growth[(2)]	17.5%	$3,263,056,065	$4,195,357,798	$5,127,659,531
Qualitative Factors[(3)]	25%	(Differentiated goals for each executive)		

(1) Loan Threshold, Target and Maximum are established at 70%, 90% and 110% of the Company's budget, respectively. Includes factored accounts receivable but excludes purchased mortgage loans in 2024 and Paycheck Protection Program ("PPP") loans.

(2) Deposits exclusive of brokered, state certificates of deposit. Includes clients' Insured Cash Sweep / Certificate of Deposit Account Registry Service deposits. The Deposit Threshold, Target and Maximum are established at 70%, 90% and 110% of the Company's budget, respectively.

(3) The qualitative factors were based on differentiated goals for each executive to achieve the Company's strategic plan for 2024.

We apply a straight-line interpolation to determine the percentage of the cash bonus where the performance falls between two levels in the table above.

The qualitative factors were based on differentiated customized goals for each executive to achieve the Company's strategic plan for 2024.

The Executive Officer Cash Incentive Program includes a performance "gate" requiring a year-end total risk-based capital ratio at or above 10.5%. Otherwise, no payment would be made under the Executive Officer Cash Incentive Program.

The Committee has the right, in its sole discretion, to adjust performance goals within the defined parameters set forth in the Executive Officer Cash Incentive Program, which may apply to one-time, non-recurring, or extraordinary events or to other events or circumstances that the Committee deems appropriate. Additionally, the Committee may adjust awards considering factors such as regulatory compliance and credit quality; and to reduce or eliminate any cash award otherwise payable.

Both quantitative and qualitative performance metrics were identified through our annual financial planning and budgeting process and were intended to align with the Board's strategic plan for 2024. The Committee received recommendations from the senior management along with other relevant data including economic forecasts and historical goal setting and achievement. The Committee believed that the Threshold, Target, and Maximum levels established for the Executive Officer Cash Incentive Program in 2024 were sufficiently challenging to meet the Company's long-term performance objectives.

Each fiscal year we establish certain financial metrics that serve as Threshold, Target and Maximum performance levels. For 2024 these metrics included the Company's pre-tax income, non-performing asset levels, loan and deposit growth, and qualitative factors that are based on differentiated goals based on each executive's expected contributions toward the Company's overall strategic goals. For 2024, the Company achieved its maximum performance level regarding successes in managing non-performing assets, falling into the upper end of target ranges in loan and deposit growth, and below target levels in pre-tax income. Individualized qualitative goals are discussed in greater detail for each executive below.

Qualitative Performance Metrics

Clay Jones:

- Mr. Jones' performance is most clearly reflected in his leadership through a series of significant and strategically critical management changes, including recruiting a new Chief Operating Officer, Chief People & Culture Officer, and Chief Audit Officer, as well as the succession process following the departure of our longtime Chief Financial Officer. Mr. Jones also oversaw substantial investments in cybersecurity and network infrastructure projects, while making critical progress on production-oriented initiatives such as sales leadership maturity, accountability and development. The hiring of our new COO, a key position identified by Mr. Jones, has enabled greater external client engagement, reducing direct reports count, allowing more external client and community engagement by the CEO. Mr. Jones also focused on enhanced profitability, including realigning leadership in one underperforming business unit and closing another.

Susan Just:

- Ms. Just's performance has been considered in light of her achievements in significantly reduced credit metric preparation time, as well as implementing a new decentralized Relationship Credit Manager ("RCM") model and launching Credit College for RCMs. Ms. Just also led our policy review, focusing on efficiency and delegation of responsibilities. We believe that her implementation of SOX controls and testing for mortgage servicers strengthened the effectiveness of our controls and audit processes, strengthening our regulatory compliance and helping us achieve near-perfect results on our loan reviews.

Lawrence D. McGovern:*

* Lawrence D. McGovern served as Executive Vice President and Chief Financial Officer until November 18, 2024, after which he continued to serve in an advisory role to assist with the transition of the new Interim Chief Financial Officer until his departure on February 14, 2025. Mr. McGovern did not earn a cash bonus or equity incentive compensation for performance in 2024 because he was not serving as CFO as of December 31, 2024.

Deborah K. Reuter:

- Ms. Reuter's performance has been evaluated against her achievements throughout the year, including adopting all enterprise compliance related responsibilities, modernizing the Company's risk and compliance reporting processes and adapting and implementing a new and comprehensive Enterprise Risk Management Policy, focused on standardized risk, effective controls and direction ratings. Throughout the year, she also worked to help improve management succession planning bench strength and establish a Diligent-based Resource Center for our directors. Her efforts to standardize the definition of risk ratings and utilize more key metrics have enhanced the quality of information presented to our Risk Management and Steering Committee, further strengthening our risk management processes as a whole.

Thomas A. Sa:*

* Thomas A. Sa joined the Company in September 2024 and did not have qualitative goals for the year ended December 31, 2024.

Dustin M. Warford:

- Mr. Warford's performance has been evaluated against his achievements throughout the year, including achieving his sales targets, his adoption of a foundational sales culture, effective risk management practices—and his performance management practices.

The Committee approved the following incentive cash awards for 2024 performance. Awards are calculated using 2024 base earnings, which may differ from 2024 base salaries due to the timing of salary adjustments promotions and partial year participation.

Named Executive	Award Payout
Robertson Clay Jones	$306,000
Susan Just	$125,000
Lawrence D. McGovern(1)	N/A
Deborah K. Reuter	$125,000
Thomas A. Sa	$ 65,000
Dustin M. Warford	$150,000

(1) Mr. McGovern served as Executive Vice President and Chief Financial Officer until November 18, 2024, after which he continued to serve in an advisory role to assist with the transition of the new Interim Chief Financial Officer until his departure on February 14, 2025. Mr. McGovern did not receive awards for fiscal year 2024.

2024 Equity Awards

Equity awards for 2024 were awarded under the 2023 Equity Plan on March 8, 2024, in the form of RSUs and PRSUs, vesting ratably over three-years and PRSUs which vest based on ROATCE performance relative to a peer group over a three year performance period. The Committee established a target long-term incentive ("LTI") value for each of our NEOs based on a percentage of the NEO's current base salary. With the exception of Mr. Sa, who received a RSU award in October upon commencement of his employment, each NEO's LTI Value was equally split between RSUs and PRSUs. For 2024, the Committee approved a one time increase in the percentage of base salary used for equity awards in partial recognition for our strong performance relative to peers in 2023. This increase is reflected in the following awards:

	RSU Award			PRSU Award	
Named Executive	% of Base Salary	Number of Shares	Dollar Value	Number of Shares	Dollar Value
Robertson Clay Jones	100%	39,636	$336,510	39,635	$336,501
Susan Just	60%	12,459	$105,777	12,458	$105,768
Lawrence D. McGovern(1)	70%	17,779	$150,944	17,7798	$150,935
Deborah K. Reuter	60%	12,766	$108,383	12,766	$108,383
Thomas A. Sa(2)	N/A	37,664	$399,992	—	$ —
Dustin M. Warford	60%	12,794	$108,621	12,793	$108,613

(1) Mr. McGovern served as Executive Vice President and Chief Financial Officer until November 18, 2024, after which he continued to serve in an advisory role to assist with the transition of the new Interim Chief Financial Officer until his departure on February 14, 2025. All RSU and PRSUs outstanding were canceled after Mr. McGovern left the Company on February 14, 2024.

(2) Mr. Sa received a one-time RSU award in connection with his appointment as Chief Operating Officer in October 2024. Mr. Sa did not receive any other RSU or PRSU awards in 2024.

Performance Based Long-Term Incentive Equity Program

Under the LTIEP, 50% of the NEO's award value is granted in PRSUs. The remaining 50% is granted in RSUs. The company has continued to seek shareholder input—including PRSU performance metrics and peer group composition.

PRSUs. Awards vest at the end of a three-year performance period (2025—2027) based on the ROATCE as compared to a peer group of banks approved by the Committee.

PRSUs vest based on percentile performance using the table below. The Committee will use straight-line interpolation to reward incremental achievements between performance levels. Performance below threshold will result in no PRSU vesting.

	Performance Levels		
Performance Metrics	Threshold	Target	Maximum
ROATCE Percentile Rank	35th	50th	75th
Percent of PRSUs Vested	50%	100%	150%

RSUs. Each RSU will vest ratably over three years of continual employment and will accelerate upon a change of control, death or disability.

Dividend Equivalents

Holders of RSUs and PRSUs are entitled to receive dividend equivalents with respect to the payment of cash dividends on the Company's common stock. Dividends are deferred until vesting.

Perquisites

Perquisites are generally limited to those that assist our NEOs in conducting their business duties productively and are limited to car allowances for the NEOs and two memberships for the Chief Executive Officer, a gold and social club membership.

Supplemental Executive Retirement Plan—SERP

Our 2005 Amended and Restated Supplemental Retirement Plan ("SERP") is a legacy arrangement in which after giving effect to Mr. McGovern's departure in February 2025, only our CEO, Mr. Jones, and our Chief Risk Officer, Deborah Reuter, participate. While the SERP remains active for existing participants, other than including the Chief Executive Officer as a result of the Presidio acquisition, we have not approved any new participation in the program since 2011.

The SERP is a non-qualified defined benefit plan which is unsecured and unfunded. Upon normal retirement, as defined in the SERP, a participant receives 100% of his or her supplemental retirement benefit, payable monthly, commencing on the first of the month following retirement (unless selected otherwise by the participant and except executive officers who will receive their benefit six months following retirement) and continuing until the death of the participant (unless the joint survivor option is selected). For information on the plan, see the "Summary Compensation" table and the "Supplemental Retirement Plan for Executive Officers."

Employment Agreements and Change of Control Provisions

We provide employment agreements to our executive officers consistent with what the Committee considers to be market practices. These agreements are designed to foster stability and retain well-qualified executives by providing reasonable income protection upon termination of employment following voluntary and involuntary termination as defined by the agreement. These agreements generally do not provide for a guaranteed term of employment, and instead establish a severance (conditioned upon a release of claims) based upon the executive's most recent year's salary and prorated bonus. The agreements also provide some benefits due to death or disability. Gross-up provisions are not provided in any employment agreements.

The Committee and the Board believe that the likelihood of a change of control transaction would result in our executives facing uncertainties about their future employment and may result in concern over how the potential transaction might affect them. To allow our executives to focus solely on making decisions that are in the best interests of our shareholders, our NEOs have change of Executive Compensation control provisions in their respective employment agreements that provide them with certain payments and benefits in the event of the termination of their employment upon a change of control of the Company.

All NEO employment agreements require both a change of control and termination in order to receive severance benefits (commonly referred to as "double-trigger" arrangements). We have disclosed the severance and/or change in control payouts that would be payable to each NEO if the triggering event occurred on December 31, 2024, in the "Change in Control Arrangements and Termination of Employment" section in this proxy statement.

Compensation Policies and Practices

	Summary
Stock Ownership and Retention Guidelines	The Company has established stock ownership guidelines to encourage Company share ownership by our NEOs and directors through retention of shares granted under the Company's incentive plans. The stock ownership guidelines are summarized at page 5 above.
Clawback Policy	If the Company restates its financial statements to correct a material error in previously reported financial statements due to the Company's material noncompliance with any financial reporting requirement under the securities laws, the Committee, in its capacity as administrator of the Incentive Compensation Recovery (or "Clawback") policy will require reimbursement or forfeiture of any excess incentive compensation received by any executive officer during the three completed fiscal years immediately preceding the date on which the Company is required to prepare an accounting restatement. The recovery is required on a "no fault" basis, without regard to whether any misconduct occurred or an executive officer's responsibility for the erroneous financial statements.
Insider Trading Policy	Our policy applies to directors, officers, employees and consultants with respect to the trading of Company's securities, as well as the securities of publicly traded companies with whom we have a business relationship. Our Insider Trading Policy is designed to promote compliance with all applicable insider trading laws, listing standards, rules and regulations. The Company prohibits the unauthorized disclosure of any nonpublic information acquired in the workplace or otherwise as a result of an individual's employment or other relationship with the Company or any of its subsidiaries, as well as the misuse of any material nonpublic information about the Company or any of its subsidiaries or their respective businesses in securities trading.
Prohibition on Hedging	Our stock trading guidelines prohibit executive officers and directors from speculating in our stock, which includes, but is not limited to, short selling (profiting if the market price of the securities decreases), buying or selling publicly traded options, including writing covered calls, and hedging or any other type of derivative arrangement that has a similar economic effect.
Prohibition on Pledging	Executive officers and directors are prohibited from purchasing Company securities on margin, borrowing against Company securities held in a margin account, or pledging Company securities as collateral for a loan.
Equity Grant Practices	The Company's practice is to approve annual equity awards to eligible recipients, including our NEOs, on a pre-determined date in March of each year, with the exception of grants related to new hires or other off-cycle awards. We do not backdate equity awards. In addition, we do not coordinate grants of equity awards so that they are made before announcement of favorable information, or after announcement of unfavorable information. The Company's equity awards are granted at fair market value on a fixed date. We do not grant stock options with a so-called "reload" feature, nor do we lend funds to employees to enable them to exercise stock options. We have never re-priced stock options.

Compensation Risk Assessment	The Committee oversees a periodic risk assessment of the Company's compensation programs to determine whether such programs create an incentive to take unnecessary or inappropriate business risks. For 2024, the Committee concluded that the Company's compensation programs were appropriately balanced to mitigate compensation-related risk with cash and stock elements, financial and non-financial goals, formal goals and discretion, and short-term and long-term rewards. In addition to the above-described compensation and equity award policies, the Committee believes the Company's policies on ethics and compliance along with its internal controls also mitigate unnecessary or excessive risk-taking. The Executive Vice President/People and Culture Officer works with the Committee and external compensation advisors to ensure compensation programs and payouts are aligned with short term and long-term compensation plans and the spirit of such plans.
Tax Considerations	In light of Section 162(m) of the Code, it is the policy of the Committee to examine our executive compensation program to maximize the tax deductibility of compensation paid to our executive officers when and if the $1 million threshold becomes an issue. At the same time, the Committee also believes that the overall performance of our executives cannot in all cases be reduced to a fixed formula and that the prudent use of discretion in determining pay levels is in our best interests and those of our shareholders. Under some circumstances, the Committee's use of discretion in determining appropriate amounts of compensation may be essential. In those situations where discretion is or can be used by the Committee, compensation may not be fully deductible.
Compensation Committee Interlocks and Insider Participation	No member of the Committee serves or has served as an employee of the Company or its subsidiaries, and none have or had any relationships with Company that are required to be disclosed under Item 404 of Regulation S-K. Additionally, none of our executive officers serve or have served as a member of the compensation committee or board of directors of any other entity that has one or more executive officers who served on our Board.

Compensation Committee Report

The Personnel and Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 401(b) of Regulation S-K with management and based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

Compensation Committee of the Board

Marina H. Park Sutton, Chair
Julianne M. Biagini-Komas
Jack W. Connor

Executive Compensation Tables

The following table provides for the periods shown, information as to compensation for services of the Company's principal executive officer, principal financial officer, interim principal financial officer and three other executive officers of the Company who had the highest total compensation (as defined in accordance with applicable regulations), with respect to the year ended 2024 (collectively referred to as "NEOs"):

Summary Compensation Table

Name and Principal Position (a)	Year (b)	Salary (c)(1)	Bonus (d)	Stock Awards (e)(2)	Option Awards (f)(2)	Non-Equity Incentive Plan Compensation (g)(3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (h)(4)	All Other Compensation (i)(5)	Total ($)(j)
Robertson Clay Jones* President and Chief Executive Officer of Heritage Commerce Corp and Heritage Bank of Commerce	2024	$660,261	—	$678,577	—	$306,000	$ 18,800	$30,701	$1,694,339
	2023	$606,500	—	$466,497	—	$322,476	$ 33,400	$53,018	$1,481,891
	2022	$447,282	—	$488,996	—	$232,452	—	$28,284	$1,197,014
Susan Just** Executive Vice President/Chief Credit Officer of Heritage Bank of Commerce	2024	$349,435	—	$211,545	—	$125,000	—	$15,651	$ 701,631
Lawrence D. McGovern*** Executive Vice President/Chief Financial Officer of Heritage Commerce Corp and Heritage Bank of Commerce	2024	$427,421	—	$304,350	—	$ —	$ 18,900	$27,595	$ 778,226
	2023	$411,881	—	$207,939	—	$152,656	$133,300	$42,047	$ 947,823
	2022	$391,841	—	$183,848	—	$180,897	—	$52,427	$ 809,014
Deborah K. Reuter**** Executive Vice President/Chief Risk Officer and Corporate Secretary of Heritage Commerce Corp and Heritage Bank of Commerce	2024	$358,063	—	$218,622	—	$125,000	—	$34,107	$ 735,792
	2023	$345,045	—	$156,773	—	$115,098	$ 46,800	$36,559	$ 700,275
	2022	$331,007	—	$143,566	—	$143,988	—	$28,140	$ 646,701
Thomas A. Sa***** Executive Vice President/Chief Operating Officer and Interim Chief Financial Officer of Heritage Commerce Corp and Heritage Bank of Commerce	2024	$124,231	—	$399,992	—	$ 65,000	—	$ 6,464	$ 595,687
Dustin M. Warford****** Executive Vice President, Chief Banking Officer of Heritage Bank of Commerce	2024	$350,403	—	$218,917	—	$150,000	—	$15,794	$ 735,114

* Mr. Jones was promoted to President and Chief Executive Officer effective September 15, 2022. Prior to his promotion he was serving as President and Chief Operating Officer of Heritage Bank of Commerce.

** Ms. Just joined the Company as the Executive Vice President and Chief Credit Officer of Heritage Bank of Commerce in September 2023. The Company determined Ms. Just was one of the top three next highest paid executive officers, after principal executive officers and principal financial officers, in fiscal year 2024.

*** Mr. McGovern served as Executive Vice President and Chief Financial Officer until November 18, 2024, after which he continued to serve in an advisory role to assist with the transition of the new Interim Chief Financial Officer until his departure on February 14, 2025.

**** Ms. Reuter joined Heritage Bank of Commerce at its inception in June 1994. The Company determined Ms. Reuter was one of the top three next highest paid executive officers, after principal executive officers and principal financial officers, in fiscal year 2024.

***** Mr. Sa joined the Company as Executive Vice President and Chief Operating Officer in September 2024, and subsequently and additionally appointed as Interim Financial Officer in November 2024.

****** Mr. Warford has been with the Company since 2006. The Company determined Mr. Warford was one of the top three next highest paid executive officers, after principal executive officers and principal financial officers, in fiscal year 2024.

(1) The amounts in column (c) include amounts voluntarily deferred by each of the named executive officers into their 401(k) plan accounts. For 2024, each executive officer deferred $30,500, except for Mr. Warford who deferred $22,500, Ms. Just who deferred $24,000 and Mr. Sa who deferred 3,600.

(2) The amounts shown in columns (e) and (f) reflect the applicable full grant date fair values for stock options and stock awards in accordance with ASC 718 (excluding the effect of forfeitures), and are reported for the fiscal year during which the stock options and stock awards were issued. The assumptions used in calculating the valuation for stock options and stock awards may be found in Note 12 to the Company's consolidated financial statements for the year ended December 31, 2024, included in the Company's Annual Report on Form 10-K, filed with the SEC on March 10, 2025.

(3) The amounts shown in column (g) reflect payments made under the terms of the Executive Officer Cash Incentive Program for 2024 performance and paid in the first quarter of 2025.

(4) The amounts shown in column (h) for 2024 represent only the aggregate change in the actuarial present value of the accumulated benefit under the Company's SERP from December 31, 2023 to December 31, 2024. The amounts in column (h) were determined using interest rate and mortality rate assumptions consistent with those used in the Company's consolidated financial statements and include amounts which the named executive officer may not currently be entitled to receive because such amounts are not

vested. Assumptions used in the calculation of these amounts are included in Note 13 to the Company's consolidated financial statements for the year ended December 31, 2024, included in the Company's Annual Report on Form 10-K, filed with the SEC on March 10, 2025.

Mr. Jones has a fully vested Supplemental Executive Retirement Agreement, dated November 28, 2017 (amended November 9, 2018) that was entered into with Presidio Bank. The agreement was assumed by the Company when the Company acquired Presidio Bank. Under the agreement, Mr. Jones is entitled to a present value accumulated benefit of $164,500 as of December 31, 2024. The amount shown in column (h) for 2024 represents only the aggregate change in the actuarial present value of the accumulated benefit from December 31, 2023 to December 31, 2024.

(5) The amounts shown in column (i) for 2024 include the following for each named executive:

Named Executive	Economic Value of Death Benefit of Life Insurance for Beneficiaries(*)	401(k) Plan Company Matching Contributions	Other Insurance Benefit	Vacation	Auto Compensation	Cash Dividend on Unvested Restricted Stock Award	Total
Robertson Clay Jones	$1,240	$3,000	$ 1,518	—	$12,000	$12,943	$30,701
Susan Just	—	$3,000	$ 2,838	—	$ 6,000	$ 3,813	$15,651
Lawrence D. McGovern	$2,819	$3,000	$ 8,383	—	$ 8,400	$ 4,993	$27,595
Deborah K. Reuter	$5,211	$3,000	$13,597	—	$ 8,400	$ 3,899	$34,107
Thomas A. Sa	—	$3,000	$ 1,089	—	$ 2,375	—	$ 6,467
Dustin M. Warford	—	$3,000	$ 990	—	$ 9,400	$ 2,404	$15,794

(*) The economic value of the death benefit amounts shown above reflects the annual income imputed to each executive in connection with Company owned split dollar life insurance policies for which the Company has fully paid the applicable premiums. These policies are discussed under "Supplemental Retirement Plan for Executive Officers."

CEO Pay Ratio

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and SEC rules require us to disclose the pay ratio of our CEO to our median employee. The pay ratio disclosure below is a reasonable estimate calculated in a manner consistent with SEC rules and guidance.

We identified the median employee for 2024 by examining the 2024 total W-2 compensation from our payroll and employment records, including 401(k) deferrals and 401(k) matching of up to $3,000 per employee, for all individuals, excluding our CEO, who was employed by us on December 31, 2024. We included all employees, whether employed on a full-time, part-time, temporary or seasonal basis as of that payroll date. We did not make any assumptions, adjustments or estimates with respect to such total W-2 reported compensation except for the 401(k) matching as described above. We did not annualize the compensation for any full or part-time employees that were not employed by us for all of 2024. We believe the use of total W-2 compensation, including 401(k) deferrals and 401(k) matching of up to $3,000 per employee, for all employees is a consistently applied compensation measure.

After identifying the median employee based upon the methodology described above, we calculated annual total compensation for such employee using the same methodology we used for our CEO and other named executive officers as set forth in the 2024 Summary Compensation Table in this proxy statement. The annual total compensation in 2024 for our median employee using this methodology was $105,399. The annual total compensation in 2024 for our CEO using this methodology is shown in the Summary Compensation Table and was $1,694,339. The ratio of the annual total compensation of our CEO to the annual total compensation of our median employee in 2024 was 16.08 to 1.

This pay ratio is a reasonable estimate calculated in a manner consistent with SEC rules based on our payroll and employment records and the methodology described above. Because the SEC rules identifying the median compensated employee and calculating the pay ratio based on the employee's annual total compensation allow companies to adopt a variety of methodologies, to apply certain exclusions, and to make reasonable estimates and assumptions that reflect their compensation practices, the pay ratio reported by other companies may not be comparable to the pay ratio reported above, as other companies may have different employment and compensation practices and may utilize different methodologies, exclusions, estimates and assumptions in calculating their own pay ratios.

Pay Versus Performance

The following table sets forth information concerning the compensation of our NEOs for each of the fiscal years ended December 31, 2020, 2021, 2022, 2023 and 2024, and our financial performance for each such fiscal year:

Pay Versus Performance Table for 2024

Year (a)	Summary Compensation Table Total for CEO[(1)] (b)	Compensation Actually Paid[(4)] (c)	Summary Compensation Table Total for CEO[(2)] (d)	Compensation Actually Paid[(4)] (e)	Summary Compensation Table Total for CEO[(3)] (f)	Compensation Actually Paid[(4)] (g)	Average Summary Compensation Table Total for Other NEOs[(5)] (h)	Average Compensation Actually Paid to Other NEOs[(6)] (i)	Value of Initial Fixed $100 Investment Based on: Cumulative TSR[(7)] (j)	KBW NASDAQ Bank Index[(8)] (k)	Net Income[(9)] ($000's) (l)	Pre-Tax Income[(10)] ($000's) (m)
2024	n/a	n/a	n/a	n/a	$1,694,339	1,297,177	$709,298	$585,714	$ 95.61	$132.60	$40,528	$56,674
2023	n/a	n/a	n/a	n/a	$1,481,891	$1,527,827	$703,591	$665,330	$ 95.50	$ 96.65	$64,443	$90,419
2022	n/a	n/a	$1,510,963	$1,502,691	$1,197,014	$1,310,688	$622,794	$650,479	$118.17	$ 97.52	$66,555	$94,366
2021	$1,756,569	$1,498,586	$1,659,046	$1,754,118	n/a	n/a	$753,751	$839,014	$104.04	$124.06	$47,700	$65,870
2020	$1,237,428	$1,076,898	n/a	n/a	n/a	n/a	$785,615	$588,764	$ 73.78	$ 89.69	$35,299	$49,068

(1) The dollar amounts reported in column (b) are the amounts of total compensation reported for Keith A. Wilton (Former President and CEO) for 2021 and 2020. Mr. Wilton retired from the Company on March 12, 2021.

(2) The dollar amounts reported in column (d) are the amounts of total compensation reported for Walter T. Kaczmarek (Former President and CEO) for 2022 and 2021. Mr. Kaczmarek served as the President and Chief Executive Officer in 2019 until he retired in August of 2019. He was not an officer or employee of the Company in 2020. He rejoined the Company on March 15, 2021 and retired on September 15, 2022, but remained on the Board until the Company's 2023 Annual Meeting of Shareholders.

(3) The dollar amounts reported in column (f) are the amounts of total compensation reported for Robertson Clay Jones (President and CEO) for each corresponding year in the "Total" column of the "Summary Compensation Table" for 2023 and 2022. Mr. Jones was promoted to President and Chief Executive Officer effective September 15, 2022.

(4) The dollar amounts reported in column (c), (e) and (g) represent the amount of "compensation actually paid" to (1) Mr. Wilton, (2) Mr. Kaczmarek, and (3) Mr. Jones, as computed in accordance with Item 402(v) of SEC Regulation S-K. The dollar amounts reported do not reflect the actual amount of compensation earned by or paid to (1) Mr. Wilton, (2) Mr. Kaczmarek, and (3) Mr. Jones during the applicable year. In accordance with the requirements of Item 402(v) of SEC Regulation S-K, the following adjustments were made to (1) Mr. Wilton's, (2) Mr. Kaczmarek's, and (3) Mr. Jones's total compensation for each year to determine the compensation actually paid to (1) Mr. Wilton, (2) Mr. Kaczmarek, and (3) Mr. Jones, respectively:

	Year	Reported Summary Compensation Table Total for CEO	Reported Grant Date Fair Value of Equity Awards (a)	Equity Award Adjustments (b)	Reported Change in the Actuarial Present Value of Pension Benefits (c)	Pension Benefit Adjustments (d)	Fair Value of Awards Forfeited (e)	Compensation Actually Paid to CEO
(1)	2024	—	—	—	—	—	—	—
	2023	—	—	—	—	—	—	—
	2022	—	—	—	—	—	—	—
	2021	$1,756,569	—	$ 46,772	—	—	$(304,755)	$1,498,586
	2020	$1,237,428	$(330,000)	$169,470	—	—	—	$1,076,898
(2)	2024	—	—	—	—	—	—	—
	2023	—	—	—	—	—	—	—
	2022	$1,510,963	$(539,996)	$531,724	—	—	—	$1,502,691
	2021	$1,659,046	$(540,000)	$635,072	—	—	—	$1,754,118
	2020	—	—	—	—	—	—	—
(3)	2024	$1,694,339	$(678,577)	$275,415	$(18,800)	$24,800	—	$1,297,177
	2023	$1,481,891	$(466,497)	$522,933	$(33,400)	$22,900	—	$1,527,827
	2022	$1,197,014	$(488,996)	$569,915	—	$32,755	—	$1,310,688
	2021	—	—	—	—	—	—	—
	2020	—	—	—	—	—	—	—

(a) The "reported grant date fair value of equity awards" represents the amount reported in the "Stock Awards" column in the "Summary Compensation Table" for 2024, 2023, 2022, 2021 and 2020.

(b) The "equity award adjustments" for each applicable year include the addition or (subtraction, as applicable) of the following: (i) the year- end fair value of any equity awards granted in the applicable year that were outstanding and unvested as of the end of the applicable year; (ii) change in fair value from end of prior fiscal year to end of current fiscal year for awards made in prior fiscal years that were outstanding and unvested at the end of current fiscal year; (iii) change in fair value from end of prior fiscal year to vesting date for awards made in prior fiscal years that vested during current fiscal year; (iv) for equity awards that were granted and vested in the same applicable year, the fair value of the equity awards as of the vesting date; and (v) Dividends paid on unvested shares/share units and stock options. Note that for calculation purposes unvested stock dividends are already included in the "Summary Compensation Table" under "All Other Compensation" for the applicable year (for Equity Awards granted prior to 2023). Dividends earned on unvested PRSUs and RSUs (2023 and 2024 Equity Awards) are reflected in the fiscal year-end fair value of outstanding and unvested awards. The fair value for all unvested equity awards is based on restricted stock awards with vesting periods of three and four years. The fair value for all PRSU equity awards is based on the expected vesting percentile of PRSUs for a given year which would be earned under the PRSU award. The amounts deducted or added in calculating the "equity award adjustments" are as follows for (1) Mr. Wilton, (2) Mr. Kaczmarek, and (3) Mr. Jones, respectively:

	Year	Year-End Fair Value of Outstanding and Unvested Equity Awards Granted in Applicable Year	Year over Year Change in Fair Value of Outstanding Unvested Equity Awards Granted in Prior Years	Year over Year Change in Fair Value of Equity Awards Granted in Prior Years That Vested in The Year	Fair Value as of Vesting Date of Equity Awards Granted and Vested in the Year	Dollar Value of Dividends or Other Earnings Paid on Equity Awards not Otherwise Reflected in Fair Value or Total Compensation	Total Equity Award Adjustments
(1)	2024	—	—	—	—	—	—
	2023	—	—	—	—	—	—
	2022	—	—	—	—	—	—
	2021	—	—	$ 46,772	—	—	$ 46,772
	2020	$328,518	$ (88,438)	$ (70,610)	—	—	$169,470
(2)	2024	—	—	—	—	—	—
	2023	—	—	—	—	—	—
	2022	—	—	$ (34,219)	$565,943	—	$531,724
	2021	$533,300	$ 44,773	$ 56,999	—	—	$635,072
	2020	—	—	—	—	—	—
(3)	2024	$387,440	$ (74,515)	$ (37,510)	—	—	$275,415
	2023	$736,651	$(103,855)	$(109,863)	—	—	$522,933
	2022	$560,716	$ 13,096	$ (3,897)	—	—	$569,915
	2021	—	—	—	—	—	—
	2020	—	—	—	—	—	—

(c) The amounts included in this column are the amounts reported in the "Change in Pension Value and Nonqualified Deferred Compensation Earnings" column of the "Summary Compensation Table" for the applicable year.

(d) The total "pension benefit adjustments" for each applicable year include the aggregate of two components: (i) the actuarially determined pension service cost for services rendered by the CEOs during the applicable year (the "SERP service cost") and (ii) the entire cost of benefits granted in a plan amendment (or initiation) during the applicable year that are attributed by the benefit formula to services rendered in periods prior to the plan amendment or initiation (the "SERP Prior Service Cost"), in each case, calculated in accordance with U.S. GAAP. The amounts included in this column is the SERP service cost for services rendered by Mr. Jones during 2022, 2023 and 2024.

(e) The amounts in this column reflect the fair value of awards forfeited by Mr. Wilton when he retired from the Company on March 12, 2021. The Fair value of forfeited awards are determined at the end of the prior year for awards made in prior fiscal years that were forfeited during the current fiscal year.

(5) The dollar amounts reported in column (h) represent the average of the amounts reported for the Company's NEOs as a group (excluding the CEOs) in the "Total" column of the "Summary Compensation Table" for 2024, 2023, 2022, 2021 and 2020. The names of the NEOs for each applicable year are as follows:

Year	Other NEOs	Position
2024	Susan Just	Executive Vice President & Chief Credit Officer of Heritage Bank of Commerce
	Lawrence D. McGovern	Former Executive Vice President & Chief Financial Officer
	Deborah K. Reuter	Executive Vice President & Chief Risk Officer and Corporate Secretary
	Thomas A. Sa	Executive Vice President, Chief Operating Officer & Interim Chief Financial Officer
	Dustin M. Warford	Executive Vice President, Chief Banking Officer of Heritage Bank of Commerce
2023	Margo G. Butsch	Executive Vice President & Chief Credit Officer of Heritage Bank of Commerce
	Janice Y. Coonley	Executive Vice President & Chief People and Diversity Officer of Heritage Bank of Commerce
	Lawrence D. McGovern	Executive Vice President & Chief Financial Officer
	Deborah K. Reuter	Executive Vice President & Chief Risk Officer and Corporate Secretary
	Glen E. Shu	Executive Vice President, President of Specialty Finance Group of Heritage Bank of Commerce and President of Bay View Funding
2022	Margo G. Butsch	Executive Vice President & Chief Credit Officer of Heritage Bank of Commerce
	Janice Y. Coonley	Executive Vice President & Chief People and Diversity Officer of Heritage Bank of Commerce
	Lawrence D. McGovern	Executive Vice President & Chief Financial Officer
	Deborah K. Reuter	Executive Vice President & Chief Risk Officer and Corporate Secretary
2021	Michael E. Benito	Executive Vice President /Business Banking Manager of Heritage Bank of Commerce
	Margo G. Butsch	Executive Vice President & Chief Credit Officer of Heritage Bank of Commerce
	Robertson Clay Jones	President and Chief Operating Officer of Heritage Bank of Commerce
	Lawrence D. McGovern	Executive Vice President & Chief Financial Officer
2020	Michael E. Benito	Executive Vice President /Business Banking Manager of Heritage Bank of Commerce
	Margo G. Butsch	Executive Vice President & Chief Credit Officer of Heritage Bank of Commerce
	Robertson Clay Jones	Executive Vice President & President of Community Business Bank Group of Heritage Bank of Commerce
	Lawrence D. McGovern	Executive Vice President & Chief Financial Officer

(6) The dollar amounts reported in column (i) represent the average amount of "compensation actually paid" to the NEOs as a group (excluding the CEOs) as computed in accordance with Item 402(v) of SEC Regulation S-K. The names of the NEOs (excluding the CEOs) included for the purposes of calculating the average amounts in each applicable year are the same as the table noted in footnote (5) above. The dollar amounts reported do not reflect the actual average amount of compensation earned by or paid to the NEOs as a group (excluding the CEOs) during the applicable year. In accordance with the requirements of Item 402(v) of SEC Regulation S-K, the following adjustments were made to average total compensation for the NEOs as a group (excluding the CEOs) for each year to determine the compensation actually paid, using the same methodology described above in footnote (4).

Year	Average Reported Summary Compensation Table Total for NEOs	Average Reported Grant Date Fair Value of Equity Awards	Average Equity Award Adjustments[(a)]	Average Reported Change in the Actuarial Present Value of Pension Benefits	Average Pension Benefit Adjustments[(b)]	Average Fair Value of Awards Forfeited	Average Compensation Actually Paid to NEOs
2024	$709,298	$(270,685)	$150,881	$ (3,780)	—	—	$585,714
2023	$703,591	$(163,198)	$160,957	$ (36,020)	—	—	$665,330
2022	$622,794	$(151,996)	$179,681	—	—	—	$650,479
2021	$753,751	$(162,275)	$232,544	$ (21,925)	$36,919	—	$839,014
2020	$785,615	$(115,964)	$ 42,875	$(190,950)	$67,188	—	$588,764

(a) The amounts deducted or added in calculating the total average equity award adjustments were determined In the same method described in footnote (4)b above and are as follows:

Year	Average Year-End Fair Value of Outstanding and Unvested Equity Awards Granted in Applicable Year	Average Year over Year Change in Fair Value of Outstanding Unvested Equity Awards Granted in Prior Years	Average Year over Year Change in Fair Value of Equity Awards Granted in Prior Years that Vested in the Year	Average Fair Value as of Vesting Date of Equity Awards Granted and Vested in the Year	Average Dollar Value of Dividends or Other Earnings Paid on Equity Awards not Otherwise Reflected in Fair Value or Total Compensation	Total Average Equity Award Adjustments
2024	$179,742	$(16,528)	$(12,333)	—	—	$150,881
2023	$257,703	$(37,755)	$(58,991)	—	—	$160,957
2022	$177,057	$ 10,798	$ (8,174)	—	—	$179,681
2021	$160,262	$ 40,836	$ 31,446	—	—	$232,544
2020	$115,443	$(40,684)	$(31,884)	—	—	$ 42,875

(b) The amounts added in calculating the total average pension benefit adjustments are as follows:

Year	Average Pension Service Cost	Average SERP Prior Service Cost	Average SERP Service Cost	Total Average Pension Benefit Adjustments
2024	—	—	—	—
2023	—	—	—	—
2022	—	—	—	—
2021	—	—	$36,919	$36,919
2020	—	$36,244	$30,944	$67,188

(7) Represents the cumulative five-year total return to shareholders of our common stock and assumes that the value of the investment was $100 on December 31, 2019 and that the subsequent dividends were reinvested. The stock price performance included in this column is not necessarily indicative of future stock price performance.

(8) Represents a cumulative five-year total return to shareholders of a peer group. The peer group used is the "KBW NASDAQ Bank Index" as listed under Item 5 of our Annual Report on Form 10-K for the years ended December 31, 2020, 2021, 2022, 2023 and 2024, respectively.

(9) The dollar amounts reported represent the amount of net income (in thousands) reflected in the Company's audited consolidated financial statements for the applicable year.

(10) Pre-tax income has been chosen as a "Selected Performance Measure." While the Company uses numerous financial and non-financial performance measures for the purpose of evaluating performance for the Company's compensation programs, the Company has determined that Pre-tax income is the financial performance measure that, in the Company's assessment, represents the most important performance measure (that is not otherwise required to be disclosed in this table) used by the Company to link compensation actually paid to the Company's NEOs for the most recently completed fiscal year, to the Company's performance.

Financial Performance Measures

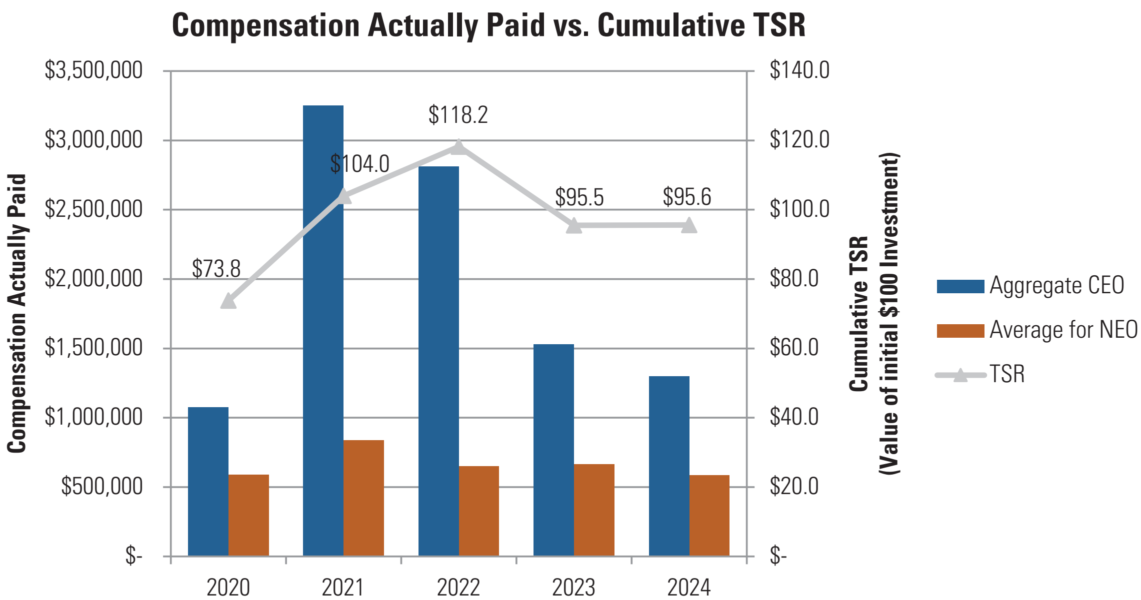
As described in greater detail in the section captioned "**Executive Compensation—Compensation Discussion and Analysis**" The Company's executive compensation program includes variable components in the form of annual incentive compensation and long-term incentive awards. The metrics that the Company uses for both annual incentive compensation and long-term incentive awards are selected based on an objective of incentivizing our CEO and NEOs (excluding the CEO) to increase shareholder value. The metrics are also correlated with the Company's strategic plan as approved each year by the Board. Changes in shareholder value are reflected in compensation actually paid above through the fair value of the Company's equity awards. Compensation actually paid for 2021 reflects an increase in the fair value of these equity awards as a result of an increase in the Company's common share price from $8.87 at December 31, 2020 to $11.94 at December 31, 2021. Compensation actually paid for 2022 reflects an increase in the fair value of these equity awards as a result of an increase in the Company's common share price from $11.94 at December 31, 2021 to $13.00 at December 31, 2022. Compensation actually paid for 2023 reflects a decrease in the fair value of these equity awards as a result of a decrease in the Company's common share price from $13.00 at December 31, 2022 to $9.92 at December 31, 2023, partially offset by an increase in the estimated vesting percentile. Compensation actually paid for 2024 reflects a decrease in the fair value of these equity awards primarily as a result of the decrease in the estimated vesting percentile and also partially as a result of a decrease in the Company's common share price from $9.92 at December 31, 2023 to $9.38 at December 31, 2024. The most important financial performance measures used by the Company to link executive compensation actually paid to the CEO and other NEOs (excluding the CEO) for the most recently completed fiscal year, to the Company's performance are as follows:

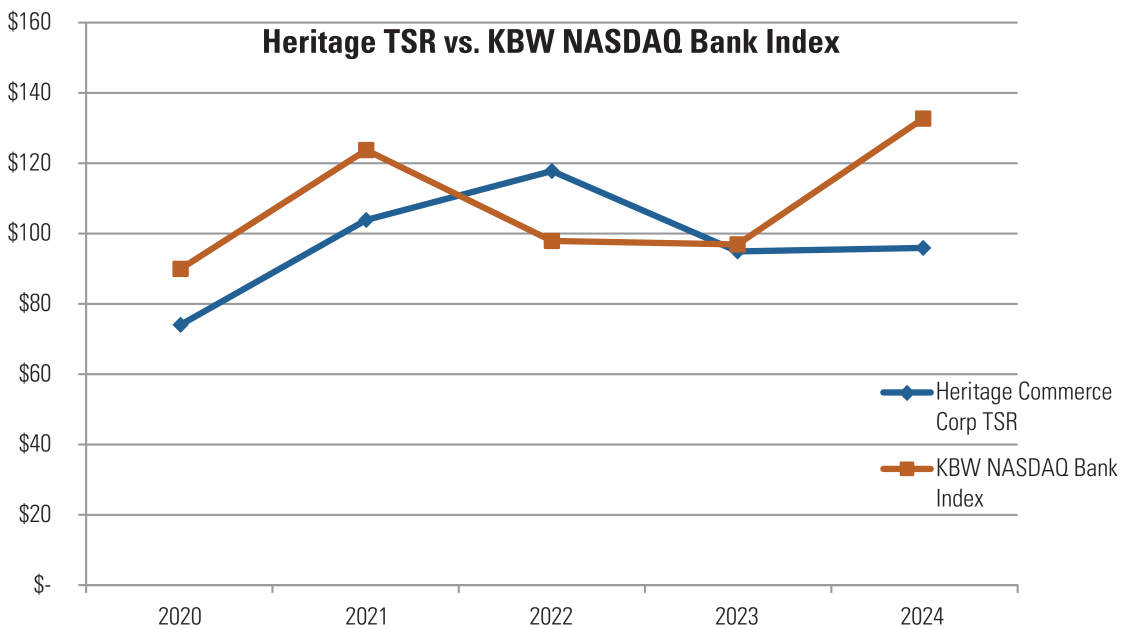
- Pre-tax Income
- Nonperforming Assets
- Loan Growth
- Deposit Growth

Analysis of the Information Presented in the Pay Versus Performance Table

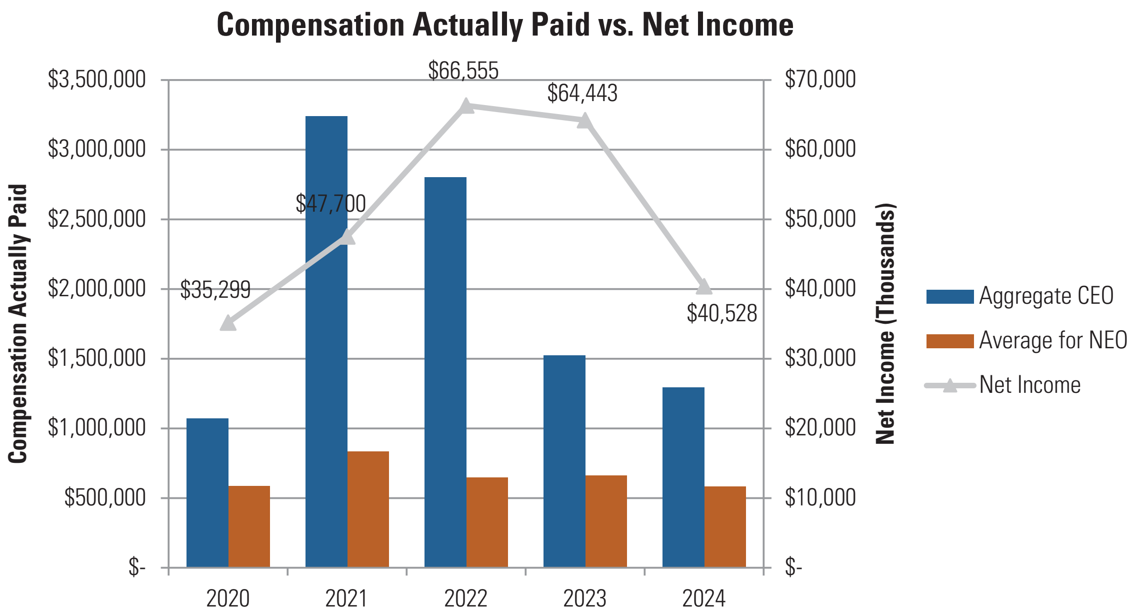
As described in more detail in the section captioned "**Executive Compensation—Compensation Discussion and Analysis**" the Company's executive compensation program includes variable components in the form of annual incentive compensation and long-term incentive awards. While the Company utilizes several performance measures to align executive compensation with performance, all of those measures are not presented in the "**Pay Versus Performance Table for 2024**." Moreover, the Company generally seeks to incentivize long-term performance and, therefore, does not specifically align the Company's performance measures with compensation actually paid (as computed in accordance with Item 402(v) of SEC Regulation S-K) for a particular year. In accordance with Item 402(v) of SEC Regulation S-K, the Company is providing the following descriptions of the relationships between information presented in the "**Pay Versus Performance Table for 2024**."

The following graphs show the relationship between the average of the compensation actually paid to our NEOs and the compensation actually paid to our CEOs (compensation actually paid is aggregated by year) to our total shareholder return, net income and pre-tax income, and the relationship between our cumulative total shareholder return and the cumulative total shareholder return of the peer group, each over the five fiscal years ending December 31, 2024 as reported in the table above.

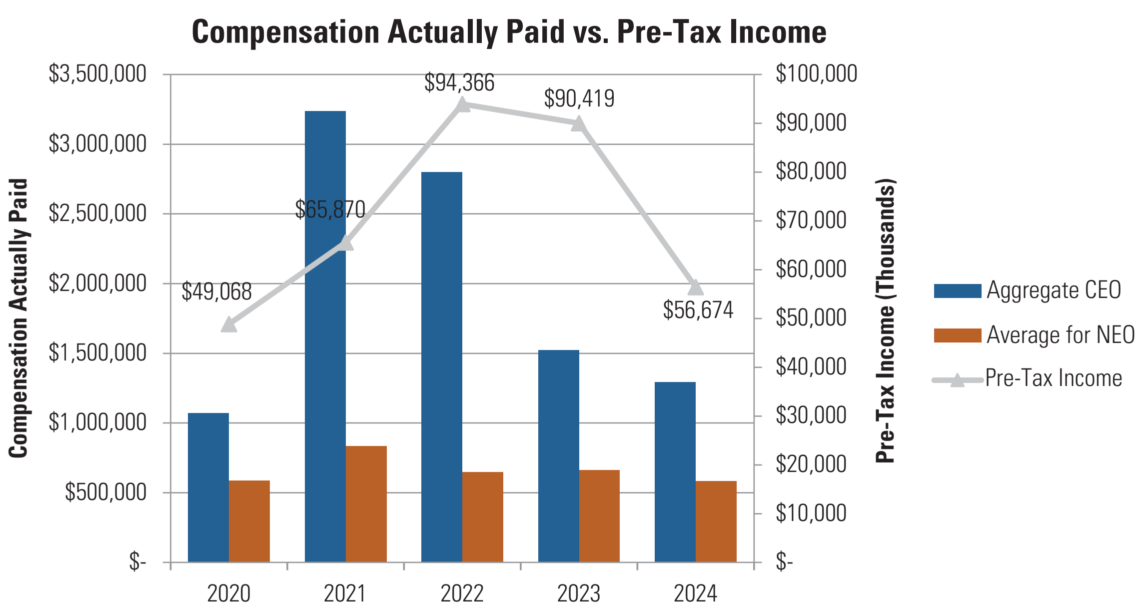




Though, the Company does not use net income as a performance measure in the overall executive compensation program, the measure of net income is correlated with the measure of pre-tax income which is a measure used in the overall executive compensation program.



The Company uses pre-tax income as one of the performance measures in the overall executive compensation program including equity awards.



Executive Contracts

Robertson Clay Jones—On September 15, 2022, the Company and Heritage Bank of Commerce entered into a new employment agreement with Mr. Jones at the time when he assumed his new position as President and Chief Executive Officer of the Company and Heritage Bank of Commerce. The employment agreement is for one year and is automatically renewed for one year terms. Under the agreement, Mr. Jones received an annual salary of $673,014 for 2024. Mr. Jones is entitled to annual increases as determined by the Personnel and Compensation Committee in connection with his annual review. Mr. Jones also is entitled to participate in the Executive Officer Cash Incentive Program and in the Company's 401(k) plan, under which he may receive matching contributions up to $3,000. The Company provides Mr. Jones, at no cost to him, group life, health, accident and disability insurance coverage for himself and his dependents. Mr. Jones also receives Company-paid life insurance coverage in the amount of $700,000. The Company will reimburse Mr. Jones for up to $1,200 for tax consultation and tax return preparation. He is also reimbursed for expenses that exceed insurance coverage for an annual physical examination, certain long-term care policy expenses, monthly dues for one country club membership and one social club membership. He receives an automobile allowance in the amount of $1,000 per month, together with reimbursements for gasoline and maintenance expenditures. Under his employment agreement, Mr. Jones is entitled to certain severance benefits on termination of his employment, including a change of control. See "Change of Control Arrangements and Termination of Employment."

Susan Just—On February 1, 2024, the Company entered into an amended and restated employment agreement with Susan Just. The employment agreement was for a one-year initial term based on the effective date of her original employment agreement, September 7, 2023, after which her employment became at-will. Under the agreement, Ms. Just received an annual salary of $352,580 for 2024, with annual increases as determined by the Company's Chief Executive Officer and the Personnel and Compensation Committee based upon her annual performance review. In addition to her salary, she was eligible to participate in the Executive Officer Cash Incentive Program. Ms. Just participates in the Company's 401(k) plan, under which she receives matching contributions up to $3,000, and in the Company's Employee Stock Ownership Plan. The Company provides to Ms. Just, at no cost to her, group life, health, accident and disability insurance coverage for herself and her dependents. Ms. Just also receives an automobile allowance in the amount of $500 per month. Ms. Just was provided with life insurance coverage in the amount of two times her salary not to exceed $700,000. She was also provided with long term care insurance, with a lifetime benefit of up to $72,000. Under her employment agreement, Ms. Just is entitled to certain severance benefits on termination of her employment, including a change of control. See "Change of Control Arrangements and Termination of Employment."

Lawrence D. McGovern—On July 1, 2011, the Company entered into an employment agreement with Lawrence D. McGovern. Mr. McGovern's employment agreement had an initial term of one year and provided for automatic one-year extensions. The agreement provided for annual increases in compensation as determined by the Chief Executive Officer and the Compensation Committee based upon his annual performance review, and he received an annual salary for 2024 of $431,268. He was also entitled to participate in the Executive Officer Cash Incentive Program, although because he did not serve as CFO as of December 31, 2024, he received no awards under that program for that fiscal year. Mr. McGovern also participated in the Company's 401(k) plan, under which he could receive matching contributions up to $3,000, and in the Company's Employee Stock Ownership Plan. Mr. McGovern also received certain other perquisites summarized in the Summary Compensation Table at page 47, and upon his termination he received a one-time payment of COBRA benefits in the amount of $95,000. Mr. McGovern served as Chief Financial Officer until November 18, 2024, after which he remained with the Company in an advisory capacity until his departure on February 14, 2025. The Company has no additional obligations under Mr. McGovern's employment agreement, although he is entitled to certain benefits under the SERP program described at page 60.

Deborah K. Reuter—On March 23, 2023, the Company entered into an employment agreement with Deborah K. Reuter, which became effective on April 1, 2023. The employment agreement is for one year and is automatically renewed for one year terms. Under the agreement, Ms. Reuter received an annual salary of $361,286 for 2024 with annual increases as determined by the Company's Chief Executive Officer and the Personnel and Compensation Committee based upon her annual review. In addition to her salary, she is eligible to participate in the Executive Officer Cash Incentive Program. Ms. Reuter also participates in the Company's 401(k) plan, under which she may receive matching contributions up to $3,000. The Company provides to Ms. Reuter, at no cost to her, group life, health, accident and disability insurance coverage for herself and her dependents. Ms. Reuter receives an automobile allowance in the amount of $700 per month, as well as Company-paid life insurance coverage in the amount of two times her salary not to exceed $700,000. She is also provided with long term care insurance, with a lifetime benefit of up to $72,000. Under her employment agreement, Ms. Reuter is entitled to certain severance benefits on termination of her employment, including a change of control. See "Change of Control Arrangements and Termination of Employment."

Thomas A. Sa—On September 26, 2024, the Company entered into an at-will employment agreement with Thomas A. Sa. Under the agreement, Mr. Sa receives an initial annual salary of $475,000 with annual increases as determined by the Company's Chief Executive Officer and the Personnel and Compensation Committee in connection with his annual review. In addition to his salary, he is eligible to participate in the Executive Officer Cash Incentive Program. Mr. Sa participates in the Company's 401(k) plan, under which he may receive matching contributions up to $3,000. The Company provides to Mr. Sa, at no cost to him, group life, health, accident and disability insurance coverage for himself and his dependents. Mr. Sa receives an automobile allowance in the amount of $750 per month, as well as Company-paid life insurance coverage in the amount of two times his salary not to exceed $700,000. He is also provided with long term care insurance, with a lifetime benefit of up to $72,000. At the time the employment agreement was entered into, Mr. Sa was awarded restricted stock units with a value of $400,000 that vests over three years. Under his employment agreement, Mr. Sa is entitled to certain severance benefits on termination of his employment, including a change of control. See "Change of Control Arrangements and Termination of Employment."

Dustin M. Warford—On February 1, 2024, the Company entered into an employment agreement with Dustin M. Warford. Under the agreement, Mr. Warford receives an initial annual salary of $362,070 with annual increases as determined by the Company's Chief Executive Officer and the Personnel and Compensation Committee in connection with his annual review. In addition to his salary, he is eligible to participate in the Executive Officer Cash Incentive Program. Mr. Warford participates in the Company's 401(k) plan, under which he may receive matching contributions up to $3,000. The Company provides to Mr. Warford, at no cost to him, group life, health, accident and disability insurance coverage for himself and his dependents. Mr. Warford receives an automobile allowance in the amount of $800 per month. Mr. Warford is provided with life insurance coverage in the amount of two times his salary not to exceed $700,000. He is also provided with long term care insurance, with a lifetime benefit of up to $72,000. Under his employment agreement, Mr. Warford is entitled to certain severance benefits on termination of his employment, including a change of control. See "Change of Control Arrangements and Termination of Employment."

Plan Based Awards

Equity Based Plans. In 2013, the Board approved the Heritage Commerce Corp 2013 Equity Incentive Plan ("2013 Equity Plan") to replace its previous 2004 Equity Plan. The 2013 Equity Plan was approved by the Company's shareholders at the 2013 Annual Meeting. At the 2020 Annual Meeting the shareholders approved an amendment to the 2013 Equity Plan to increase the number of shares authorized under the 2013 Equity Plan from 3,000,000 to 5,000,000.

In 2023, the Board of Directors approved the 2023 Equity Incentive Plan ("2023 Equity Plan") to replace the 2013 Equity Plan which expired by its terms in 2023. The 2023 Equity Plan was approved by the Company's shareholders at the 2023 Annual Meeting. The purpose of the 2023 Equity Plan is to promote the long-term success of the Company and the creation of shareholder value. The Board believes that the availability of stock awards is a key factor in the ability of the Company to attract and retain qualified individuals to serve as directors, officers and employees. Under the 2023 Equity Plan incentives are provided through the grant of stock options, restricted stock, RSUs and PRSUs awards.

In connection with its acquisition of Presidio Bank in October 2019, the Company assumed the Presidio Bank Amended and Restated 2006 Stock Option Plan and the Presidio Bank 2016 Equity Incentive Plan (collectively the "Presidio Equity Plans") and the options issued and outstanding at the time of the acquisition. The issued and outstanding options were exchanged for options to acquire an aggregate of 1,176,757 shares of the Company's common stock at an adjusted weighted average exercise price of $5.05.

Executive Officer Cash Incentive Program. On September 21, 2023, the Board granted the Committee full authority over the administration and decisions outlined in the Executive Officer Cash Incentive Plan, which governs the Executive Officer Cash Incentive Program, and which is reviewed and updated annually. Under the Executive Officer Cash Incentive Program executives are eligible for target bonuses which are expressed as a percentage of their respective base salaries which increase as the level of performance of established goals increases. The bonuses are tied directly to the satisfaction of overall Company performance and qualitative objectives for the year. See "Compensation Discussion and Analysis—Executive Officer Cash Incentive Program."

The following table provides information on the potential performance-based awards available if defined performance objectives were achieved in 2024 for each of the Company's named executive officers under the Company's Executive Officer Cash Incentive Plan, and stock units or other stock awards granted to the named executive officers for the year ended December 31, 2024:

Grants of Plan-Based Awards

Name (a)	Grant Date (b)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards[1] Threshold (c)	Target (d)	Maximum (e)	Estimated Future Payouts Under Equity Incentive Plan Awards Threshold (f)	Target (g)	Maximum (h)	All Other Stock Awards: Number of Shares of Stock or Units (#)(i)[2]	All Other Option Awards: Number of Securities Underlying Options (#)(i)	Exercise or Base Price of Option Awards ($/Sh) (k)[1][3]	Grant Date Fair Value of Stock And Options Awards (l)[1]
Robertson Clay Jones	5/2/2024	—	—	—	—	—	—	678	—	—	$ 5,566
	3/8/2024	—	—	—	—	—	—	39,635	—	—	$336,501
	3/8/2024	—	—	—	—	—	—	39,636	—	—	$336,510
	2/29/2024	$252,380	$504,761	$757,141	—	—	—	—	—	—	—
Susan Just	3/8/2024	—	—	—	—	—	—	12,458	—	—	$105,768
	3/8/2024	—	—	—	—	—	—	12,459	—	—	$105,777
	2/29/2024	$ 79,331	$158,661	$237,991	—	—	—	—	—	—	—
Lawrence D. McGovern*	5/2/2024	—	—	—	—	—	—	301	—	—	$ 2,471
	3/8/2024	—	—	—	—	—	—	17,778	—	—	$150,935
	3/8/2024	—	—	—	—	—	—	17,779	—	—	$150,944
	2/29/2024	$107,817	$215,634	$323,451	—	—	—	—	—	—	—
Deborah K. Reuter	5/2/2024	—	—	—	—	—	—	226	—	—	$ 1,855
	3/8/2024	—	—	—	—	—	—	12,766	—	—	$108,383
	3/8/2024	—	—	—	—	—	—	12,766	—	—	$108,383
	2/29/2024	$ 81,289	$162,579	$243,868	—	—	—	—	—	—	—
Thomas A. Sa	11/18/2024	—	—	—	—	—	—	37,664	—	—	$399,992
	5/31/2024	$118,750	$237,500	$356,250	—	—	—	—	—	—	—
Dustin M. Warford	5/2/2024	—	—	—	—	—	—	205	—	—	$ 1,683
	3/8/2024	—	—	—	—	—	—	12,793	—	—	$108,613
	3/8/2024	—	—	—	—	—	—	12,794	—	—	$108,621
	2/29/2024	$ 81,466	$162,932	$244,397	—	—	—	—	—	—	—

* Mr. McGovern served as the Executive Vice President and Chief Financial Officer until November 18, 2024, after which he continued to serve in an advisory role until his departure on February 14, 2025.

(1) These potential performance based awards were established under the Executive Officer Cash Incentive Program if the indicated level of performance was achieved in 2024 as described further in the "Compensation and Discussion Analysis—Executive Officer Cash Incentive Program" and in the discussion under "Plan Based Awards—Executive Officer Cash Incentive Program." They do not represent the actual payments made to the named executive officers. The payments made for actual performance in 2024 are reflected in column (g) in the Summary Compensation Table.

(2) This column reflects restricted stock, RSUs and PRSUs awards granted in 2024 pursuant to the 2023 Equity Plan.

(3) The amounts shown in column (l) reflect the applicable full grant date fair values for restricted stock award in accordance with ASC 718 (excluding the effect of forfeitures), and are reported for the fiscal year during which the restricted stock awards were issued. The assumptions used in calculating the valuation for stock and options awards may be found in Note 12 to the Company's consolidated financial statements for the year ended December 31, 2024, included in the Company's Annual Report on Form 10-K, filed with the SEC on March 10, 2025.

Grants of Certain Equity Awards Close in Time to the Release of Material Nonpublic Information

We do not grant stock options or similar equity awards in anticipation of the release of material nonpublic information, such as a significant positive or negative earnings announcement, and do not time the public release of such information based on grant dates. Additionally, we do not grant stock options or similar equity awards during periods in which there is material nonpublic information about the Company or Bank, including (i) during our "blackout" periods or outside "trading windows" established under our Insider Trading Policy or (ii) at any time between four business days prior to or one business day following the filing of our periodic reports or a Form 8-K that discloses material nonpublic information. These restrictions do not apply to RSUs or other types of equity awards that do not include an exercise price related to the market price of our common stock.

Our executive officers are not permitted to choose the grant date for their grants. The Company's practice is to approve annual equity awards to eligible recipients, including our NEOs, on a pre-determined date in March of each year, with the exception of grants related to new hires or other off-cycle awards. The grants are effective on the date on which they are approved (or on the next trading day following such date if it is not a trading day).

In accordance with our policy, during the 2024 fiscal year, none of our NEOs were awarded options with an effective grant date during any period beginning four business days before the filing or furnishing of a Form 10-Q, Form 10-K, or Form 8-K that disclosed material nonpublic information (other than a Form 8-K that disclosed a material new option award grant under Item 5.02(e)), and ending one business day after the filing or furnishing of such reports.

Equity Compensation Plan Information

The following table shows the number and weighted average exercise price of securities to be issued upon exercise of outstanding options, warrants and rights, and the number of securities remaining available for future issuance under equity compensation plans at December 31, 2024:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	2,222,496(1)	$10.73	900,292(2)
Equity compensation plans not approved by security holders	N/A	N/A	N/A

(1) Consists of 20,000 options to acquire shares under the Company's 2023 Equity Plan, 1,976,873 options to acquire shares under the Company's 2013 Equity Plan, and the aggregate amount of 225,623 stock options assumed under the Presidio Plans.

(2) Available under the Company's 2023 Equity Plan.

Outstanding Equity Awards

The following table shows the number of Company shares of common stock covered by exercisable and unexercisable stock options and the number of Company unvested shares of restricted common stock held by the Company's named executive officers as of December 31, 2024:

Outstanding Equity Awards at Year End

Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)(d)	Options Exercise Price ($)(e)	Options Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#)(g)[(1)]	Market Value of Shares or Units of Stock That Have Not Vested (h)[(2)]	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (j)
Robertson Clay Jones	49,399[(3)]	—	—	$10.74	7/1/2028	14,378	134,866	—	—
	—	—	—	—	—	64,591	605,864	—	—
	—	—	—	—	—	76,229	715,028	—	—
Susan Just	—	—	—	—	—	5,334	50,033	—	—
	—	—	—	—	—	12,982	121,771	—	—
	—	—	—	—	—	12,981	121,762	—	—
Lawrence D. McGovern*	—	—	—	—	—	5,556	52,115	—	—
	—	—	—	—	—	28,905	271,129	—	—
	—	—	—	—	—	34,092	319,783	—	—
Deborah K. Reuter	—	—	—	—	—	4,338	40,690	—	—
	—	—	—	—	—	21,128	198,181	—	—
	—	—	—	—	—	25,037	234,847	—	—
Thomas A. Sa	—	—	—	—	—	37,664	353,288	—	—
Dustin M. Warford	11,000	1,000	—	$12.09	4/27/2031	3,083	28,909	—	—
	10,000	—	—	$ 8.91	4/28/2030	20,414	191,483	—	—
	10,000	—	—	$12.16	5/22/2029	23,953	224,679	—	—
	10,000	—	—	$16.80	5/1/2028	—	—	—	—
	10,000	—	—	$14.48	5/2/2027	—	—	—	—

* Mr. McGovern served as the Executive Vice President and Chief Financial Officer until November 18, 2024, after which his served in an advisory role until his departure on February 14, 2025.

(1) This column represents the unvested shares for restricted stock, RSU and PRSU awards granted. Restricted stock awards vest 33% per year from the date of grant for the 2021 and 2022 awards. RSUs vest 33% per year from the date of the grant for the 2024 grant. PRSUs are subject to cliff vesting after a three year performance period commencing in the initial year of the grant. The earned PRSUs, if any, shall vest on the date on which the Board certifies whether and to what extent the performance goal has been achieved following the end of the performance period.

(2) The market value of the shares of restricted stock that have not vested is calculated by multiplying the number of shares of stock that have not vested by the closing price of our common stock at December 31, 2024, as reported on The Nasdaq Global Select Market, which was $9.38.

(3) Stock options granted by Presidio Bank under the Presidio Plans which the Company assumed at the effective time of the acquisition of Presidio Bank. The options were adjusted to reflect the acquisition exchange ratio. The options are fully vested.

Option Exercises and Vested Stock Awards

The following table sets forth information with regard to the exercise and vesting of stock options and vesting of shares of restricted stock for the year ended December 31, 2024, for each of the named executive officers:

Option Exercises and Stock Vested

	Option Awards		Stock Awards	
Name (a)	Number of Shares Acquired on Exercise (#)(b)	Value Realized upon Exercise (c)	Number of Shares Acquired on Vesting (#)(d)	Value Realized on Vesting (e)[(1)]
Robertson Clay Jones	31,750	—	30,512	$265,169
Susan Just	—	—	2,666	$ 25,807
Lawrence D. McGovern*	—	—	10,926	$128,147
Deborah K. Reuter	—	—	12,050	$ 98,967
Thomas A. Sa	—	—	—	—
Dustin M. Warford	—	—	6,478	$ 53,801

* Mr. McGovern served as the Executive Vice President and Chief Financial Officer until November 18, 2024, after which his served in an advisory role until his departure on February 14, 2025.

(1) The number of vested shares reflects the gross amount of shares, without netting any shares surrendered to pay taxes. The aggregate dollar amount realized upon vesting was calculated by multiplying the number of shares by the fair market value on the vesting date.

401(k) Plan

The Company has established a broad based employee benefit plan under Section 401(k) of the Internal Revenue Code of 1986 ("401(k) Plan"). The purpose of the 401(k) Plan is to encourage employees to save for retirement. Eligible employees may make contributions to the plan subject to the limitations of Section 401(k). The 401(k) Plan trustees administer the 401(k) Plan. The Company matched up to $3,000 of each employee's contributions in 2024. The 401(k) Plan allows highly compensated employees to contribute up to a maximum percentage of their base salary, up to the limits imposed by the Internal Revenue Code, on a pre-tax basis. Participants choose to invest their account balances from an array of investment options as selected by plan fiduciaries. The 401(k) Plan is designed to provide for distributions in a lump sum after termination of service. However, loans and in service distributions under certain circumstances such as hardship, attainment of age 59 1/2, or a disability are permitted. For named executive officers, these amounts are included in the Summary Compensation Table under "All Other Compensation."

Employee Stock Ownership Plan

In 1997, Heritage Bank of Commerce initiated a broad based employee stock ownership plan ("Stock Ownership Plan"). The Stock Ownership Plan was subsequently adopted by the Company as the successor corporation to Heritage Bank of Commerce. The Stock Ownership Plan allows the Company, at its option, to purchase shares of the Company common stock on the open market. To be eligible to receive an award of shares under the Stock Ownership Plan, an employee must have worked at least 1,000 hours during the year and must be employed by the Company on December 31. The executive officers have the same eligibility to receive awards as other employees of the Company. Awards under the Stock Ownership Plan generally vest over four years. In addition, the value of a participant's account becomes fully vested upon reaching the age of 65 or termination of employment by death or disability. Since 2010, the Company has suspended contributions to the Stock Ownership Plan. The Stock Ownership Plan was "frozen" as of January 1, 2019. The amounts of contributions to the Stock Ownership Plan for named executive officers are included in the Summary Compensation Table in the column entitled "All Other Compensation."

Supplemental Retirement Plan for Executive Officers

The Company has established the 2005 Amended and Restated Supplemental Executive Retirement Plan (the "SERP") covering key employees, including several of the named executive officers. The SERP is a nonqualified defined benefit plan and is unsecured and unfunded and there are no plan assets. When the Company offers key executives participation in the SERP, the supplemental retirement benefit awarded is based on the individual's position within the Company and a vesting schedule determined by the desirability of incentivizing the retention element of the program. Normally the participant is 100% vested in his or her benefit at retirement, upon termination within two years from a change in control, or upon disability. However, the participant's vested benefit is reduced for payment prior to retirement age in accordance with the SERP terms, should that be selected by the participant.

The Company has reduced its use of the SERP as a program to attract and retain executives and key employees. Other than the inclusion of the Chief Executive Officer as a result of the Presidio acquisition in 2019, it has been more than nine years since the Company has offered SERP benefits to new executives and key employees.

Normal Retirement. A participant whose employment terminates after normal retirement (as defined in the SERP) will receive 100% of his or her supplemental retirement benefit, payable monthly, commencing on the first of the month following retirement (unless selected otherwise by the participant and except executive officers who receive their benefit six months after retirement) and continuing until the death of the participant (unless the joint survivor option is selected).

Early Retirement. In order to be eligible for early retirement benefits, the SERP requires the participant to terminate employment (for reasons other than for cause or within two years from a change of control) after the date that the participant is at least 55 years old but prior to normal retirement as defined in the participant's participation agreement. The participant will then receive the portion of the supplemental retirement benefit that has vested as of the actual early retirement date. However, for each year (or partial year) before normal retirement age the participant receives an early retirement benefit, the vested benefit is reduced by five percent. Unless otherwise selected by the participant, the early retirement benefit will be paid monthly, with payments to commence on the first day of the month following the participant's separation from service (except executive officers who receive their benefit six months from retirement) and continuing until the death of the participant (unless the joint survivor option is selected).

Termination before Early Retirement. If a participant's employment is terminated without cause or the participant resigns, the participant shall be eligible to receive the portion of the supplemental retirement benefit that has vested as of the effective date of termination reduced by 5% for each year (or partial year) that the participant's benefits are paid prior to the participant's normal retirement age. Benefits are payable monthly commencing on the first of the month elected by the participant but not before the participant's early retirement age (except executive officers who receive their benefit six months from retirement), and continuing until the death of the participant (unless the joint survivor option is selected).

Disability. In the event a participant becomes disabled, the participant will receive the actuarial equivalent of his or her supplemental retirement benefit, payable monthly, commencing on the first of the month following determination that the participant is disabled and continuing until the death of the participant.

Cause. If a participant's employment is terminated for cause, the participant forfeits any rights the participant may have under the SERP.

Change of Control. If a participant's employment is terminated for any reason (except cause or after qualifying for normal retirement) within two years following a change of control, the participant will receive 100% of his or her supplemental retirement benefit commencing at the later of the first month following the age selected by the participant or the first month following the participant's separation from service (except executive officers who receive their benefit six months from separation of service), and continuing until the death of the participant (unless the joint survivor option is selected). In the event payments commence prior to the participant's normal retirement age, then the benefit due to the participant will be reduced by 5% for each year (or partial year) that the participant's benefit is paid prior to the participant's normal retirement age.

The Company has purchased life insurance contracts on the participants in order to finance the cost of these benefits and it is anticipated that, because of the tax advantaged effect of this life insurance investment, the return on the life insurance contracts will be approximately equal to the accrued benefits to the participants under the SERP, other than in the event of accelerated vesting because of the change of control.

The following table shows the present value of the accumulated benefit payable to each of the named executive officers that participate in the SERP, including the number of service years credited to each named executive officer at December 31, 2024:

Name (a)	Plan Name (b)	Number of Years Credited Service (#)(c)	Present Value of Accumulated Benefit[1][2] ($)(d)	Payments During Last Fiscal Year ($)(e)
Robertson Clay Jones	Heritage Commerce Corp SERP	14	$ 164,500	—
Lawrence D. McGovern*	Heritage Commerce Corp SERP	26	$1,614,800	—
Deborah K. Reuter	Heritage Commerce Corp SERP	31	$1,012,900	—

* Mr. McGovern served as the Executive Vice President and Chief Financial Officer until November 18, 2024, after which his served in an advisory role until his departure on February 14, 2025.

(1) The amounts in column (d) were determined using interest rate and mortality rate assumptions consistent with those used in the Company's consolidated financial statements and include amounts which the named executive officer may not currently be entitled to receive because such amounts are not vested. Assumptions used in the calculation of these amounts are included in Note 13 to the Company's consolidated financial statements for the fiscal year ended December 31, 2024, included in the Company's Annual Report on Form 10-K, filed with the SEC on March 10, 2025.

(2) All SERP agreements are fully vested.

Deferred Compensation Plan

In January 2004, the Company adopted the Heritage Commerce Corp Nonqualified Deferred Compensation Plan for certain executive officers. The purpose of the plan is to offer those employees an opportunity to elect to defer the receipt of compensation in order to provide termination of employment and related benefits taxable pursuant to Section 451 of the Internal Revenue Code of 1986, as amended. The plan is intended to be a "top hat" plan (i.e., an unfunded deferred compensation plan maintained for a select group of management or highly compensated employees) under Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974. The executive may elect to defer up to 100% of any bonus and 50% of any regular salary into the Deferred Compensation Plan. Amounts deferred are invested in a portfolio of approved investment choices as directed by the executive. Under the Deferred Compensation Plan, the Company may make discretionary contributions for the executive, but has not done so. Amounts deferred by executives to the plan will be distributed at a future date they have selected or upon termination of employment. The executive can select a distribution schedule of up to fifteen years.

Change of Control Arrangements and Termination of Employment

Equity Plans. Several of the named executive officers hold options granted under the 2013 Equity Plan. Under these plans, option holders will be given 30 days advance notice of the consummation of a change of control transaction during which time the option holders will have the right to exercise their options, and all outstanding options become immediately vested. The options terminate on the consummation of the change of control. In the event the option holder dies or becomes disabled, the option holder or his or her estate will have 12 months to exercise those options that have vested as of the date of termination of employment from a disability or death.

Equity Awards. Equity awards held by named executive officers are generally subject to vesting requirements. Except for a limited number of options awarded under our 2013 Equity Plan, the terms of these awards provide that the vesting of the award will accelerate upon a change of control of the Company, or the holder's death or disability.

Supplemental Executive Retirement Plan. Several of the named executives are participants in the 2005 Amended and Restated Supplemental Executive Retirement Plan. If a participant's employment is terminated without cause or the participant resigns, the participant shall be eligible to receive the portion of the supplemental retirement benefit that has vested as of the effective date of termination reduced by 5% for each year (or partial year) that the participant's benefits are paid prior to the participant's normal retirement age. Benefits are payable monthly commencing on the first of the month elected by the participant (except executive officers who receive their benefits six months from separation from service), but not before the participant's early retirement age, and continuing until the death of the participant (unless the joint survivor option is selected). In the event a participant becomes disabled, the participant will receive the actuarial equivalent of his or her supplemental retirement benefit, payable monthly, commencing on the first of the month following determination that the participant is disabled and continuing until the death of the participant. If a participant's employment is terminated for cause, the participant forfeits any rights the participant may have under the plan. If a participant's employment is terminated for any reason (except cause or after qualifying for normal retirement) within two years following a change of control, the participant will receive 100% of his or her supplemental retirement benefits commencing at the later of the first month following the age selected by the participant, or the first month following the participant's separation from service (except executive officers who receive their benefits six months from separation from service), and continuing until the death of the participant (unless the joint survivor option is selected). In the event payments commence prior to the participant's normal retirement age, then the benefit due to the participant will be reduced by 5% for each year (or partial year) that the participant's benefit is paid prior to the participant's normal retirement age.

Mr. Jones' Employment Agreement. If Mr. Jones' employment agreement is terminated without cause, he will be entitled to a lump sum payment equal to two times his base salary and his average annual bonus during the last three years. If Mr. Jones' employment is terminated by the Company or he resigns for good reason 120 days before or within two years after a change in control, he will be entitled to a lump sum payment of 2.75 times his base salary and his average annual bonus during the last three years. If Mr. Jones' employment is terminated by the Company without cause, his participation in group insurance coverage will continue on at least the same level as at the time of termination for a period of 12 months from the date of termination. If Mr. Jones' employment is terminated by the Company as a result of a change in control, or he resigns for a good reason as a result of a change in control, these benefits will continue for an additional 24 months from the date of termination. Additionally, following the termination of his employment, Mr. Jones has agreed to refrain from certain activities that would be competitive with the Company within the counties in California in which the Company has located its headquarters or branch offices, including refraining for 12 months from the date of termination from soliciting Company employees or clients.

Ms. Just's Employment Agreement. If Ms. Just's employment is terminated without cause, she will be entitled to a lump sum payment equal to one times her base salary and her average annual bonus during the last three years. If Ms. Just's employment is terminated by the Company or she resigned for good reason 120 days before or within two years after a change in control, she will be entitled to a lump sum payment of two times her base salary and her average annual bonus during the last three years. If Ms. Just's employment is terminated by the Company without cause, her participation in group insurance coverage will continue on at least the same level as at the time of termination for a period of 12 months from the date of termination. If Ms. Just's employment is terminated by the Company as a result of a change in control, or she resigns for a good reason as a result of a change in control, these benefits will continue for an additional 24 months from the date of termination. Additionally, following the termination of her employment, Ms. Just has agreed to refrain from certain activities that would be competitive with the Company within the counties in California in which the Company has located its headquarters or branch offices, including refraining for 12 months from the date of termination from soliciting Company employees or clients.

Mr. Sa's Employment Agreement. If Mr. Sa's employment agreement is terminated without cause, he will be entitled to a lump sum payment equal to one times his base salary and his average annual bonus during the last three years. If Mr. Sa's employment is terminated by the Company or he resigns for good reason 120 days before or within two years after a change in control, he will be entitled to a lump sum payment of two times his base salary and his average annual bonus during the last three years. If Mr. Sa's employment is terminated by the Company without cause, his participation in group insurance coverage will continue on at least the same level as at the time of termination for a period of 12 months from the date of termination. If Mr. Sa's employment is terminated by the Company as a result of a change in control, or he resigns for a good reason as a result of a change in control, these benefits will continue for an additional 24 months from the date of termination. Additionally, following the termination of his employment, Mr. Sa has agreed to refrain from certain activities that would be competitive with the Company within the counties in California in which the Company has located its headquarters or branch offices, including refraining for 12 months from the date of termination from soliciting Company employees or clients.

Mr. McGovern's Employment Agreement. Mr. McGovern served as Executive Vice President and Chief Financial Officer of the Company until November 18, 2024, and he continued in an advisory role until February 14, 2025. Under Mr. McGovern's employment agreement, if Mr. McGovern's employment was terminated without cause, he would be entitled to a lump sum payment equal to one times his base salary, his highest annual bonus in the last three years and his annual automobile allowance. In connection with this agreement the Company paid Mr. McGovern a severance benefit of $661,041 on his separation date. Further, because the employment agreement was terminated by the Company without cause, his participation in group insurance coverage was to continue on at least the same level as at the time of termination for a period of 12 months from the date of termination, as a result of which the Company made a one-time payment of $95,000 upon termination of his employment. Additionally, following the termination of his employment, Mr. McGovern agreed to refrain from certain activities that would be competitive with the Company within the counties in California in which the Company has located its headquarters or branch offices, including refraining for 12 months from the date of termination from soliciting Company employees or clients.

Ms. Reuter's Employment Agreement. If Ms. Reuter's employment agreement is terminated without cause, she will be entitled to a lump sum payment equal to one times her base salary and her average annual bonus during the last three years. If Ms. Reuter's employment is terminated by the Company or she resigns for good reason 120 days before or within two years after a change in control, she will be entitled to a lump sum payment of two times her base salary and her average annual bonus during the last three years. If Ms. Reuter's employment is terminated by the Company without cause, her participation in group insurance coverage will continue on at least the same level as at the time of termination for a period of 12 months from the date of termination. If Ms. Reuter's employment is terminated by the Company as a result of a change in control, or she resigns for a good reason as a result of a change in control, these benefits will continue for an additional 24 months from the date of termination. Additionally, following the termination of her employment, Ms. Reuter has agreed to refrain from certain activities that would be competitive with the Company within the counties in California in which the Company has located its headquarters or branch offices, including refraining for 12 months from the date of termination from soliciting Company employees or clients.

Mr. Warford's Employment Agreement. If Mr. Warford's employment agreement is terminated without cause, he will be entitled to a lump sum payment equal to one times his base salary and his average annual bonus during the last three years. If Mr. Warford's employment is terminated by the Company or he resigns for good reason 120 days before or within two years after a change in control, he will be entitled to a lump sum payment of two times his base salary and his average annual bonus during the last three years. If Mr. Warford's employment is terminated by the Company without cause, his participation in group insurance coverage will continue on at least the same level as at the time of termination for a period of 12 months from the date of termination. If Mr. Warford's employment is terminated by the Company as a result of a change in control, or he resigns for a good reason as a result of a change in control, these benefits will continue for an additional 24 months from the date of termination. Additionally, following the termination of his employment, Mr. Warford has agreed to refrain from certain activities that would be competitive with the Company within the counties in California in which the Company has located its headquarters or branch offices, including refraining for 12 months from the date of termination from soliciting Company employees or clients.

The following tables summarize the payments which would be payable to our named executive officers in the event of various termination scenarios as of December 31, 2024. This information is for illustrative purposes only. Regardless of the manner in which a named executive's employment terminates, the officer would be entitled to: (i) the vested portion of any stock option or restricted stock, and (ii) the vested portion of the officer's benefit under the SERP.

	Change in Control	Involuntary Termination Without Cause	Termination for Good Reason	Death	Disability
Robertson Clay Jones					
Cash severance under employment agreement	$ 2,557,219	$ 1,859,795	$ 1,859,795	$ —	$ —
Health insurance premiums	116,196	58,098	58,098	—	—
Life insurance benefits	—	—	—	700,000	180,000[(1)]
Long-term care insurance benefits	—	—	—	—	72,000
Split-dollar death benefits (upon death)	—	—	—	1,190,270	—
Unvested restricted stock awards, RSU and PRSU (accelerated)	1,455,757	—	—	1,455,757	1,455,757
Outplacement services	5,000	—	—	—	—
Total:	**$4,134,172**	**$1,917,893**	**$1,917,893**	**$3,346,027**	**$1,707,757**
Susan Just					
Cash severance under employment agreement	$ 785,262	$ 432,682	$ —	$ —	$ —
Health insurance premiums	82,364	41,182	—	—	—
Life insurance benefits	—	—	—	700,000	180,000[(1)]
Long-term care insurance benefits	—	—	—	—	72,000
Unvested restricted stock awards, RSU and PRSU (accelerated)	293,566	—	—	293,566	293,566
Total:	**$1,161,192**	**$ 473,864**	**$ —**	**$ 993,566**	**$ 545,566**
Lawrence D. McGovern[(2)]					
Cash severance under employment agreement	$ 1,305,802	$ 652,901	$ —	$ —	$ —
Health insurance premiums	82,364	41,182	—	—	—
Life insurance benefits	—	—	—	700,000	180,000[(1)]
Long-term care insurance benefits	—	—	—	—	72,000
Split-dollar death benefits (upon death)	—	—	—	777,107	—
Unvested restricted stock awards, RSU and PRSU (accelerated)	643,027	—	—	643,027	643,027
Total:	**$2,031,193**	**$ 694,083**	**$ —**	**$2,120,134**	**$ 895,027**

	Change in Control	Involuntary Termination Without Cause	Termination for Good Reason	Death	Disability
Deborah K. Reuter					
Cash severance under employment agreement	$ 1,012,987	$ 506,494	$ —	$ —	$ —
Health insurance premiums	65,413	32,707	—	—	—
Life insurance benefits	—	—	—	700,000	180,000(1)
Long-term care insurance benefits	—	—	—	—	72,000
Split-dollar death benefits (upon death)	—	—	—	561,431	—
Unvested restricted stock awards, RSU and PRSU (accelerated)	473,718	—	—	473,718	474,718
Total:	**$1,552,118**	**$539,201**	**$ —**	**$1,735,149**	**$725,718**
Thomas A. Sa					
Cash severance under employment agreement	$ 1,015,000	$ 540,000	$ —	$ —	$ —
Health insurance premiums	51,884	25,942	—	—	—
Life insurance benefits	—	—	—	700,000	180,000(1)
Long-term care insurance benefits	—	—	—	—	72,000
Unvested restricted stock awards, RSU and PRSU (accelerated)	353,288	—	—	353,288	353,288
Total:	**$1,420,172**	**$565,942**	**$ —**	**$1,053,288**	**$605,288**
Dustin M. Warford					
Cash severance under employment agreement	$ 830,807	$ 468,737	$ —	$ —	$ —
Health insurance premiums	70,751	35,375	—	—	—
Life insurance benefits	—	—	—	700,000	180,000(1)
Long-term care insurance benefits	—	—	—	—	72,000
Unvested restricted stock awards, RSU and PRSU (accelerated)	445,072	—	—	445,072	445,072
Total:	**$1,346,630**	**$504,112**	**$ —**	**$1,145,072**	**$697,072**

(1) This balance represents the annual payment of long-term disability for the named executive officers. This long-term payment would begin after an elimination period and a twenty-five week short term disability period. This long-term disability payment will increase by 3% (cost of living adjustment) over the first ten years of payments and cease at age 65.

(2) Mr. McGovern served as the Executive Vice President and Chief Financial Officer until November 18, 2024, after which his served in an advisory role until his departure on February 14, 2025.

Beneficial Ownership of Common Stock

The following table sets forth information as of February 28, 2025, pertaining to beneficial ownership of the Company's common stock by persons known to the Company to own 5% or more of the Company's common stock, directors and nominees to be elected to the Board, the executive officers named in the Summary Compensation Table presented in this proxy statement, and all directors and executive officers of the Company, as a group. This information has been obtained from the Company's records, or from information furnished directly by the individual or entity to the Company.

For purposes of the following table, shares issuable pursuant to stock options which may be exercised within 60 days of February 28, 2025, are deemed to be issued and outstanding and have been treated as outstanding in determining the amount and nature of beneficial ownership and in calculating the percentage of ownership of those individuals possessing such interest, but not for any other individuals.

Name of Beneficial Owner(1)	Position	Shares Beneficially Owned(2)(3)	Exercisable Options	Percent of Class(3)
Julianne M. Biagini-Komas	Director	53,560(4)	—	*
Bruce H. Cabral	Director	131,612(5)	7,410	*
Jack W. Conner	Director and Chairman of the Board	161,876(6)	—	*
Jason DiNapoli	Director	377,933(7)	—	*
Stephen G. Heitel	Director	207,066(8)	—	*
Kamran F. Husain	Director	19,072(9)	—	*
Robertson Clay Jones	President and Chief Executive Officer	294,838(10)(21)	49,399	*
Susan Just	Executive Vice President and Chief Credit Officer of Heritage Bank of Commerce	8,000(11)(21)	—	*
Lawrence D. McGovern(23)	Former Executive Vice President and Chief Financial Officer	139,972(12)(21)	—	*
Deborah K. Reuter	Executive Vice President/Chief Risk Officer and Corporate Secretary	89,736(13)(21)	—	*
Laura Roden	Director	50,947(14)	—	*
Thomas A. Sa	Executive Vice President, Chief Operating Officer and Interim Financial Officer	—(15)(21)	—	*
Marina H. Park Sutton	Director	125,479(16)	12,350	*
Dustin M. Warford	Executive Vice President, Chief Banking Officer of Heritage Bank of Commerce	65,026(17)(21)	52,000	*
All directors, and executive officers (16 individuals)(22)		1,667,273	134,159	2.71%
BlackRock Inc.		5,305,057(18)	—	8.63%
Dimensional Fund Advisors LP		3,262,544(19)	—	5.31%
FJ Capital Management LLC		3,383,156(20)	—	5.50%

* Less than one percent (1%).

(1) Except as otherwise noted, the address for all persons is c/o Heritage Commerce Corp, 224 Airport Parkway, San Jose, California, 95110.

(2) Subject to applicable community property laws and shared voting and investment power with a spouse, the persons listed have sole voting and investment power with respect to such shares unless otherwise noted. Listed amounts reflect all previous stock splits and stock dividends.

(3) Includes shares beneficially owned (including options exercisable within 60 days of February 28, 2025, see "Exercisable Options").

(4) Includes 5,889 shares of restricted stock that have not vested and of which Ms. Biagini-Komas has the right to vote.

(5) Includes 118,313 shares held indirectly by trust. Also includes 5,889 shares of restricted stock that have not vested and of which Mr. Cabral has the right to vote.

(6) Includes 44,344 shares held by Mr. Conner's spouse. Also includes 10,011 shares of restricted stock that have not vested and of which Mr. Conner has the right to vote.

(7) Includes 342,437 shares held by a partnership. Also includes 5,889 shares of restricted stock that have not vested and of which Mr. DiNapoli has the right to vote.

(8) Includes 48,308 shares held by Individual Retirement Account. Also includes 5,889 shares of restricted stock that have not vested and of which Mr. Heitel has the right to vote.

(9) Includes 5,889 shares of restricted stock that have not vested and of which Mr. Husain has the right to vote.

(10) Also includes 14,378 shares of restricted stock that have not vested and of which Mr. Jones has the right to vote.

(11) Includes 5,334 shares of restricted stock that have not vested and of which Ms. Just has the right to vote.

(12) Includes 4,980 shares held by Mr. McGovern in a personal Individual Retirement Account. Includes 113,550 shares held indirectly by trust.

(13) Includes 4,338 shares of restricted stock that have not vested and of which Ms. Reuter has the right to vote.

(14) Includes 35,000 shares held by living trust. Includes 5,889 shares of restricted stock that have not vested and of which Ms. Roden has the right to vote.

(15) As of February 28, 2025, Mr. Sa did not own any shares, including any options exercisable within 60 days of February 28, 2025.

(16) Includes 48,165 shares held indirectly by a trust. Includes 5,889 shares of restricted stock that have not vested and of which Ms. Sutton has the right to vote.

(17) Includes 3,082 shares of restricted stock that have not vested and of which Mr. Warford has the right to vote.

(18) BlackRock, Inc. is an investment management firm and may be deemed to beneficially own 5,305,057 shares of the Company, which are held of record by clients of BlackRock, Inc. The address for BlackRock, Inc. is 50 Hudson Yards, New York, NY 10001. All of the foregoing information has been obtained by Schedule 13G filed with the SEC on February 7, 2025.

(19) Dimensional Fund Advisors LP is an investment advisor to four registered investment companies and serves as investment manager or sub-adviser to certain commingled funds, group trusts and separate accounts (such investment companies, trusts and accounts, collectively the "Funds"). In certain cases, subsidiaries of Dimensional Fund Advisors LP may act as an adviser or sub-adviser to certain Funds. In its role as investment advisor, sub-adviser and/or manager, Dimensional Fund Advisors LP or its subsidiaries (collectively, "Dimensional") may possess voting and/or investment power over the securities of the Issuer that are owned by the Funds, and may be deemed to be the beneficial owner of the shares of the Issuer held by the Funds. However, all securities reported in this schedule are owned by the Funds. Dimensional disclaims beneficial ownership of such securities. The address for Dimension Fund Advisors LP is 6300 Bee Cave Road, Building One, Austin, TX 78746. All of the foregoing information has been obtained by Schedule 13G filed with the SEC on October 31, 2024.

(20) Consists of 2,907,845 shares of common stock of the Issuer held by Financial Opportunity Fund LLC and 94,775 shares of common stock of the Issuer held by Financial Opportunity Long/Short Fund LLC, of which FJ Capital Management LLC is the managing member, and 380,536 shares of common stock of the Issuer held by managed accounts that FJ Capital Management manages. Martin Friedman is the Managing Member of FJ Capital Management LLC; as such, Mr. Friedman may be deemed to be a beneficial owner of reported shares but as to which Mr. Friedman disclaims beneficial ownership. The address for FJ Capital Management LLC is 7901 Jones Branch Drive, Suite 210 McLean, VA 22102. All of the foregoing information has been obtained by Schedule 13G filed with the SEC on February 12, 2025.

(21) The Company's Employee Stock Ownership Plan owns 83,319 shares of our common stock, all of which have been allocated. These include shares held for the account of the following named executive officers and includes in the table for Mr. McGovern 5,839 shares, Ms. Reuter 4,078 shares, Mr. Warford 385 shares, and zero shares for Ms. Just, Mr. Sa and Mr. Jones. Mr. Sa is one of the three trustees of the Employee Stock Ownership Plan. As trustees, they have the power to vote any unallocated shares of the Employee Stock Ownership Plan (currently no shares are unallocated) and allocated shares for which voting instructions are not otherwise provided.

(22) Includes directors, director nominees and current executive officers.

(23) Mr. McGovern served as Executive Vice President and Chief Financial Officer until November 18, 2024, after which he continued to serve in an advisory role to assist with the transition of the new Interim Chief Financial Officer until his departure on February 14, 2025.

Proposal 4—Ratification of Independent Registered Public Accounting Firm

The Board, upon the recommendation of its Audit Committee, has ratified the selection of Crowe LLP to serve as our independent registered public accounting firm for 2025, subject to ratification by our shareholders. A representative of Crowe LLP will be present at the Annual Meeting to answer questions and will have the opportunity to make a statement if so desired.

We are asking our shareholders to ratify the selection of Crowe LLP as our independent registered public accounting firm. Although ratification is not required by our Bylaws, the SEC or The Nasdaq Stock Market, the Board is submitting the selection of Crowe LLP to our shareholders for ratification because we value our shareholders' views on the Company's independent registered public accounting firm and as a matter of good corporate practice. In the event that our shareholders fail to ratify the selection of Crowe LLP, however, we reserve the discretion to retain Crowe LLP as our independent registered public accounting firm for 2025. Even if the selection is ratified, the Audit Committee, in its discretion, may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and our shareholders.

Audit Committee Report

In accordance with its written charter adopted by the Company's Board, the Audit Committee assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing, and financial reporting practices of the Company. During 2024, the Audit Committee met 11 times. The Audit Committee discussed the interim financial information contained in each quarterly earnings announcement with the Chief Financial Officer prior to public release. The Audit Committee also discussed the interim financial statements with the Chief Financial Officer and the independent auditors prior, with and without management present, to the filing of each quarterly Form 10-Q and the annual report on Form 10-K.

In discharging its oversight responsibility as to the audit process, the Audit Committee obtained from the independent auditors a formal written statement describing all relationships between the auditors and the Company that might bear on the auditors' independence, discussed with the auditors any relationships that may impact their objectivity and independence and satisfied itself as to the auditors' independence. The Audit Committee reviewed with both the independent auditors and the internal auditor's audit plans, scope, and results.

The Audit Committee discussed and reviewed with the independent auditor all communications required by the standards of the Public Company Accounting Oversights Board ("PCAOB"), including those described in Auditing Standard No. 1301, Communication with Audit Committees, and discussed and reviewed the results of the independent auditor's audit of the consolidated financial statements. The Audit Committee also reviewed and discussed the results of the internal audit examinations.

The Audit Committee reviewed the audited financial statements of the Company as of and for the year ended December 31, 2024, with management and the independent auditors. The Audit Committee has also reviewed "Management's Assessment over Financial Reporting" and the independent registered public accounting firm's opinion on the effectiveness of the Company's internal control over financial reporting, and discussed these reports and opinions with management and the independent registered public accounting firm prior to the Company's filing of its Annual Report on Form 10-K for the year ended December 31, 2024.

Based on the above mentioned review and discussion with management and the independent auditors, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements be included in its Annual Report on Form 10-K for the year ended December 31, 2024, for filing with the SEC.

Heritage Commerce Corp
Audit Committee

Julianne M. Biagini-Komas, Chair
Kamran F. Husain
Laura Roden
Marina H. Park Sutton

March 7, 2025

The Audit Committee report shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933 or the Securities Act of 1934, and shall not otherwise be deemed filed under these Acts.

Independent Registered Public Accounting Firm Fees

The following table summarizes the aggregate fees billed to the Company by its independent auditor:

Category of Services	Fiscal Year 2024	Fiscal Year 2023
Audit fees(1)	$760,500	$685,000
Audit related fees(2)	75,000	45,000
Tax fees(3)	100,000	100,650
All other fees(4)	11,000	10,500
Total accounting fees	$946,500	$841,150

(1) Fees for audit services for 2024 and 2023 consisted of the audit of the Company's annual financial statements, review of the consolidated financial statements included in the Company's Quarterly Reports on Form 10-Q, and the audit of the Company's internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002.

(2) Fees for audit related services for 2024 and 2023 consisted of financial accounting and reporting consultations, consents and other services related to SEC matters, and audits of the consolidated financial statements of the Company's employee benefit plans.

(3) Fees for tax services for 2024 and 2023 consisted of tax compliance and tax planning and advice.

- Fees for tax compliance services totaled $86,000 and $69,000 in 2024 and 2023, respectively. Tax compliance services are those rendered based upon facts already in existence or transactions that have already occurred to document, compute, and obtain government approval for amounts to be included in tax filings. Such services consisted primarily of preparation of the Company's consolidated federal and state income tax returns, trust preferred returns and a limited liability company tax return for a subsidiary entity.
- Tax planning and advice services are those rendered with respect to proposed transactions, assistance regarding the Internal Revenue Code Section 280(G) "excise tax gross up" disclosures in the proxy statement for hypothetical events, and consultation with management regarding various internal control and accounting matters. Tax planning and advice services totaled $14,000 in 2024 and $31,650 in 2023, respectively.

(4) All other fees consisted primarily of consulting services for the Company's strategic objectives merger and acquisitions, and other discussions.

The ratio of tax planning and advice fees and all other fees to audit fees, audit related fees and tax compliance fees was 2.71% for 2024 and 5.28% for 2023.

In considering the nature of the services provided by the independent registered public accounting firm, the Audit Committee determined that such services are compatible with the provision of independent audit services. The Audit Committee discussed these services with the independent registered public accounting firm and Company management to determine that they are permitted under the rules and regulations concerning auditor independence promulgated by the SEC and the Public Company Accounting Oversight Board.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

Under applicable SEC rules, the Audit Committee is required to pre-approve the audit and non-audit services performed by the independent registered public accountants in order to ensure that they do not impair the auditors' independence. The SEC's rules specify the types of non-audit services that the independent registered public accountants may not provide to its audit client and establish the Audit Committee's responsibility for administration of the engagement of the independent registered public accountants.

Consistent with the SEC's rules, the Audit Committee Charter requires that the Audit Committee review and pre-approve all audit services and permitted non-audit services provided by the independent registered public accountants to the Company or any of its subsidiaries. The Audit Committee may delegate pre-approval authority to the Chair of the Audit Committee and if it does, the decisions of that member must be presented to the full Audit Committee at its next scheduled meeting.

Recommendation of the Audit Committee and the Board of Directors

The Audit Committee of the Board of Directors and the Board of Directors recommends approval of the ratification of the appointment of Crowe LLP as the Company's independent registered public accounting firm for the year ending December 31, 2025. The proxy holders intend to vote all proxies they hold in favor of the proposal. If no instruction is given, the proxy holders intend to vote FOR approval of the proposal.

2025 Annual Meeting Information About the 2025 Annual Meeting of Shareholders Questions & Answers

Why did you send me this proxy statement?

We sent you this proxy statement and the enclosed proxy card because our Board is soliciting your proxy to vote at the 2025 Annual Meeting of Shareholders ("Annual Meeting"). This proxy statement summarizes the information you need to know to cast an informed vote at the Annual Meeting. Heritage Commerce Corp is referred to in this proxy statement as the "Company." Along with this proxy statement, we are also sending you the Heritage Commerce Corp 2024 Annual Report on Form 10-K, which includes our consolidated financial statements.

How will our Annual Meeting be held?

The Annual Meeting will be held in a virtual-only meeting format, via live video webcast that will provide shareholders with the ability to participate in the Annual Meeting, vote their shares and ask questions. We are implementing a virtual-only meeting format in order to leverage technology to enhance shareholder access to the Annual Meeting by enabling attendance and participation from any location around the world. We believe that the virtual-only meeting format will give shareholders the opportunity to exercise the same rights as if they had attended an in-person meeting and believe that these measures will enhance shareholder access and encourage participation and communication with our Board and management.

We believe a virtual-only meeting format facilitates shareholder attendance and participation by enabling all shareholders to participate fully and equally, and without cost, using an Internet-connected device from any location. In addition, the virtual-only meeting format increases our ability to engage with all shareholders, regardless of size, resources or physical location.

Shareholders of record and beneficial owners at the close of the business day on March 31, 2025, the record date, will have the ability to submit questions and vote electronically at the Annual Meeting via the virtual-only meeting platform.

Only shareholders of record and beneficial owners of shares of our common stock as of the close of the business day on March 31, 2025, the record date, may attend and participate in the Annual Meeting, including voting and asking questions electronically before and during the virtual Annual Meeting via the virtual-only meeting platform. You will not be able to attend the Annual Meeting in person.

In order to attend the Annual Meeting, you must register at ***register.proxypush.com/HTBK***. Upon completing your registration, you will receive further instructions via email, including a unique link that will allow you access to the Annual Meeting and to vote and submit questions before and during the Annual Meeting via the virtual-only meeting platform.

As part of the registration process, you must enter the control number located on your proxy card or voting instruction form. If you are a beneficial owner of shares registered in the name of a broker, bank or other nominee, you will also need to provide the registered name on your account and the name of your broker, bank or other nominee as part of the registration process.

On the day of the Annual Meeting, May 22, 2025, shareholders may begin to log in to the virtual-only Annual Meeting 15 minutes prior to the Annual Meeting. The Annual Meeting will begin promptly at 1:00 p.m., Pacific Daylight Time.

We will have technicians ready to assist you with any technical difficulties you may have accessing the Annual Meeting. If you encounter any difficulties accessing the virtual-only Annual Meeting platform, including any difficulties voting or submitting questions, you may call the technical support number that will be posted in your instructional email.

Our virtual Annual Meeting will allow shareholders to submit questions before and during the Annual Meeting. During a designated question and answer period at the Annual Meeting, we will respond to appropriate questions submitted by shareholders.

We will answer as many shareholder-submitted questions as time permits, and any questions that we are unable to address during the Annual Meeting will be answered following the meeting, with the exception of any questions that are irrelevant to the purpose of the Annual Meeting or our business or that contain inappropriate or derogatory references. If we receive substantially similar questions, we will group such questions together and provide a single response to avoid repetition.

Who is entitled to vote?

We will begin sending this proxy statement, the attached Notice of Annual Meeting and the enclosed proxy card on or about April 7, 2025, to all shareholders entitled to vote. Shareholders who were the record owners of the Company's common stock at the close of the business day on March 31, 2025, are entitled to vote. On this record date, there were 61,611,121 shares of common stock outstanding.

What constitutes a quorum?

A majority of the outstanding shares of the common stock entitled to vote at the Annual Meeting must be present, in person or by proxy, in order to constitute a quorum. We can only conduct the business of the Annual Meeting if a quorum has been established. We will include proxies marked as abstentions and broker non-votes in determining the number of shares present at the Annual Meeting.

How many votes do I have?

Each share of common stock entitles you to one vote in person or by proxy, for each share of common stock outstanding in your name on the books of the Company as of March 31, 2025, the record date for the Annual Meeting on any matter submitted to a vote of the shareholders, except that in connection with the election of directors (Proposal 1), you may cumulate your shares (see "What is cumulative voting and how do I cumulate my shares?" on page 73). The proxy card indicates the number of votes that you have as of the record date.

Is voting confidential?

We have a confidential voting policy to protect the privacy of our shareholders' votes. Under this policy, ballots, proxy cards and voting instructions returned to banks, brokers and other nominees are kept confidential. Only the proxy tabulator and the Inspector of Election have access to the ballots, proxy cards and voting instructions.

How do I vote by proxy?

You may vote by granting a proxy or, for shares held in street name, by submitting voting instructions to your broker or other nominee. If your shares are held by a broker or other nominee, you will receive instructions that you must follow to have your shares voted. If you hold your shares as a shareholder of record, you may vote by completing, signing and dating the enclosed proxy card and returning it promptly in the envelope provided. You may also vote by telephone or over the Internet (see proxy card). Returning the proxy card will not affect your right to participate on line at the virtual the Annual Meeting and vote.

If you properly fill in your proxy card and send it to us in time to vote, your "proxy" (one of the individuals named on your proxy card) will vote your shares as you have directed. If you sign the proxy card but do not make specific choices, your proxy will vote your shares as recommended by the Board as follows:

- "**FOR**" the election of all 8 nominees for director;
- "**FOR**" the approval of an amendment to the Company's Bylaws to increase the range of the permitted number of directors;
- "**FOR**" the approval of the advisory proposal on the Company's 2024 executive compensation; and
- "**FOR**" the ratification of the selection of Crowe LLP as our independent registered public accounting firm for 2025.

For the election of directors (Proposal 1), a shareholder may withhold authority for the proxy holders to vote for any one or more of the nominees by marking the enclosed proxy card in the manner instructed on the proxy card. Unless authority to vote for the nominees is withheld, the proxy holders will vote the proxies received by them for the election of the nominees listed on the proxy card as directors of the Company. Your proxy does not have an obligation to vote for nominees not identified on the preprinted proxy card (that is, write in candidates). Should any shareholder attempt to "write in" a vote for a nominee not identified on the preprinted card (and described in these proxy materials), your proxy will NOT vote the shares represented by your proxy card for any such write in candidate, but will instead vote the shares for any and all other indicated candidates. If any of the nominees should be unable or decline to serve, which is not now anticipated, your proxy will have discretionary authority to vote for a substitute who shall be designated by the present Board to fill the vacancy. In the event that additional persons are nominated for election as directors, your proxy intends to vote all of the proxies in such a manner, in accordance with the cumulative voting, as will assure the election of as many of the nominees identified on the proxy card as possible. In such event, the specific nominees to be voted for will be determined by the proxy holders, in their sole discretion.

What do I have to do to vote my shares if they are held in the name of my broker?

If your shares are held by your broker, sometimes called “street name” shares, you must vote your shares through your broker. You should receive a form from your broker asking how you want to vote your shares. Follow the instructions on that form to give voting instructions to your broker. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on routine, but not on non-routine matters. A “broker non vote” occurs when your broker does not vote on a particular proposal because the broker does not receive instructions from the beneficial owner and does not have discretionary authority. Proposal 1 (election of directors), Proposal 2 (amendment to the Company’s Bylaws) and Proposal 3 (advisory proposal on the 2024 executive compensation) are non-routine items on which a broker may vote only if the beneficial owner has provided voting instructions. Proposal 4 (ratification of independent registered public accounting firm for 2025) is a routine item.

How do I vote at the virtual meeting?

If you plan to attend the virtual Annual Meeting and desire to vote at the meeting you will have the opportunity to do so, but we recommend you send in a proxy card to vote. However, if your shares are held in the name of your broker, bank or other nominee, you must provide the proper codes as set forth in the proxy card.

May I vote over the Internet or by telephone?

Shareholders whose shares are registered in their own names may vote either over the Internet or by telephone. Special instructions for voting over the Internet or by telephone are set forth on the enclosed proxy card. The Internet and telephone voting procedures are designed to authenticate the shareholder’s identity and to allow shareholders to vote their shares and confirm that their voting instructions have been properly recorded.

If your shares are registered in the name of a bank or brokerage firm, you may be eligible to vote your shares by telephone or over the Internet. Most U.S. banks and brokerage firms are clients of Broadridge Financial Solutions (“Broadridge”). As such, shareholders who receive either a paper copy of their proxy statement or electronic delivery notification have the opportunity to vote by telephone or over the Internet. If your bank or brokerage firm is a Broadridge client, your proxy card or Voting Instruction Form (“VIF”) will provide the instructions. If your proxy card or VIF does not provide instructions for Internet and telephone voting, please complete and return the proxy card in the self-addressed, postage paid envelope provided.

What is cumulative voting and how do I cumulate my shares?

For the election of directors (Proposal 1), California law provides that a shareholder of a California corporation, or his/her proxy, may cumulate votes in the election of directors. That is, each shareholder may cast that number of votes equal to the number of shares owned by the shareholder, multiplied by the number of directors to be elected, and he/she may cumulate such votes for a single candidate or distribute such votes among as many candidates as he/she deems appropriate.

Certain affirmative steps must be taken by you in order to be entitled to vote your shares cumulatively for the election of directors. At the shareholders’ meeting at which directors are to be elected, no shareholder is entitled to cumulate votes (i.e., cast for any one or more candidates a number of votes greater than the number of the shareholder’s shares) unless the candidates’ names have been placed in nomination at the meeting and prior to the commencement of the voting and at least one shareholder has given notice at the meeting and prior to commencement of the voting of the shareholder’s intention to cumulate votes. If any shareholder has given such notice, then every shareholder entitled to vote may cumulate votes for candidates in nomination and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which that shareholder’s shares are entitled, or distribute the shareholder’s votes on the same principle among any or all of the candidates, as the shareholder thinks appropriate. The candidates receiving the highest number of votes, up to the number of directors to be elected, will be elected.

The proxies designated on your proxy card do not, at this time, intend to cumulate votes, to the extent they have the shareholder’s discretionary authority to do so, pursuant to the proxies solicited in this proxy statement unless another shareholder gives notice to cumulate, in which case your proxy may cumulate votes in accordance with the recommendations of the Board. Therefore, discretionary authority to cumulate votes in such an event is solicited in this proxy statement.

May I change my vote after I return my proxy?

If you fill out and return the enclosed proxy card, or vote by telephone or over the Internet, you may change your vote at any time before the vote is conducted at the Annual Meeting. You may change your vote in any one of four ways:

- You may send to the Company's Corporate Secretary another completed proxy card with a later date.
- You may notify the Company's Corporate Secretary in writing before the Annual Meeting that you have revoked your proxy.
- You may virtually attend the Annual Meeting and vote online.
- If you have voted your shares by telephone or over the Internet, you can revoke your prior telephone or Internet vote by recording a different vote, or by signing and returning a proxy card dated as of a date that is later than your last telephone or Internet vote.

What if I receive multiple proxy cards?

If you receive multiple proxy cards, your shares are probably registered differently or are in more than one account. Vote all proxy cards received to ensure that all your shares are voted. Unless you need multiple accounts for specific purposes, we recommend that you consolidate as many of your accounts as possible under the same name and address. If the shares are registered in your name, contact our transfer agent, EQ Shareowner Services, 1-866-883-3382; otherwise, contact your bank, broker or other nominee.

The SEC has adopted rules that permit companies and intermediaries (such as brokers) to implement a delivery procedure called "householding." Under this procedure, multiple shareholders who reside at the same address may receive a single copy of our annual report and proxy materials, unless the affected shareholder has provided contrary instructions. This procedure reduces printing costs and postage fees and helps protect the environment. Upon written or oral request, the Company will undertake to promptly deliver a separate copy of the annual report and other proxy materials to any shareholder at a shared address to which a single copy of any of those documents was delivered. To receive a separate copy of the materials, you may contact our transfer agent, EQ Shareowner Services, 1-866-883-3382; otherwise, contact your bank, broker or other nominee. Any shareholders who share the same address and currently receive multiple copies of the Company's annual report and other proxy materials who wish to receive only one copy in the future can contact our transfer agent at the telephone number listed above or their bank, broker or other nominee.

What vote is required to approve each proposal?

Approval of Proposal 1 (election of directors) requires a plurality of votes cast for each nominee. This means that the 8 nominees who receive the most votes will be elected. So, if you do not vote for a particular nominee, or you indicate "WITHHOLD AUTHORITY" to vote for a particular nominee on your proxy card, your vote will not count either "for" or "against" the nominee. Abstentions will not have any effect on the outcome of the vote. You may cumulate your votes in the election of directors as described under "What is cumulative voting and how do I cumulate my shares?" on page 73. Broker non-votes will not count as a vote on the proposal and will not affect the outcome of the vote.

Approval of Proposal 2 (approval of an amendment to the Company's Bylaws to increase the range of the permitted number of directors) requires the affirmative vote of a majority of the outstanding shares entitled to vote.

Approval of Proposal 3 (approval of the advisory proposal on the 2023 executive compensation) and Proposal 4 (ratification of independent registered public accounting firm for 2024) each requires a vote that satisfies two criteria: (i) the affirmative vote for the proposal must constitute a majority of the common shares present or represented by proxy and voting on the proposal at the Annual Meeting and (ii) the affirmative vote for the proposal must constitute a majority of the common shares required to constitute the quorum. For purposes of Proposals 3 and 4, abstentions and broker non-votes will not affect the outcome under clause (i), which recognizes only actual votes cast. However, abstentions and broker non-votes will affect the outcome under clause (ii) if the number of affirmative votes, though a majority of the votes represented, does not constitute a majority of the voting power required to constitute a quorum. The ratification of the appointment of the independent registered public accounting firm for 2025 is a matter on which a broker or other nominee is generally empowered to vote and, therefore, no broker non-votes are expected to exist with respect to Proposal 4.

How will voting on any other business be conducted?

Your proxy card confers discretionary authority to your proxy to vote your shares on the matters which may properly be presented for action at the Annual Meeting, and may include action with respect to procedural matters pertaining to the conduct of the Annual Meeting.

What are the costs of soliciting these proxies?

We will pay all the costs of soliciting these proxies. In addition to mailing proxy soliciting material, our directors, officers and employees also may solicit proxies in person, by telephone or by other electronic means of communication for which they will receive no compensation. We will ask banks, brokers and other institutions, nominees and fiduciaries to forward the proxy materials to their principals and to obtain authority to execute proxies. We will then reimburse them for their reasonable expenses. We have hired Advantage Proxy to seek the proxies of custodians, such as brokers, which hold shares which belong to other people. This service will cost the Company approximately $5,500 plus expenses.

How do I obtain an Annual Report on Form 10-K?

A copy of our 2024 Annual Report on Form 10-K accompanies this proxy statement. If you would like another copy of this report, we will send you one without charge. The Annual Report on Form 10-K includes a list of exhibits filed with the Securities and Exchange Commission ("SEC"), but does not include the exhibits. If you wish to receive copies of the exhibits, we will send them to you. Please write to:

Heritage Commerce Corp
224 Airport Parkway
San Jose, California 95110
Attention: Executive Vice President and Corporate Secretary

You can also find out more information about us at our website www.heritagecommercecorp.com. Our website is available for information purposes only and should not be relied upon for investment purposes, nor is it incorporated by reference into this proxy statement. On our website you can access electronically filed copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Section 16 filings, and amendments to those reports and filings, free of charge. The SEC also maintains a website at *www.sec.gov* that contains reports, proxy statements and other information regarding SEC registrants, including the Company.

Other Business

If any matters not referred to in this proxy statement come before the meeting, including matters incident to conducting the meeting, the proxy holders will vote the shares represented by proxies in accordance with their best judgment. Management is not aware of any other business to come before the meeting and, as of the date of the preparation of this proxy statement, no shareholder has submitted to management any proposal to be acted upon at the meeting.

Shareholder Proposals for 2026 Meeting

For a shareholder proposal to be included in the proxy statement for the 2026 Annual Meeting, it must comply with SEC Rule 14a-8 and be received by the Secretary of the Company at the address below no later than December 8, 2025.

A shareholder who intends to present a proposal at the Company's 2026 Annual Meeting other than pursuant to Rule 14a-8 must comply with our Bylaws, which provide that the notice of such intention must be received by the Secretary of the Company at the address set forth below no earlier than close of business on January 22, 2026 and no later than close of business on February 21, 2026, and such proposal must be a proper matter for shareholder action under California law. Any such notice must meet the other requirements in our Bylaws.

Shareholders who intend to solicit proxies in reliance on the SEC's universal proxy rule for director nominees submitted under the advance notice requirements of our Bylaws must comply with the additional requirements of SEC Rule 14a-19(b).

Notices of intention to present proposals or nominate directors at the 2026 Annual Meeting, and all supporting materials required by our Bylaws, must be submitted by mail to Corporate Secretary, Heritage Commerce Corp, 224 Airport Parkway, San Jose, California, 95110.

The Company reserves the right to reject, rule out of order, or take other appropriate action with respect to any proposal or nomination that does not comply with these and other applicable requirements. The submission of a shareholder proposal or proxy access or other director nomination does not guarantee that it will be included in our proxy statement.

HERITAGE COMMERCE CORP

Deborah K. Reuter
Executive Vice President, Chief Risk Officer and Corporate Secretary

April 7, 2025

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HERITAGE
COMMERCE CORP

2024 Annual Report | On Form 10-K

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(MARK ONE)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2024

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

Commission file number 000-23877

Heritage Commerce Corp

(Exact name of Registrant as Specified in its Charter)

California	**77-0469558**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification Number)*

224 Airport Parkway
San Jose, California 95110
(Address of Principal Executive Offices including Zip Code)

(408) 947-6900
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of each exchange on which Registered
Common Stock, No Par Value	HTBK	The Nasdaq Stock Market LLC (The Nasdaq Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☒	Non-accelerated filer ☐	Smaller reporting company ☐
			Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C.7262(b)) by the registered public accounting firm that prepared or issued its audit report ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the common stock held by non-affiliates of the Registrant as of June 30, 2024, based upon the closing price on that date of $8.70 per share as reported on the Nasdaq Global Select Market, and 47,494,947 shares held, was approximately $413.2 million.

As of February 14, 2025, there were 61,442,934 shares of the Registrant's common stock (no par value) outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the 2025 Annual Meeting of Shareholders to be held on May 22, 2025 are incorporated by reference into Part III of this Report. The proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the Registrant's fiscal year ended December 31, 2024.

HERITAGE COMMERCE CORP

INDEX TO ANNUAL REPORT ON FORM 10-K
FOR YEAR ENDED DECEMBER 31, 2024

Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains various statements that may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Rule 175 promulgated thereunder, and Section 21E of the Securities Exchange Act of 1934, as amended, Rule 3b-6 promulgated thereunder and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These forward-looking statements often can be, but are not always, identified by the use of words such as "assume," "expect," "intend," "plan," "project," "believe," "estimate," "predict," "anticipate," "may," "might," "should," "could," "goal," "potential" and similar expressions. We base these forward-looking statements on our current expectations and projections about future events, our assumptions regarding these events and our knowledge of facts at the time the statements are made. Forward-looking statements may include, among other things, statements relating to our projected growth, anticipated future financial performance, management's long-term performance goals and operational strategies, the performance of our loan and investment portfolios, as well as statements relating to the anticipated effects of those conditions, events and developments on the Company's financial condition and results of operations.

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 this Annual Report on Form 10-K, and the following listed below:

- risks of geographic concentration of our client base, our loans, and the collateral securing our loans, as those clients and assets may be particularly subject to natural disasters and to events and conditions that directly or indirectly affect those regions, including the particular risks of natural disasters (including earthquakes, fires, and flooding) and other events that disproportionately affect that region;

- cybersecurity risks that may affect us directly or may impact us indirectly by virtue of their effects on our clients, markets or vendors, including our ability to identify and address cybersecurity risks, including those posed by the increasing use of artificial intelligence, (such as, but not limited to, ransomware, data security breaches, "denial of service" attacks, "hacking" and identity theft) affecting us, our clients, and our third-party vendors and service providers;

- political events that have accompanied or that may in the future accompany or result from recent political changes, particularly including sociopolitical events and conditions that result from political conflicts and law enforcement activities that may adversely affect our markets or our clients;

- media items and consumer confidence as those factors affect our clients' confidence in the banking system generally and in our bank specifically;

- adequacy of our risk management framework, disclosure controls and procedures and internal control over financial reporting;

- market, geographic and sociopolitical factors that arise by virtue of the fact that we operate primarily in the general San Francisco Bay Area of Northern California;

- the effects of recent wildfires affecting Southern California, which have affected certain clients and certain loans secured by mortgages in Los Angeles County, and which are affecting or may, in the future, affect other clients in those and other markets throughout California;

- factors that affect our liquidity and our ability to meet client demands for withdrawals from deposit accounts and undrawn lines of credit, including our cash on hand and the availability of funds from our own lines of credit;

- factors that affect the value and liquidity of our investment portfolios, particularly the values of securities available-for-sale;

- our ability to estimate accurately, and to establish adequate reserves against, the risk of loss associated with our loan and lease portfolios and our factoring business;

- 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 clients, whether held in the portfolio or in the secondary market;

- increased capital requirements for our continual growth or as imposed by banking regulators, which may require us to raise capital at a time when capital is not available on favorable terms or at all;

- 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;

- events that affect our ability to attract, recruit, and retain qualified officers and other personnel to implement our strategic plan, and that enable current and future personnel to protect and develop our relationships with clients, and to promote our business, results of operations and growth prospects;

- the expense and uncertain resolution of litigation matters whether occurring in the ordinary course of business or otherwise, particularly including but not limited to the effects of recent and ongoing developments in California labor and employment laws, regulations and court decisions; and

- our success in managing the risks involved in the foregoing factors.

Forward-looking statements speak only as of the date they are made. The Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made or to reflect the occurrence of unanticipated events. *You should consider any forward looking statements in light of this explanation, and we caution you about relying on forward-looking statements.*

PART I

ITEM 1. *BUSINESS*

General

We are a bank holding company formed in 1997 as the sole shareholder of Heritage Bank of Commerce ("HBC" or the "Bank"), a California-chartered, FDIC-insured community-focused business bank headquartered in San Jose, California, since its formation in 1994. We provide a full line of banking services and products to business and individual clients, with a focus on small and medium-sized business and their owners, managers and employees. We have an extensive suite of online banking services, but our business is based largely on our network of seventeen full-service branches around the San Francisco Bay and Silicon Valley areas of coastal Central California, including locations in Alameda, Contra Costa, Marin, San Benito, San Francisco, San Mateo and Santa Clara counties.

We made progress in 2024 that we believe is quite substantial, positioning the Company for even more significant progress in 2025 and beyond. Among these critical steps, during 2024 and the first two months of 2025, we:

- Grew deposit balances 10% during 2024, driven by our team's success at cultivating local community commercial deposit relationships. Additionally, total loans increased 4% during 2024.

- Continued our positive credit trends during 2024, with nonperforming assets and net charge-offs remaining low at December 31, 2024.

- Hired a new Chief Operating Officer, Thomas A. Sa, who has extensive experience in banking operations, finance and personnel. We believe this key initiative will allow us to place greater focus on streamlining our branch operations and back-office functions, and will allow our Chief Executive Officer to concentrate his primary attention to growth and strategy, including business development and organic and potential strategic expansion.

- Hired a new Chief People and Culture Officer, Chris Edmonds-Waters, to replace our departing Chief People and Diversity Officer, who relocated outside our market area.

- Hired a new General Counsel, Janisha Sabnani, who has more than 15 years' experience with increasing levels of responsibility for corporate, securities and regulatory matters within publicly traded financial institutions. We believe Ms. Sabnani's accession will allow us to provide more hands-on responses to internal legal demands across all our departments and operations and will afford significant efficiencies in our employment of outside counsel.

- Began a search for a new Chief Financial Officer following the departure of our long-time CFO, Larry McGovern. Our search is centered on executives with proven experience with accounting and finance technology and modernization efforts, and we believe this will provide more efficient, accurate and prompt reporting and will enhance our responsiveness to investors and regulators.

- Began a refreshment process that led to the retirement of one long-time director and plans for bringing in talented, experienced individuals with a breadth of talent and experience to facilitate the anticipated retirements of highly talented, experienced and capable, but longer-tenured, directors.

In addition to these personnel and strategy initiatives, we continued to enhance our information technology and cybersecurity infrastructure and capabilities, adapting to keep pace with a rapidly growing and evolving threat environment. We also were able to resolve [two] litigation matters whose uncertainty and ongoing cost had plagued the Company and the Bank and had created distractions for our management team for several years.

These successes, of course, were accompanied by significant costs, including additional compensation, legal and severance, which together with other one-time operating costs, amounted to $1.5 million. However, we view these costs as an investment in preserving and growing our talent pool in the face of transitions involving several highly experienced personnel, and in significantly reducing our overall risk profile. We are enthusiastic in our belief that these initiatives have positioned HCC and HBC for years of continuing growth and success both strategically and financially.

As we look forward to the benefits we expect to reap from these investments, we are proud and confident in our more routine accomplishments, as well. We believe our loan portfolio is well-diversified among the commercial, real estate, construction and land development, consumer and Small Business Administration ("SBA") sectors. Both our loan and deposit bases are originated primarily on the basis of our physical presence through our branch offices. We offer a wide range of deposit products and loans for business banking and retail markets. We offer a multitude of other products and services to complement those lending and deposit services. Through the Bank's Bay View Funding subsidiary, we also provide factoring financing to small businesses located throughout the United States.

When we use "we", "us", "our" or the "Company", we mean the Company on a consolidated basis with Heritage Bank of Commerce. When we refer to "HCC" or the "holding company", we are referring to Heritage Commerce Corp on a standalone basis. When we use the "Bank" or "HBC", we mean Heritage Bank of Commerce on a standalone basis.

The Internet address of the Company's website is "http://www.heritagecommercecorp.com," and the Bank's website is "http://www.heritagebankofcommerce.com." The contents of our websites are not incorporated into and do not form a part of this or any other report or document we file with the SEC. The Company makes available free of charge through the Company's website, the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports. The Company makes these reports available on its website on the same day they appear on the SEC's website.

Heritage Bank of Commerce

HBC is a California state-chartered bank headquartered in San Jose, California. It was incorporated in November 1993 and opened for business in June 1994. HBC operates through seventeen full-service branch offices.

Lending Activities

We offer a diversified mix of business loans encompassing the following loan products: (i) commercial and industrial loans; (ii) commercial real estate loans; (iii) construction loans; and (iv) SBA loans. From time to time the Company has purchased single family residential mortgage loans. We also offer home equity lines of credit, to accommodate the needs of business owners and individual clients, as well as consumer loans (both secured and unsecured). While no specific industry concentration is considered significant, our lending operations are located in market areas dependent on technology and real estate industries and their supporting companies. In the event creditworthy loan clients' borrowing needs exceed our legal lending limit, we have the ability to sell participations in those loans to other banks. Our focus on relationship banking allows us to obtain a substantial portion of each borrower's banking business, including deposit accounts, and provide long-term credit and deposit solutions to support our clients and their businesses.

Deposit Products

As a full-service commercial bank, we focus deposit generation on relationship accounts, encompassing non-interest bearing demand, interest bearing demand, and money market accounts. In order to facilitate the generation of non-interest bearing demand deposits, we require, depending on the circumstances and the type of relationship, our borrowers to maintain deposit balances with us as a typical condition of granting loans. We also offer certificates of deposit and savings accounts. We offer "remote deposit capture" and "mobile deposit capture" products that allow deposits to be made via computer at the client's business location or the client's mobile phone. We also offer clients "e-statements" that allows clients to receive statements electronically, which is more convenient and secure than receiving paper statements.

For clients seeking full Federal Deposit Insurance Corporation ("FDIC") insurance on certificates of deposit in excess of $250,000, we offer the Insured Cash Sweep ("ICS") and Certificate of Deposit Account Registry Service ("CDARS") programs, which allows HBC to place the deposits with other participating banks to maximize the clients' FDIC insurance. HBC also receives reciprocal deposits from other participating financial institutions.

Electronic Banking

While personalized, service-oriented banking is the cornerstone of our business plan, we use technology and the Internet as a secondary means for servicing clients, to compete with larger banks and to provide a convenient platform for clients to review and transact business. We offer sophisticated electronic or "internet banking" opportunities that permit commercial clients to conduct much of their banking business remotely from their home or business, with the additional assistance of third party products designed to mitigate fraud risk. All of HBC's electronic banking services allow clients to review transactions and statements, review images of paid items, transfer funds between accounts at HBC, place stop orders, pay bills and export to various business and personal software applications. HBC online commercial banking also allows clients to initiate domestic wire transfers and ACH transactions. However, our clients always have the opportunity to personally discuss specific banking needs with knowledgeable bank officers and staff who are directly accessible in the branches and offices as well as by telephone and email.

Other Banking Services

We offer a multitude of other products and services to complement our lending and deposit services. These include cashier's checks, bank by mail, night depositories, safe deposit boxes, direct deposit, automated payroll services, electronic funds transfers, online bill pay, homeowner association services, and other customary banking services. HBC currently operates ATMs at five different locations. In addition, we have established a convenient client service group accessible by toll free telephone to answer questions and promote a high level of client service. HBC does not have a trust department. In addition to the traditional financial services offered, HBC offers remote deposit capture and mobile deposit capture, automated clearing house origination, electronic data interchange and check imaging. HBC continues to investigate products and services that it believes address the growing needs of its clients and to analyze other markets for potential expansion opportunities.

Investments

Our investment policy is established by the Board of Directors (the "Board"). The general investment strategies are developed and authorized by our Finance and Investment Committee of the Board. The investment policy is reviewed annually by the Finance and Investment Committee, and any changes to the policy are subject to approval by the full Board. The overall objectives of the investment policy are to maintain a portfolio of high quality investments to maximize interest income over the long term and to minimize risk, to manage liquidity, to provide collateral for borrowings, and to provide additional earnings when loan production is low. The policy dictates that investment decisions take into consideration the safety of principal, liquidity requirements and interest rate risk management. All securities transactions are reported to the Board's Finance and Investment Committee on a quarterly basis.

Correspondent Banks

Correspondent bank deposit accounts are maintained to enable the Company to transact types of activity that it would otherwise be unable to perform or would not be cost effective due to the size of the Company or volume of activity. The Company has utilized several correspondent banks to process a variety of transactions.

Competition

The banking and financial services business in California generally, and in the Company's market areas specifically, is highly competitive. The industry continues to consolidate and unregulated competitors have entered banking markets with products targeted at highly profitable client segments. Many larger unregulated competitors are able to compete across geographic boundaries, and provide clients with meaningful alternatives to most significant banking services and products. These consolidation trends are likely to continue. The increasingly competitive environment is a result primarily of changes in regulation, changes in technology and product delivery systems, and the consolidation among financial service providers.

With respect to commercial bank competitors, the business is dominated by a relatively small number of major banks that operate a large number of offices within our geographic footprint. For the combined Alameda, Contra Costa, Marin, San Benito, San Francisco, San Mateo, and Santa Clara county region, the seven counties within which the Company operates, the top three institutions are all multi-billion dollar entities with an aggregate of 520 offices that control a combined 69.45% of deposit market share based on June 30, 2024 FDIC market share data. HBC ranks fourteenth with 0.74% share of total deposits based on June 30, 2024 market share data. Larger institutions have, among other advantages, the ability to finance wide-ranging advertising campaigns and to allocate their resources to regions of highest yield and demand. Larger banks are seeking to expand lending to small businesses, which are traditionally community bank clients. They can also offer certain services that we do not offer directly, but may offer indirectly through correspondent institutions. By virtue of their greater total capitalization, these banks also have substantially higher lending limits than we do. For clients whose needs exceed our legal lending limit, we arrange for the sale, or "participation," of some of the balances to financial institutions that are not within our geographic footprint.

In addition to other large regional banks and local community banks, our competitors include savings institutions, securities and brokerage companies, asset management groups, mortgage banking companies, credit unions, finance and insurance companies, internet-based companies, and money market funds. In recent years, we have also witnessed increased competition from specialized companies that offer wholesale finance, credit card, and other consumer finance services, as well as services that circumvent the banking system by facilitating payments via the internet, wireless devices, prepaid cards, or other means. Technological innovations have lowered traditional barriers of entry and enabled many of these companies to compete in financial services markets. Such innovation has, for example, made it possible for non-depository institutions to offer clients automated transfer payment services that previously were considered traditional banking products. In addition, many clients now expect a choice of delivery channels, including telephone and smart phones, mail, personal computer, ATMs, self-service branches, and/or in-store branches.

Strong competition for deposits and loans among financial institutions and non-banks alike affects interest rates and other terms on which financial products are offered to clients. Mergers between financial institutions have placed additional pressure on other banks within the industry to remain competitive by streamlining operations, reducing expenses, and increasing revenues.

In order to compete with the other financial service providers, the Company principally relies upon community-oriented, personalized service, local promotional activities, personal relationships established by officers, directors, and team members with its clients, and specialized services tailored to meet its clients' needs. Our "preferred lender" status with the Small Business Administration allows us to approve SBA loans faster than many of our competitors. In those instances where the Company is unable to accommodate a client's needs, the Company seeks to arrange for such loans on a participation basis with other financial institutions or to have those services provided in whole or in part by its correspondent banks. See Item 1 — *"Business — Correspondent Banks."*

HBC is a California state-chartered bank headquartered in San Jose, California. It was incorporated in November 1993 and opened for business in June 1994. HBC operates through seventeen full-service branch offices. The locations of HBC's current offices and the administrative office of CSNK Working Capital Finance Corp. d/b/a Bay View Funding ("Bay View Funding") are:

San Jose:	Administrative Office Main Branch 224 Airport Parkway Suite 100 San Jose, CA 95110	Oakland:	Branch Office 1111 Broadway Suite 1650 Oakland, CA 94607
Danville:	Branch Office 387 Diablo Road Danville, CA 94526	Palo Alto:	Branch Office 325 Lytton Avenue Suite 100 Palo Alto, CA 94301
Fremont:	Branch Office 3137 Stevenson Boulevard Fremont, CA 94538	Pleasanton:	Branch Office 300 Main Street Pleasanton, CA 94566

Gilroy:	Branch Office 7598 Monterey Street Suite 110 Gilroy, CA 95020	Redwood City:	Branch Office 2400 Broadway Suite 100 Redwood City, CA 94063
Hollister:	Branch Office 351 Tres Pinos Road Suite 102A Hollister, CA 95023	San Francisco:	Branch Office 120 Kearny Street Suite 2300 San Francisco, CA 94108
Livermore:	Branch Office 1987 First Street Livermore, CA 94550	San Mateo:	Branch Office 400 S. El Camino Real Suite 150 San Mateo, CA 94402
Los Altos:	Branch Office 419 South San Antonio Road Los Altos, CA 94022	San Rafael:	Branch Office 999 5th Avenue Suite 100 San Rafael, CA 94901
Los Gatos:	Branch Office 15575 Los Gatos Boulevard Bldg. B Los Gatos, CA 95032	Walnut Creek:	Branch Office 1990 N. California Boulevard Suite 100 Walnut Creek, CA 94596
Morgan Hill:	Branch Office 18625 Sutter Boulevard Suite 100 Morgan Hill, CA 95037	Bay View Funding:	Administrative Office 224 Airport Parkway Suite 200 San Jose, CA 95110

HUMAN CAPITAL

We strive to be the employer of choice among banks in our markets, by building a reputation as a place where every team member can thrive. We believe deeply that team members drive our Company's stability and success. With this in mind, we are dedicated to recruiting, nurturing, advancing and retaining a workforce that embraces and cultivates a culture of excellence, teamwork, client focus, engagement, equity, inclusivity, belonging, and accountability. We constantly work on finding ways to improve our culture, recruitment strategies, training and retention. Progress on these human capital efforts and programming are shared regularly with the Board's Personnel and Compensation Committee throughout the year because we believe their perspective and feedback are invaluable to our continuous improvement. Our ultimate goal is to deepen client and community relationships and to deliver exceptional experience to all whom we serve.

In 2024, we had:

355
Full-time equivalent employees (includes part-time)

10
Part-time employees

8.2 yrs
average tenure

16.6%
turnover rate

3.9%
Increase from the prior year

60%
Female

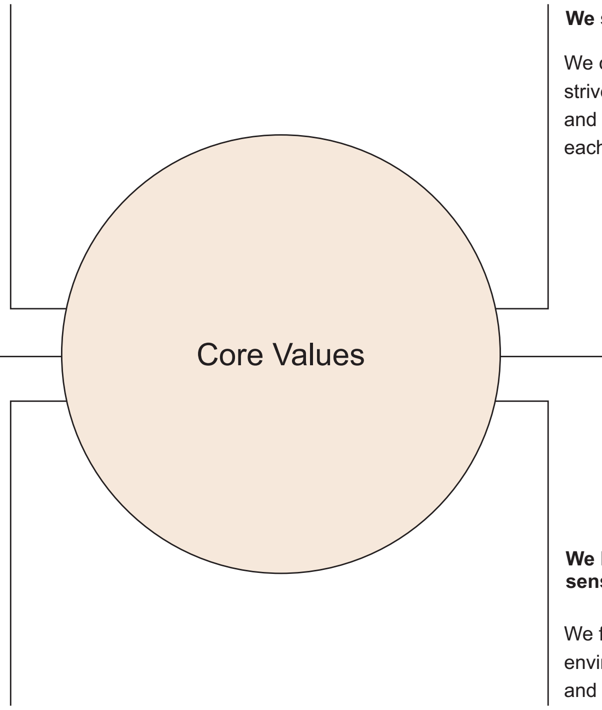
54%
Racial/ethnic Diversity

The Culture We Are Building: Engagement

In the fourth quarter of 2024 we shifted our framework from one of diversity to a business-focused team member engagement effort. While diversity efforts will continue – we will be administering a team member engagement survey in 2025 that assesses all of the diversity metrics and concerns we deeply care about. We believe our initiatives will continue to provide a strong foundation that correlates our client-facing net promoter scores to our internal engagement results. We expect that this shift will occur seamlessly, and we are optimistic that this evolution will continue to foster our team members' interests and capabilities to serve our clients.

Management continued to provide Company-wide listening sessions to solicit feedback, enhance engagement, and cultivate positive culture. Based on feedback from listening sessions, we also created a Culture Ambassador Group (akin to employee resource groups for larger organizations) comprised of non-executive team members from various departments and locations. Through self-identification, the Culture Ambassadors represent 77% female and 62% ethnic/racial diversity. Culture Ambassadors serve an important role to help shape enterprise initiatives such as creation of corporate values.

In 2024, our Core Values focus continued:



We act with integrity and transparency

We strive to do the right thing, embodying the highest level of integrity and committing to always doing what's best for our clients, our colleagues, and our company.

We serve with purpose and passion

We cultivate an environment where we strive for excellence in everything we do and we bring our best selves to work each and every day.

Client, shareholder and community success is our success

We measure our success by the service we provide to our clients, the value we bring to our shareholders, and the support we deliver to the communities we serve.

We continually adapt, learn and grow

We learn from each other, grow through experience and pivot as needed to ensure our continued success.

We help each other thrive

We are each other's biggest advocates extending support and encouragement, expressing appreciation, and collaborating as a team.

We have fun with a healthy sense of humor!

We foster a culture of belonging and an environment that is fulfilling, energizing, and fun!

Continuing in our core value of serving with purpose and passion, our Heritage Hearts Committee continued with a mission to source nonprofit volunteer and board opportunities for Company team members across the Bay Area. In 2024, we contributed more than 2,100 hours to strengthen our relationship with local nonprofit organizations. More than 40 team members serve on over 55 boards. Our broad outreach efforts cover a variety of focus areas like economic development, education, financial literacy, health and human services, housing and homelessness, small business and entrepreneurship support, animal services, environmental, arts and culture.

We continued to expand on existing communication efforts such as our anonymous "Ask CEO" portal with our Chief Executive Officer providing answers and updates during regularly scheduled all-hands meetings throughout the year. In 2024, we continued our CEO welcome luncheon so all new team members can establish a direct connection to the CEO. We also encourage team members to submit suggestions through our "Big Idea" electronic portal. Furthermore, multiple executives facilitate periodic cross-functional focus groups to gather input on our strengths and areas where we can further improve.

Compensation

Our Company's pay-for-performance compensation philosophy offers all team members the opportunity to earn annual bonuses in addition to base salaries depending on individual, team, and company performance results. The company reviews its compensation model regularly to ensure equitable pay practices. When we identify chances to enhance pay equity, we proactively take steps to address them.

We adhere to the California Senate Bill 1162 Pay Transparency Regulations, both as to specific requirements and the spirit behind the bill. We use a balanced performance evaluation approach to assess four core areas: Business Results, Internal/External Client Experience, Teamwork/Leadership and Risk/Compliance/Controls.

Talent Development and Succession Planning

Throughout the year, team members are offered a variety of opportunities to participate in learning and education programs such as attending internal and external seminars/workshops, on-line training courses, panel discussions and trade group conferences to enrich one's own development. Additionally, we offer a generous tuition reimbursement to support team members' desire to pursue higher education degrees. Team members also have the opportunity to earn industry related and/or role related professional certifications, and our Company reimburses for classes, materials, test fees, and ongoing required education costs. Each year, we also offer certain identified leaders an opportunity to attend Pacific Coast Banking School as part of their career development plan.

In 2024, we continued our Leadership Essentials Workshop series with modules consisting of (1) Recruiting and Hiring and Retaining Top Talent; (2) Leveraging Individual and Team Strengths; (3) Talent Development, Performance Management and Effective Coaching; (4) Handling Employee Relations Matters, Decision Making and Accountability; and (5) Communicating Effectively and Inspiring Positive Change.

We further refined our Talent Management and Succession Planning framework, and progress updates are provided to the Board throughout the year. We created a robust Succession Planning roadmap that clearly outlines a plan for executive ranks and critical roles. Additionally, career mobility continues to be an important part of team member engagement and development.

Culture and Conduct

Teamwork is not only promoted but celebrated through various recognition programs. Our "Core Values Champions" continues to recognize individuals who demonstrate our Company's Core Values through their work and interactions. Throughout the year, team members are encouraged to nominate colleagues who go above and beyond their regular duties in showcasing one or more of our core values. The CEO highlights and publicly applauds Core Value Champions' stories, celebrating their exemplary accomplishments and contributions.

We continually promote a speak-up culture, so our workplace feels welcoming and safe. We expect team members always to treat clients and stakeholders with courtesy and respect. Our Company's Code of Ethics and Conduct continues to offer specificity to directors and team members across different sections, embodying such principles as workplace safety, protection of client and team member information, conflict of interest guidelines, anti-retaliation policy, and procedures for reporting concerns. Every team member must annually confirm their acknowledgement of the Company's Code of Ethics and Conduct, and senior leadership team members are subject to a more restrictive Executive and Principal Financial Officer Code of Ethics, as well. Team members can report concerns to their manager, any company leader, Human Resources, or via the anonymous hotline and intranet site. We take all complaints seriously and promptly investigate concerns. We have a zero-tolerance anti-retaliation policy.

Health, Safety and Wellbeing

Our team members are our most valuable resource, and their safety, health, and wellbeing are key to our Company's success. We support the wellness of all colleagues through various programs, including Employee Assistance Program ("EAP"), health seminars, education programs and health club memberships. All team members are eligible to take advantage of our EAP programs which offer counseling services, family support, help on financial and legal issues, and mental health support. In 2024, we continued offering employee assistance program (EAP) private counseling sessions, monthly fitness stipend for all team members and hosted in-person and virtual meditation sessions to promote the importance of self-care.

Supervision and Regulation

General

Like all depositary institutions, both Heritage Commerce Corp and Heritage Bank of Commerce, as well as their operating subsidiaries and affiliates, are regulated extensively under federal and state law. The effects of these laws and regulations affect our ability to make management decisions and to conduct our operations, and over recent years the volume, scope and complexity of these regulations have expanded substantially. The combined application of these laws and regulations applies to virtually every aspect of our business, and to a substantial degree affects our relationships with clients, vendors, and affiliates as well. Further, the cost of complying with these laws and regulations, and the potential penalties, liabilities or other consequences of failure to comply, has risen dramatically in recent years, and we do not expect that these costs or associated risks will be ameliorated in the foreseeable future.

With respect to the Company, we are regulated and examined by the California Department of Financial Protection and Innovation ("DFPI"), the Federal Reserve Bank of San Francisco. Heritage Bank of Commerce files reports with and is examined by the FDIC, the DFPI, and the Consumer Financial Protection Bureau ("CFPB"). In addition to banking and financial institutions laws and regulations, we are subject to a broad swath of other regulatory frameworks applicable to public companies generally, including federal and state tax laws, accounting rules developed by the Financial Accounting Standards Board ("FASB"), and federal and state securities laws. These statutes, regulations, regulatory policies and rules are significant to the financial condition and results of operations of the Company and its subsidiaries, including HBC. This section offers a brief summary of the most significant aspects of applicable banking laws and regulations, but the implications and effects of these laws and regulations upon our business is far too extensive to be described completely, and readers should refer to the section of this Report entitled "Item 1A, Risk Factors," for certain effects of these laws and regulations that may have a particular effect on our assets, results of operations and financial condition. We have not attempted to summarize laws of general applicability, such as corporate, tax, securities and accounting regulations, or other laws, such as employment laws, that may also have a material impact upon our business.

Regulatory Capital Requirements

The Company and HBC are subject to a comprehensive capital framework (the "Capital Rules") adopted by Federal banking regulators (including the Federal Reserve and the FDIC). The Capital Rules implement the Basel III framework for strengthening the regulation, supervision and risk management of banks, as well as certain provisions of Dodd-Frank. The Capital Rules generally recognize three components, or tiers, of capital: common equity Tier 1 capital, additional Tier 1 capital and Tier 2 capital. Common equity Tier 1 capital generally consists of retained earnings and common stock instruments (subject to certain adjustments), as well as accumulated other comprehensive income ("AOCI"). Additional Tier 1 capital generally includes non-cumulative preferred stock and related surplus subject to certain adjustments and limitations. Tier 2 capital generally includes certain capital instruments (such as subordinated debt) and portions of the amounts of the allowance for credit losses, subject to certain requirements and deductions. The term "Tier 1 capital" means common equity Tier 1 capital plus additional Tier 1 capital, and the term "total capital" means Tier 1 capital plus Tier 2 capital.

The Capital Rules generally measure an institution's capital using four capital measures or ratios. The common equity Tier 1 capital ratio is the ratio of the institution's common equity Tier 1 capital to its total risk-weighted assets. The Tier 1 risk-based capital ratio is the ratio of the institution's Tier 1 capital to its total risk-weighted assets. The total risk-based capital ratio is the ratio of the institution's total capital to its total risk-weighted assets. The Tier 1 leverage ratio is the ratio of the institution's Tier 1 capital to its average total consolidated assets. To determine risk-weighted assets, assets of an institution are generally placed into a risk category as prescribed by the regulations and given a percentage weight based on the relative risk of that category. An asset's risk-weighted value will generally be its percentage weight multiplied by the asset's value as determined under generally accepted accounting principles. In addition, certain off-balance-sheet items are converted to balance-sheet credit equivalent amounts, and each amount is then assigned to one of the risk categories.

To be adequately capitalized, both the Company and HBC are required to have a common equity Tier 1 capital ratio of at least 4.5% or more, a Tier 1 leverage ratio of 4.0% or more, a Tier 1 risk-based ratio of 6.0% or more and a total risk-based ratio of 8.0% or more. In addition to the preceding requirements, both the Company and HBC are required to maintain a "conservation buffer" consisting of common equity Tier 1 capital, which is at least 2.5% above each of the required minimum levels. An institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases and discretionary bonuses to executive officers.

The Capital Rules also prescribe the methods for mitigating the impact of intangible assets on our capital ratios, and for calculating risk-based assets and ratios. Higher or more sensitive risk weights are assigned to various categories of assets, among which are credit facilities that finance the acquisition, development or construction of real property, certain exposures or credits that are 90 days past due or are nonaccrual, foreign exposures, certain corporate exposures, securitization exposures, equity exposures and in certain cases mortgage servicing rights and deferred tax assets. An institution's federal regulator also may require the institution to hold more capital than would otherwise be required under the Capital Rules if the regulator determines that the institution's capital requirements under the Capital Rules are not commensurate with the institution's credit, market, operational or other risks.

Supervision and Regulation of Heritage Commerce Corp

General. As a bank holding company, HCC is subject to regulation, supervision and periodic examination by the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the "BHCA"), and by the DFPI in accordance with the California Financial Code. HCC is required to file with the Federal Reserve periodic reports of its operations and such additional information as the Federal Reserve may require. In accordance with Federal Reserve laws and regulations, HCC is required to act as a source of financial strength to HBC and to commit resources to support HBC in circumstances where HCC might not otherwise do so.

Permitted Activities. The BHCA generally prohibits HCC from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank or whose business is not "closely related to banking." The Federal Reserve has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve has reasonable grounds to believe that continuing such activity, ownership or control constitutes a serious risk to a subsidiary's financial soundness, safety or stability.

Source of Strength Doctrine. Federal Reserve policy historically required bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Dodd-Frank codified this policy as a statutory requirement. HCC is required to act as a source of strength to HBC and to commit capital and financial resources to support HBC, including at times when HCC may not be in a financial position to do so. HCC must stand ready to use its available resources to provide adequate capital to HBC during periods of financial stress or adversity. HCC must also maintain the financial flexibility and capital raising capacity to obtain additional resources for assisting HBC. HCC's failure to meet its source of strength obligations may constitute an unsafe and unsound practice, a violation of the Federal Reserve's regulations, or both. The source of strength doctrine most directly affects bank holding companies whose subsidiary bank fails to maintain adequate capital levels. In such situation, the subsidiary bank will be required by the bank's federal regulator to take "prompt corrective action." Any capital loans by a bank holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of the bank. In the event of a bank holding company's bankruptcy, its commitment to a federal bank regulatory agency to maintain the capital of its subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Dividend Payments, Stock Redemptions and Repurchases. In addition to the requirements of the California Corporations Code, which imposes certain solvency tests and board-level approval requirements, the Federal Reserve may require a bank holding company to eliminate, defer or significantly reduce dividends to shareholders if: (i) the bank holding company's net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the prospective rate of earnings retention is inconsistent with the bank holding company's capital needs and overall current and prospective financial condition; or (iii) the bank holding company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. The Capital Rules also require that a holding company seeking to pay dividends must maintain 2.5% in common equity Tier 1 capital attributable to the capital conservation buffer. See "Supervision and Regulation—Regulatory Capital Requirements," above.

Acquisitions, Activities and Change in Control. The BHCA and the California Financial Code also substantially govern an institution's ability to grow by acquisition. These regulations include extensive application filing and approval requirements as well as substantive regulation over the projected operations and financial performance of institutions proposing to merge or to be acquired. These laws and regulations afford regulators, including the Federal Reserve, the FDIC and the DFPI with expansive authority and discretion and may affect the availability, timing and cost of initiatives that financial institutions might take as a means to effectuate strategic growth.

Supervision and Regulation of Heritage Bank of Commerce

General. HBC is a California state-chartered commercial bank that is a member of the Federal Reserve System and whose deposits are insured by the FDIC. HBC is thus subject to regulation, supervision, and regular examination by the DFPI and the Federal Reserve as HBC's primary federal regulator. The regulations of these agencies govern most aspects of a bank's business.

Brokered Deposit Restrictions. Well capitalized institutions are not subject to limitations on brokered deposits, while an adequately capitalized institution is able to accept, renew or roll over brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the yield paid on such deposits. Undercapitalized institutions are generally not permitted to accept, renew, or roll over brokered deposits. As of December 31, 2024, HBC was eligible to accept brokered deposits without limitations.

Loans to One Borrower. With certain limited exceptions, the maximum amount that a California bank may lend to any borrower at any one time (including the obligations to the bank of certain related entities and related persons of the borrower) may not exceed 25% (and unsecured loans may not exceed 15%) of the bank's shareholders' equity, allowance for credit losses on loans, and any capital notes and debentures of the bank. We generally do not have banking relationships that approach these limitations.

Tie in Arrangements. Federal law prohibits a bank holding company and any subsidiary banks from engaging in certain tie in arrangements in connection with the extension of credit. For example, HBC may not extend credit, lease or sell property, furnish any services, fix or vary the consideration for any of the foregoing on the condition that: (i) the client must obtain or provide some additional credit, property or services from or to HBC other than a loan, discount, deposit or trust services; (ii) the client must obtain or provide some additional credit, property or service from or to HCC or HBC; or (iii) the client must not obtain some other credit, property or services from competitors, except reasonable requirements to assure soundness of credit extended.

Deposit Insurance. HBC is a member of the Deposit Insurance Fund ("DIF") administered by the FDIC, which insures client deposit accounts. The amount of federal deposit insurance coverage is $250,000 per depositor, for each account ownership category at each depository institution. The $250,000 amount is subject to periodic adjustments. In order to maintain the DIF, member institutions are assessed insurance premiums based on an insured institution's average consolidated total assets less its average tangible equity capital.

Each institution is provided an assessment rate, which is generally based on the risk that the institution presents to the DIF. Institutions with less than $10 billion in assets generally have an assessment rate that can range from 2.5 to 32 basis points per annum. However, the FDIC has flexibility to adopt assessment rates without additional rule-making provided that the total base assessment rate increase or decrease does not exceed 2 basis points.

Dividend Payments. Heritage Commerce Corp has paid a quarterly dividend to our shareholders every quarter since 2013. The primary source of funds for HCC is dividends from HBC. Under the California Financial Code, HBC is permitted to pay a dividend in the following circumstances: (i) without the consent of either the DFPI or HBC's shareholders, in an amount not exceeding the lesser of (a) the retained earnings of HBC; or (b) the net income of HBC for its last three fiscal years, less the amount of any distributions made during the prior period; (ii) with the prior approval of the DFPI, in an amount not exceeding the greatest of: (a) the retained earnings of HBC; (b) the net income of HBC for its last fiscal year; or (c) the net income for HBC for its current fiscal year; and (iii) with the prior approval of the DFPI and HBC's shareholders (i.e., HCC) in connection with a reduction of its contributed capital.

Risk Management. Bank regulatory agencies have increasingly emphasized the importance of sound risk management processes and strong internal controls when evaluating the activities of the financial institutions they supervise. Properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation, and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal, and reputational risk. In particular, recent regulatory pronouncements have focused on operational risk, which arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses. New products and services, third-party risk management and cybersecurity are critical sources of operational risk that financial institutions are expected to address in the current environment. HBC is expected to have active board and senior management oversight; adequate policies, procedures, and limits; adequate risk measurement, monitoring, and management information systems; and comprehensive internal controls.

Anti-Money Laundering and Office of Foreign Assets Control Regulation. We are subject to federal laws aiming to counter money laundering and terrorist financing, as well as transactions with persons, companies and foreign governments sanctioned by the United States. These laws and regulations are intended to detect, identify, track and prevent money-laundering, money transfers to prohibited nations and entities, and certain types of financial crimes. These laws and regulations impose strict reporting and compliance obligations on financial institutions, and violations can carry substantial fines, civil money penalties and other sanctions, as well as restrictions on an institution's business. Regulatory authorities routinely examine financial institutions for compliance with these obligations, and failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these obligations.

Concentrations in Commercial Real Estate. Concentration risk exists when a financial institution deploys too many assets to a specific industry or segment of the economy with the potential to produce losses large enough to threaten the financial institution's health. Concentration stemming from CRE is one area of regulatory concern. Regulatory guidance provides supervisory criteria, including the following numerical indicators, to assist bank examiners in identifying banks with potentially significant CRE loan concentrations that may warrant greater supervisory scrutiny: (i) CRE loans exceeding 300% of capital and increasing 50% or more in the preceding three years; or (ii) construction and land development loans exceeding 100% of capital. The guidance does not limit banks' levels of CRE lending activities, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their CRE concentrations. As of December 31, 2024, using regulatory definitions in the CRE Concentration Guidance, our CRE loans represented 311% of HBC total risk-based capital, as compared to 306% as of December 31, 2023. If the regulatory agencies become concerned about our CRE loan concentrations, they could limit our ability to grow by restricting approvals for the establishment or acquisition of branches, or approvals of mergers or other acquisition opportunities.

Readers also should note that in addition to the formal concentration guidance, substantially all our activities, operations and assets are located in the San Francisco Bay Area of Central California, or in other areas of that State. Accordingly, we are subject to geographic concentration risks that are described in greater detail in "Item 1A, Risk Factors."

Consumer Protection. We are subject to a number of federal and state consumer protection laws that extensively govern our relationship with our clients. These laws include, among others, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Service Members Civil Relief Act, the Military Lending Act, and these laws' respective state law counterparts, as well as state usury laws and laws regarding unfair, deceptive or abusive acts and practices ("UDAAP"). The consumer protection laws applicable to us, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit UDAAP practices, restrict our ability to raise interest rates and subject us to substantial regulatory oversight. Many states and local jurisdictions have consumer protection laws analogous to those listed above.

Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by clients, including actual and statutory damages, restitution and attorneys' fees. Federal bank regulators, state attorneys general, and state and local consumer protection agencies may also seek to enforce consumer protection requirements and obtain these and other remedies, including regulatory sanctions, client rescission rights, and civil money penalties. Non-compliance with consumer protection requirements may also result in our failure to obtain any required bank regulatory approval for merger or acquisition transactions we may wish to pursue or prohibition from engaging in such transactions even if approval is not required.

Enforcement Powers of Federal and State Banking Agencies. The federal bank regulatory agencies have broad enforcement powers, including the power to terminate deposit insurance, impose substantial fines and other civil and criminal penalties, and appoint a conservator or receiver for financial institutions. Failure to comply with applicable laws and regulations could subject us and our officers and directors to administrative sanctions and potentially substantial civil money penalties. The DFPI also has broad enforcement powers over us, including the power to impose orders, remove officers and directors, impose fines and appoint supervisors and conservators.

ITEM 1A. *RISK FACTORS*

Our business, financial condition and results of operations are subject to various risks, including those discussed below. The risks discussed below are those that we believe are the most significant risks, although additional risks not presently known to us or that we currently deem less significant may also materially and adversely affect our business, financial condition and results of operations.

Summary of Risk Factors

Risks Related to Our Operations

- Interruptions, cyberattacks, fraud and other security breaches
- Difficulties from our third-party providers
- Failure to attract and retain well-qualified directors, management and other skilled professionals
- The soundness of other financial institutions
- Failure of our risk management framework
- Team member misconduct
- Inaccurate information provided to us by clients or counterparties
- Environmental, social and governance practices
- Severe weather, natural disasters, pandemics, acts of war or terrorism, social unrest and other external events

Risks Related to Our Business

- Geographic concentration in the Greater San Francisco Bay Area
- Failure to maintain a favorable reputation with our clients and communities

Risks Related to Our Loans

- Negative changes affecting real estate values and liquidity
- Risks involved with land and construction development loans
- Increased scrutiny by regulators of commercial real estate concentrations
- Unreliability of loan appraisals used in real property loan decisions
- Commercial loans are more sensitive to the borrower's successful operations or property development
- Small and medium business loans are subject to greater risks from adverse business developments

Risks Related to Our SBA Loan Program

- Dependence on U.S. federal government SBA loan program
- Recognition of gains on sale of loans and servicing asset valuations reflect certain assumptions we use

Risks Related to Our Credit Quality

- Managing credit risk
- The allowance for credit losses on loans may be insufficient
- Nonperforming assets can affect our financial results and require management time to resolve
- Exposure to environmental liabilities on foreclosed real estate collateral

Risks Related to our Growth Strategy

- Risks associated with acquisitions, including availability of suitable targets and integration risks
- Impairment of the goodwill recorded from an acquisition
- Managing our branch growth strategy
- Managing risks of adding new lines of business and new products

Risks Related to Our Financial Strength and Liquidity

- Actual or perceived reduction in our financial strength
- Increased challenges in credit markets

- Fluctuations in interest rates may reduce net income and impact our business
- Failure to maintain effective internal controls over financial reporting
- Significant deferred tax assets may not be fully realized
- Unrealized losses on our securities portfolio, particularly from the impact of increased interest rates on our securities available-for-sale portfolio
- Adverse changes in credit ratings
- Liquidity risks, particularly from limited access to lines of credit, deposits, and other traditional forms of funding

Risks Related to Our Capital

- More stringent capital requirements

Risks Related to Our Legal and Regulatory Environment

- Complexity and scope of regulatory oversight and the costs of managing compliance with applicable laws and regulations
- Changes in accounting standards
- Litigation, regulatory actions, investigations or similar matters, could subject us to uninsured liabilities and reputational harm and otherwise materially affect our business, financial condition and results of operations.
- Costs and risks associated with potential data breaches and associated litigation or regulatory actions

Risks from Competition

- Competition for client deposits and other business
- Rapid technological developments in the financial services industry

Risks Related to Our Common Stock

- Investment in our common stock is not an insured deposit
- Dilution affect resulting from the issuance of common stock consideration for acquisitions
- Limited trading volume
- Volatile trading price of our common stock
- Dividends may change without notice and payment thereof is subject to restrictions
- Limitations on director liability for monetary damages for failure to exercise their fiduciary duty
- Issuance of preferred stock which may have rights and preferences over our common stock
- Holders of our debt obligations may have rights and preferences over holders of our common stock
- Our charter documents and California law may have an anti-takeover effect limiting changes of control

Risks Relating to Our Operations

Interruptions, cyberattacks, fraudulent activity or other security breaches may have a material adverse effect on our business.

In the normal course of business, we (directly or through third parties) collect, store, share, process and retain sensitive and confidential information regarding our clients. We also rely heavily upon electronic infrastructure that we own or that we obtain via license or other contractual arrangements with third parties. This infrastructure is essential in the conduct of our business, including for allowing our clients to access and transfer funds, initiate and pay loans and leases, communicating with our client service teams, and a variety of other activities that form the foundation of modern financial services businesses. There have been a number of recent and well-publicized incidents involving various types of cybersecurity lapses, and many of these have had substantial impacts upon targeted businesses and on clients of even some of the world’s most prominent cybersecurity firms. One of the most recent events resulted in a widespread failure of a large cybersecurity platform, some of the consequences of which are ongoing and may not be fully known or estimable. Similarly, extremely sophisticated criminal and nation-state organizations routinely target and exploit information technology networks, data systems, and other critical infrastructure.

We devote significant financial and management resources to ensure the integrity of our systems against cybercriminals and similar actors, as well as against threats from fires and other natural disasters; power or telecommunications failures; acts of terrorism or wars or other catastrophic events; breaches, physical break-ins or errors resulting in interruptions and unauthorized disclosure of confidential information, through information security and business continuity programs.

Notwithstanding these efforts, cybersecurity measures are, by their nature, largely reactive, and threats are constantly evolving. We expect that the development of AI-based technology will cause a rapid expansion in both the number and the sophistication of these threats. While we believe we maintain state-of-the-art defensive measures, we routinely experience attempts to exploit our networks and systems, and we must continue investing in increasingly sophisticated (and concomitantly expensive) technology to counteract these threats. Further, if our systems cannot timely detect and mitigate vulnerabilities, or cannot promptly respond to threats, we may experience damage to or interruptions in the availability of our computer networks, or we may experience a loss of data, unauthorized use or disclosure of client information, or a loss of client funds as a result of unauthorized access to client accounts.

Additionally, as financial institutions and technology systems become more interconnected and more complex, any operational incident at a third party, such as a vendor or client, may increase our operational risks, including from information breaches or loss, breakdowns, disruptions or failures of their own systems or infrastructure, or any deficiencies in the performance of their responsibilities. These risks are increased to the extent we rely on a single-source vendor or provider.

The access by unauthorized persons to, or the improper disclosure by us or our third-party vendors of, confidential information regarding our clients or our own proprietary information, software, methodologies and business secrets, failures or disruptions in our communications, information and technology systems, or our failure to adequately address them, could negatively affect our client relationship management, online banking, accounting or other systems. We cannot assure readers that such breaches, failures or interruptions will not occur or, if they do occur, that they will be adequately addressed by us or the third parties on which we rely. Our insurance may not fully cover all types of losses.

Accordingly, any failures or interruptions of our communications, information and technology systems could damage our reputation, result in a loss of client business, subject us to additional regulatory scrutiny or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition or results of operations.

Our operations could be disrupted by our third-party service providers experiencing difficulty in providing their services, terminating their services or failing to comply with banking regulations.

We depend to a significant extent on relationships with third-party service providers. Specifically, we utilize third party core banking services and receive credit card and debit card services, branch capture services, Internet banking services and services complementary to our banking products from various third party service providers. These types of third-party relationships are subject to increasingly demanding regulatory requirements that require us to maintain and continue to enhance our due diligence and ongoing monitoring and control over our third-party vendors. We may be required to renegotiate our agreements to meet these enhanced requirements, which could increase our costs or which may be impracticable. If our service providers experience difficulties or terminate their services and we are unable to replace them, our operations could be interrupted. It may be difficult for us to timely replace some of our service providers, which may be at a higher cost due to the unique services they provide. A third-party provider may fail to provide the services we require, or meet contractual requirements, comply with applicable laws and regulations, or suffer a cyberattack or other security breach. We expect that our regulators would hold us responsible for deficiencies of our third-party relationships which could result in enforcement actions, including civil money penalties or other administrative or judicial penalties or fines, or client remediation, any of which could have a material adverse effect on our business, financial condition and results of operations.

Commercial banking requires substantial board and management expertise, knowledge, and community and industry relationships. If we cannot retain our existing Board or leadership team or recruit experienced, well-qualified successors, our business may suffer.

Our success depends, in large degree, on the skills of our Board and management team and our ability to retain, recruit and motivate key directors, officers and team members. Our Board and senior management team have significant industry experience, as well as significant experience in our local markets, and their knowledge and relationships would be difficult to replace. We recently announced a search for a Chief Financial Officer to replace Lawrence McGovern, who had served in that role for more than 25 years, and the recruitment of a well-qualified, long-term successor, is expected to be time-consuming and may result in an increased risk of internal control deficiencies or in financial statement inaccuracies during this process. The substitution of our recently-hired Chief Operating Officer into the Chief Financial Officer role may also result in a distraction from other critical management functions in one or both of those leadership positions. Additional Board and/or leadership changes will occur from time to time, and we cannot always anticipate or control the timing of these changes, Similarly, we cannot offer assurance that we would be able to recruit additional qualified personnel on a timely basis, either to fill vacancies created by departures or to grow our executive team to respond to and prepare for the expansion of our business. Competition for senior executives and skilled personnel in the financial services and banking industry is intense, which means the cost of hiring, paying incentives and retaining skilled personnel may continue to increase. Our ability to compete effectively for senior executives and other qualified leadership personnel may increase our compensation and administrative expenses and may be restricted by applicable banking laws and regulations. The loss of the services of any director, senior executive or other key personnel, or the inability to recruit and retain qualified personnel in the future, could have a material adverse effect on our business, financial condition and results of operations.

Our ability to access markets for funding and acquire and retain clients could be adversely affected by the deterioration of other financial institutions or the financial service industry's reputation.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to different industries and counterparties, and through transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions, as well as impact the trading prices of our common stock. These losses or defaults could have a material adverse effect on our business, financial condition and results of operations.

The 2023 high-profile bank failures of Silicon Valley Bank, Signature Bank and First Republic have generated significant market volatility among publicly traded bank holding companies. These market developments have negatively impacted client confidence in the safety and soundness in the financial services industry, which persisted throughout 2024. We cannot offer assurances that the risks underlying negative publicity and public opinion have ameliorated or that adverse media stories, other bank failures, or geopolitical and market conditions will not exacerbate or continue these conditions. Partly as a result of these conditions, some community and regional bank depositors have chosen to place their deposits with larger financial institutions or to invest in higher yielding short-term fixed income securities, all of which have unfavorably affected, and may continue to materially adversely impact our liquidity, cost of funding, loan funding capacity, net interest margin, capital, and results of operations. In connection with high-profile bank failures, uncertainty and concern has been, and may be in the future, compounded by advances in technology that increase the speed at which deposits can be moved, as well as the speed and reach of media attention, including social media, and its ability to disseminate concerns or rumors, in each case potentially exacerbating liquidity concerns. Further, any current or future measures announced by the Department of the Treasury, the Federal Reserve, and the Federal Deposit Insurance Corporation ("FDIC") intended to reassure depositors of the availability of their deposits may not be successful in restoring client confidence in the banking system.

Events such as these may also result in potentially adverse changes to laws or regulations governing banks and bank holding companies or result in the imposition of restrictions through supervisory or enforcement activities, including higher capital requirements, which could have a material impact on our business.

Our risk management framework may not be effective in mitigating risks and/or losses to us.

Our risk management framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which we are subject, including, among others, credit, market, liquidity, interest rate and compliance. Our risk management framework may not be effective under all circumstances and may not adequately mitigate any risk or loss. If our risk management framework is not effective, we could suffer unexpected losses and our business, financial condition and results of operations could be materially and adversely affected. We may also be subject to potentially adverse regulatory consequences.

Team member misconduct could expose us to significant legal liability and reputational harm.

We are vulnerable to reputational harm because we operate in an industry in which integrity and the confidence of our clients are of critical importance. Conduct by our team members that reflects fraudulent, illegal, wrongful or suspicious activities, or they act in a manner that results in consumer harm, may adversely affect our clients and/or our business. The precautions we take to detect and prevent such misconduct may not always be effective and could result in regulatory sanctions and/or penalties, criminal or civil penalties and, serious harm to our reputation, financial condition, client relationships, team member relationships and ability to attract new clients. In addition, improper use or disclosure of confidential information by our team members, even if inadvertent, could result in serious harm to our reputation, financial condition and current and future business relationships. If our internal controls against operational risks fail to prevent or detect an occurrence of such team member error or misconduct, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

We depend on the accuracy and completeness of information provided by clients and counterparties and any misrepresented information could adversely affect our business, financial condition and results of operations.

In deciding whether to extend credit or to enter into other transactions with clients and counterparties, we may rely on information furnished to us by or on behalf of clients and counterparties, including financial statements and other financial information. Some of the information regarding clients provided to us is also used in our proprietary credit decision making and scoring models, which we use to determine whether to do business with clients, Further, the risk profiles of such clients may subsequently be utilized by counterparties who may lend us capital to fund our operations. We may also rely on representations of clients and counterparties as to the accuracy and completeness of that information. In deciding whether to extend credit, we may rely upon our clients' representations that their financial statements conform to stated accounting principles and present fairly, in all material respects, the financial condition, results of operations and cash flows of the client. We also may rely on client representations and certifications, or other audit or accountants' reports, with respect to the business and financial condition of our clients. Whether a misrepresentation is made by the applicant, another third party or one of our team members, we generally bear the risk of loss associated with the misrepresentation. We may not detect all misrepresented information in our originations or from service providers we engage to assist in the approval process. Any such misrepresented information could have a material adverse effect on our business, financial condition and results of operations.

Increasing scrutiny and evolving expectations from clients, regulators, investors, and other stakeholders with respect to our environmental, social and governance practices may impose additional costs on us or expose us to new or additional risks.

Companies are facing increasing scrutiny from clients, regulators, investors, and other stakeholders related to their environmental, social and governance ("ESG") practices and disclosure. Investor advocacy groups, investment funds and influential investors are also increasingly focused on these practices, especially as they relate to the environment, health and safety, diversity, labor conditions and human rights. Increased ESG-related compliance costs for us as well as among our suppliers, vendors and various other parties within our supply chain could result in increases to our overall operational costs. New government regulations could also result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, and disclosure. However, over the last few years there has been an increase in anti-ESG measures and proposals by investor advocacy groups, shareholders and policymakers. The potential impact of the new presidential administration on additional changes in agency personnel, policies and priorities on the financial services industry cannot be predicted at this time. Failure to adapt to or comply with evolving regulatory requirements or investor or stakeholder expectations and standards could negatively impact our reputation, ability to do business with certain partners, access to capital, and our stock price.

Severe weather, natural disasters, pandemics, acts of war or terrorism, social unrest and other external events could significantly impact our operations.

Severe weather, natural disasters (including fires, earthquakes, and floods), wide spread disease or pandemics, such as the COVID-19 pandemic, acts of war or terrorism, social unrest and other adverse external events have had in the past and could have in the future a significant impact on our ability to conduct business and create significant volatility and disruption in global and U.S. economies. Such events could affect the financial markets, reduce access to liquidity, impair our client's financial condition, affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. The majority of our branches are located in the San Jose, San Francisco, Oakland areas, which in the past have experienced both severe earthquakes and wildfires. We do not carry earthquake insurance on our properties. Earthquakes, wildfires or other natural disasters could severely disrupt our operations. Operations in our market could be disrupted by both the evacuation of large portions of the population as well as damage to and/or lack of access to our banking and operation facilities. Although management has established disaster recovery policies and procedures, the occurrence of any such events could have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to Our Business

Our profitability is dependent upon the geographic concentration of the markets in which we operate.

We operate primarily in the general San Francisco Bay Area of California in the counties of Alameda, Contra Costa, Marin, San Benito, San Francisco, San Mateo, and Santa Clara and, as a result, our business, financial condition and results of operations are subject to the demand for our products in those areas and is also subject to changes in the economic conditions in those areas. Our success depends upon the business activity, population, income levels, deposits and real estate activity in these markets. Although Bay View Funding, the Bank's factoring subsidiary, and our clients' business and financial interests may extend well beyond these market areas, adverse economic conditions that affect these market areas could reduce our growth rate, affect the ability of our clients to repay their loans to us, could impair the value of the collateral securing our loans, or otherwise generally could affect our business, financial condition and results of operations. Because of our geographic concentration, we are less able than regional or national financial institutions to diversify demand for our products or our credit risks across multiple markets.

Similarly, geologic, weather-related, and other hazards such as wildfires, earthquakes, droughts, floods and storms, frequently threaten our markets, and in certain circumstances could be expected to have a disproportionate effect on our business as compared to financial institutions whose client and asset bases are more diversified. Such events may harm our business directly or may harm our clients and prospective clients in a way that increases the risks of defaults on our loans, reduces the value of our collateral, and increases clients' need for liquidity, thus reducing our deposit base and potentially increasing our costs of funds.

Our ability to maintain our reputation is critical to the success of our business, and the failure to do so may materially adversely affect our business, financial condition and results of operations.

We are a community bank, and our reputation is one of the most valuable components of our business. Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, team member misconduct, cybersecurity failures or disruptions, failure to deliver minimum standards of service or quality, compliance deficiencies, and questionable or fraudulent activities of our clients or third parties. Negative publicity regarding our business, team members, or clients, with or without merit, may result in the loss of clients, investors and team members, costly litigation, a decline in revenues and increased governmental regulation and have a material adverse effect on business, financial condition and results of operations.

Risks Related to Our Loans

Because a significant portion of our loan portfolio is comprised of real estate loans, negative changes affecting real estate values and liquidity could impair the value of collateral securing our loans and result in loan and other losses.

Real estate lending (including commercial, land development and construction, home equity, multifamily, and residential mortgage loans) is a large portion of our loan portfolio. At December 31, 2024, approximately $2.9 billion, or 84% of our loan portfolio, was comprised of loans with real estate as a primary or secondary component of collateral. Included in CRE loans were owner occupied loans of $601.6 million, or 17 % of total loans. The real estate securing our loan portfolio is concentrated in California. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, the rate of unemployment, fluctuations in interest rates and the availability of loans to potential purchasers, fluctuations in vacancy rates, changes in tax laws and other governmental statutes, regulations and policies, access to insurance coverage, and acts of nature, such as wildfires, earthquakes and other natural disasters or adverse events. Adverse changes affecting real estate values and the liquidity of real estate in one or more of our markets could increase the credit risk associated with our loan portfolio, significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses, which would adversely affect profitability. Such declines and losses would have a material adverse effect on our business, financial condition, and results of operations.

Our land and construction development loans are based upon estimates of costs and value associated with the completed project. These estimates may be inaccurate and we may be exposed to more losses on these projects than on other loans.

At December 31, 2024, land and construction loans, (including land acquisition and development loans) totaled $127.8 million or 4% of our portfolio. Of these loans, 18% were comprised of owner occupied and 82% non-owner occupied land and construction loans. These loans involve additional risks because funds are advanced upon the security of the project, which is of uncertain value prior to its completion, and costs may exceed realizable values in declining real estate markets. Because of the uncertainties inherent in estimating construction costs and the realizable market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated or market values or rental rates decline, we may have inadequate security for the repayment of the loan upon completion of project construction. If we are forced to foreclose on a project prior to or at completion due to a default, we may not be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs. In addition, we may be required to fund additional amounts to complete the project and may have to hold the property for an unspecified period of time while we attempt to dispose of it.

Increased scrutiny by regulators of commercial real estate concentrations could restrict our activities and impose financial requirements or limits on the conduct of our business.

Banking regulators are giving commercial real estate lending greater scrutiny, and may require banks with higher levels of commercial real estate loans to implement improved underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for credit losses on loans and capital levels as a result of commercial real estate lending growth and exposures. Therefore, we could be required to raise additional capital or restrict our future growth as a result of our higher level of commercial real estate loans.

Our use of appraisals in deciding whether to make a loan on or secured by real property does not ensure the value of the real property collateral.

In considering whether to make a loan secured by real property we generally require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is conducted, and an error in fact or judgment could adversely affect the reliability of an appraisal. In addition, events occurring after the initial appraisal may cause the value of the real estate to decrease. As a result of any of these factors the value of collateral securing a loan may be less than estimated, and if a default occurs, we may not recover the outstanding balance of the loan.

Many of our loans are to commercial borrowers, which may have a higher degree of risk than other types of borrowers.

At December 31, 2024, commercial loans totaled $531.4 million or 15% of our loan portfolio (including SBA loans, asset-based lending, and factored receivables). Commercial loans are often larger and involve greater risks than other types of lending. Because payments on such loans are often dependent on the successful operation or development of the property or business involved, repayment of such loans is often more sensitive than other types of loans to adverse conditions in the real estate market or the general business climate and economy. Accordingly, a downturn in the real estate market and a challenging business and economic environment may increase our risk related to commercial loans, particularly commercial real estate loans. Unlike home mortgage loans, which generally are made on the basis of the borrowers' ability to make repayment from their employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial loans typically are made on the basis of the borrowers' ability to make repayment from the cash flow of the commercial venture. Our commercial and industrial loans are primarily made based on the identified cash flow of the borrower and secondarily on the collateral underlying the loans. Most often, collateral consists of accounts receivable, inventory and equipment and may incorporate a personal guarantee. Inventory and equipment may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. Accounts receivable may be uncollectable. If the cash flow from business operations is reduced, the borrower's ability to repay the loan may be impaired. Vacancy rates can also negatively impact cash flows from business operations. Thus, HBC's borrowers and their guarantors could be adversely impacted by a downturn in these sectors of the economy which could further impact the borrower's ability to repay their loans. Due to the larger average size of each commercial loan as compared with other loans such as residential loans, as well as collateral that is generally less readily-marketable, losses incurred on a small number of commercial loans could have a material adverse effect on our business, financial condition and results of operations.

The small and medium-sized businesses that we lend to may have fewer resources to weather adverse business developments, which may impair a borrower's ability to repay a loan, and such impairment could adversely affect our business, financial condition and results of operation.

We target our business development and marketing strategy primarily to serve the banking and financial services needs of small to medium-sized businesses. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities, frequently have smaller market shares than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small and medium-sized business often depends on the management talents and efforts of one or two people or a small group of people, and the death, disability or resignation of one or more of these people could have a material adverse impact on the business and its ability to repay its loan. Negative general economic conditions in our markets where we operate that adversely affect our medium-sized business borrowers may impair the borrower's ability to repay a loan and such impairment could have a material adverse effect on our business, financial condition and results of operation.

Risks Related to our SBA Loan Program

Small Business Administration lending is an important part of our business. Our SBA lending program is dependent upon the U.S. federal government, and we face specific risks associated with originating SBA loans.

At December 31, 2024, SBA loans totaled $29.9 million, which are included in the commercial loan portfolio. SBA loans held-for-sale totaled $2.4 million at December 31, 2024. Our SBA lending program is dependent upon the U.S. federal government. As an approved participant in the SBA Preferred Lender's Program (an "SBA Preferred Lender"), we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. When weaknesses are identified, the SBA may request corrective actions or impose enforcement actions, including revocation of the lender's SBA Preferred Lender status. If we lose our status as an SBA Preferred Lender, we may lose some or all of our clients to lenders who are SBA Preferred Lenders, and as a result we could experience a material adverse effect to our financial results. Any changes to the SBA program, including but not limited to changes to the level of guarantee provided by the federal government on SBA loans, changes to program specific rules impacting volume eligibility under the guaranty program, as well as changes to the program amounts authorized by Congress may also have a material adverse effect on our business. In addition, any default by the U.S. government on its obligations or any prolonged government shutdown could, among other things, impede our ability to originate SBA loans or sell such loans in the secondary market, which could have a material adverse effect on our business, financial condition and results of operations.

The SBA's 7(a) Loan Program is the SBA's primary program for helping start-up and existing small businesses, with financing guaranteed for a variety of general business purposes. Generally, we sell the guaranteed portion of our SBA 7(a) loans in the secondary market. These sales result in premium income for us at the time of sale and create a stream of future servicing income, as we retain the servicing rights to these loans. For the reasons described above, we may not be able to continue originating these loans or sell them in the secondary market. Furthermore, even if we are able to continue to originate and sell SBA 7(a) loans in the secondary market, we might not continue to realize premiums upon the sale of the guaranteed portion of these loans or the premiums may decline due to economic and competitive factors. When we originate SBA loans, we incur credit risk on the non-guaranteed portion of the loans, and if a client defaults on a loan, we share any loss and recovery related to the loan pro-rata with the SBA. If the SBA establishes that a loss on an SBA guaranteed loan is attributable to significant technical deficiencies in the manner in which the loan was originated, funded or serviced by us, the SBA may seek recovery of the principal loss related to the deficiency from us. Generally, we do not maintain reserves or loss allowances for such potential claims and any such claims could materially adversely affect our business, financial condition and results of operations.

In addition, the Company's SBA loans include loans under the U.S. Department of Agriculture guaranteed lending programs.

The laws, regulations and standard operating procedures that are applicable to SBA loan products may change in the future. We cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies and especially our organization, changes in the laws, regulations and procedures applicable to SBA loans could adversely affect our ability to operate profitably.

The recognition of gains on the sale of loans and servicing asset valuations reflect certain assumptions.

We expect that gains on the sale of U.S. government guaranteed loans will contribute to noninterest income. The gains on such sales recognized for the year ended December 31, 2024 was $473,000. The determination of these gains is based on assumptions regarding the value of unguaranteed loans retained, servicing rights retained and deferred fees and costs, and net premiums paid by purchasers of the guaranteed portions of U.S. government guaranteed loans. The value of retained unguaranteed loans and servicing rights are determined based on market derived factors such as prepayment rates, current market conditions and recent loan sales. Deferred fees and costs are determined using internal analysis of the cost to originate loans. Significant errors in assumptions used to compute gains on sale of loans or servicing asset valuations could result in material revenue misstatements, which may have a material adverse effect on our business, financial condition and results of operations.

We originated $38.8 million of SBA loans for the year ended December 31, 2024. We sold $5.9 million of the guaranteed portion of our SBA loans for the year ended December 31, 2024. We generally retain the non-guaranteed portions of the SBA loans that we originate. Consequently, as of December 31, 2024, we held $32.3 million of SBA loans (including loans held-for-sale) on our balance sheet, $18.3 million of which consisted of the non-guaranteed portion of SBA loans, and $14.0 million of which consisted of the guaranteed portion of SBA loans. At December 31, 2024, $2.4 million, or 7.35%, consisted of the guaranteed portion of SBA loans which we intend to sell in 2025. The non-guaranteed portion of SBA loans have a higher degree of credit risk and risk of loss as compared to the guaranteed portion of such loans and make up a substantial majority of our remaining SBA loans.

When we sell the guaranteed portion of SBA loans in the ordinary course of business, we are required to make certain representations and warranties to the purchaser about the SBA loans and the manner in which they were originated. Under these agreements, we may be required to repurchase the guaranteed portion of the SBA loan if we have breached any of these representations or warranties, in which case we may record a loss. In addition, if repurchase and indemnity demands increase on loans that we sell from our portfolios, our liquidity, results of operations and financial condition could be adversely affected. Further, we generally retain the non-guaranteed portions of the SBA loans that we originate and sell, and to the extent the borrowers of such loans experience financial difficulties, our financial condition and results of operations could be adversely impacted.

Risks Related to our Credit Quality

Our business depends on our ability to successfully manage credit risk.

The operation of our business requires us to manage credit risk. As a lender, we are exposed to the risk that our borrowers will be unable to repay their loans according to their terms, and that the collateral securing repayment of their loans, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers. In order to successfully manage credit risk, we must, among other things, maintain disciplined and prudent underwriting standards and ensure that our bankers follow those standards. The weakening of these standards for any reason, a lack of discipline or diligence by our team members in underwriting and monitoring loans, the inability of our team members to adequately adapt policies and procedures to changes in economic or any other conditions affecting borrowers and the quality of our loan portfolio, may result in loan defaults, foreclosures and additional charge-offs and may necessitate that we significantly increase our allowance for credit losses on loans, each of which could adversely affect our net income. As a result, our inability to successfully manage credit risk could have a material adverse effect on our business, financial condition and results of operations.

Our allowance for credit losses on loans may prove to be insufficient to absorb potential losses in our loan portfolio.

We maintain an allowance for credit losses on loans to provide for loan defaults and non-performance, which reflects our estimate of the current expected credit losses in our loan portfolio at the relevant balance sheet date. Our allowance for credit losses was $49.0 million, or 1.40% expressed as a percentage of loans, at December 31, 2024. Allowance for credit losses on loans is funded from a provision for credit losses on loans, which is a charge to our income statement. The Company had a provision for credit losses on loans of $2.1 million for the year ended December 31, 2024. The processes we use to estimate the allowance for credit losses on loans and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depends upon the use of analytical models which takes into account known risks, composition and growth of the loan portfolio and economic forecasts. These models may not be accurate, particularly in times of market stress, unforeseen circumstances or due to flaws in the model's design or implementation. If the models we use for interest rate risk and asset-liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models we use for determining the allowance for credit losses on loans are inadequate, the allowance for credit losses on loans may not be sufficient to support future charge-offs. If the models we use to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Any such failure in our analytical models could result in losses that could have a material adverse effect on our business, financial condition and results of operations.

In addition, we evaluate all loans identified as individually evaluated loans and allocate an allowance based upon our estimation of the potential loss associated with those problem loans. While we strive to carefully manage and monitor credit quality and to identify loans that may be deteriorating, at any time there are loans included in the portfolio that may result in losses, but that have not yet been identified as nonperforming or potential problem loans. Through established credit practices, we attempt to identify deteriorating loans and adjust the allowance for credit losses on loans accordingly. However, because future events are uncertain and because we may not successfully identify all deteriorating loans in a timely manner, there may be loans that deteriorate in an accelerated time frame. We cannot be sure that we will be able to identify deteriorating loans before they become nonperforming assets, or that we will be able to limit losses on those loans that have been so identified.

Although management believes that the allowance for credit losses on loans is adequate to absorb losses on any existing loans that may become uncollectible, we may be required to take additional provisions for credit losses on loans in the future to further supplement the allowance for credit losses on loans, either due to management's decision to do so or because our banking regulators require us to do so. Our bank regulatory agencies will periodically review our allowance for credit losses on loans and the value attributed to nonaccrual loans or to real estate acquired through foreclosure and may require us to adjust our determination of the value for these items. If our allowance for credit losses on loans is inaccurate, for any of the reasons discussed above (or other reasons), and is inadequate to cover the loan losses that we actually experience, the resulting losses could have a material adverse effect on our business, financial condition and results of operations.

Nonperforming assets adversely affect our results of operations and financial condition, and take significant time to resolve.

As of December 31, 2024, our nonperforming loans (which consist of nonaccrual loans, loans past due 90 days or more and still accruing interest) totaled $7.7 million, or 0.22% of our loan portfolio, and our nonperforming assets (which include nonperforming loans plus other real estate owned) also totaled $7.7 million, or 0.14% of total assets.

Our nonperforming assets adversely affect our net income in various ways. We do not record interest income on nonaccrual loans or other real estate owned, thereby adversely affecting our net interest income, net income and returns on assets and equity, and our loan administration costs increase, which together with reduced interest income adversely affects our efficiency ratio. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. Subsequently, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. When we take collateral in foreclosure and similar proceedings, we are required to mark the collateral to its then-fair market value, which may result in a loss. These nonperforming loans and other real estate owned also increase our risk profile and the level of capital our regulators believe is appropriate for us to maintain in light of such risks. The resolution of nonperforming assets requires significant time commitments from management and can be detrimental to the performance of their other responsibilities. If we experience increases in nonperforming loans and nonperforming assets, our net interest income may be negatively impacted and our loan administration costs could increase, each of which could have a material adverse effect on our business, financial condition and results of operations.

We could be exposed to risk of environmental liabilities with respect to properties to which we take title.

In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. Significant environmental liabilities could have a material adverse effect on our business, financial condition, and results of operations.

Risks Related to Our Growth Strategy

We face risks related to any future acquisitions we make.

We plan to continue to grow our business organically. However, from time to time, we may consider opportunistic strategic acquisitions that we believe support our long-term business strategy. We face significant competition from numerous other financial services institutions, many of which will have greater financial resources than we do, when considering acquisition opportunities. Additionally, the process for obtaining any required regulatory approvals has become substantially more difficult, which could affect our evaluation or completion of strategic and competitively significant business opportunities. Accordingly, attractive acquisition opportunities may not be available to us. We may not be successful in identifying or completing any future acquisitions, and we may incur expenses as a result of seeking these opportunities regardless of whether they are consummated. Acquisitions of financial institutions involve operational risks and uncertainties and acquired companies may have unforeseen liabilities, exposure to asset quality problems, key employee and client retention problems and other problems that could negatively affect our organization.

If we complete any future acquisitions, we may not be able to successfully integrate the operations, management, products and services of the entities that we acquire and eliminate redundancies. The integration process could result in the loss of key employees or disruption of the combined entity's ongoing business that adversely affect our ability to maintain relationships with clients and employees or achieve the anticipated benefits of the transaction. The integration process may also require significant time and attention from our management that they would otherwise direct at servicing existing business and developing new business. We may not be able to realize any projected cost savings, synergies or other benefits associated with any such acquisition we complete. We cannot determine all potential events, facts and circumstances that could result in loss and our investigation or mitigation efforts may be insufficient to protect against any such loss.

If the goodwill that we recorded in connection with a business acquisition becomes impaired, it could require charges to earnings, which would have a negative impact on our financial condition and results of operations.

Goodwill represents the amount by which the cost of an acquisition exceeded the fair value of net assets we acquired in connection with the purchase. At December 31, 2024, our acquisition-related goodwill as reflected on our balance sheet was $167.6 million. Management assesses whether it is necessary to perform a quantitative impairment test of goodwill on a quarterly basis. In addition, the Company hires a third-party vendor to test goodwill for impairment annually as of November 30, or on an interim basis if an event triggering impairment assessment may have occurred. We determine impairment by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. Estimates of fair value are determined based on a complex model using cash flows, the fair value of our Company as determined by our stock price, and company comparisons. If management's estimates of future cash flows are inaccurate, fair value determined could be inaccurate and impairment may not be recognized in a timely manner. If the carrying amount (book value) of the reporting unit exceeds the fair value of the reporting unit, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in our results of operations in the periods in which they become known. There can be no assurance that our future evaluations of goodwill will not result in findings of impairment and related write-downs, which may have a material adverse effect on our financial condition and results of operations.

We must effectively manage our branch growth strategy.

We seek to expand our franchise safely and consistently. A successful growth strategy requires us to manage multiple aspects of our business simultaneously, such as following adequate loan underwriting standards, balancing loan and deposit growth without increasing interest rate risk or compressing our net interest margin, maintaining sufficient capital, maintaining proper system and controls, and recruiting, training and retaining qualified professionals. We also may experience a lag in profitability associated with new branch openings. As part of our general growth strategy we may expand into additional communities or attempt to strengthen our position in our current markets by opening new offices, subject to any regulatory constraints on our ability to open new offices. To the extent that we are able to open additional offices, we are likely to experience the effects of higher operating expenses relative to operating income from the new operations for a period of time which could have a material adverse effect on our business, financial condition and results of operations.

New lines of business or new products and services may subject us to additional risks.

From time to time, we may implement or may acquire new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and new products and services we may invest significant time and resources. We may not achieve target timetables for the introduction and development of new lines of business and new products or services and price and profitability targets may not prove feasible. External factors, such as regulatory compliance obligations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Financial Strength and Liquidity

An actual or perceived reduction in our financial strength may cause others to reduce or cease doing business with us, which could result in a decrease in our net interest income and fee revenues.

Our clients rely upon our financial strength and stability and evaluate the risks of doing business with us. If we experience diminished financial strength or stability, actual or perceived, including due to market or regulatory developments, announced or rumored business developments or results of operations, or a decline in stock price, clients may withdraw their deposits or otherwise seek services from other banking institutions and prospective clients may select other service providers. The risk that we may be perceived as less creditworthy relative to other market participants is increased in the current market environment, where the consolidation of financial institutions, including major global financial institutions, is resulting in a smaller number of much larger counterparties and competitors. If clients reduce their deposits with us or select other service providers for all or a portion of the services that we provide them, net interest income and fee revenues will decrease accordingly, and could have a material adverse effect on our results of operations.

Increasing challenges in credit markets and the effects on our current and future borrowers have adversely affected, and in the future may adversely affect, our loan portfolio and may result in losses or increasing provision expense.

Although the Federal Reserve System (commonly referred to as "the Fed") has recently made modest incremental reductions in benchmark interest rates, the current interest rate environment remains significantly elevated from those of the recent past, and recent indications as of the date of this report are that further reductions are unlikely in the near future. Interest rates affect both our ability to reprice variable-rate loans and to originate new fixed-rate loans, and in times of significant uncertainty about interest rates, such as the present, clients and prospective investors often reduce their borrowing levels, which tends to have a deflating effect on our outstanding loan balances and thus on our interest income.

During the third and fourth quarters of 2024, the Federal Reserve Open Markets Committee cut benchmark interest rates three times and for the first time since 2020. While we do not presently expect that the Fed will resume increases to benchmark interest rates, we are unable to predict changes in future interest rates. Further, the conditions that led the Fed to make these reductions remain uncertain and volatile, and thus are highly unpredictable. This is particularly true of the risks of political instability associated with the new presidential administration and subsequent governmental and economic reactions. If rates resume increasing, or if they continue to remain at relatively elevated levels for prolonged periods, our borrowers may experience increasing difficulty in repaying their loans. Further, borrowers may defer additional borrowing decisions pending the resolution of both the political uncertainties and the potential for further market adjustments in response to those matters and to general economic conditions.

To the extent interest rates remain relatively elevated, or if economic conditions affecting our borrowers worsen, our allowance for credit losses and related provision could be negatively impacted, which would result in a reduction in net income for the corresponding period, or in some cases we may experience losses in excess of established reserves, which would have a similar effect. At the same time, even if interest rates stabilize or if reductions are less significant than clients expect, we may confront a loss of demand that adversely affects our interest earning assets. Either of these outcomes, alone or in combination with other factors, may have a material adverse effect on our results of operations.

Fluctuations in interest rates may reduce net interest income and otherwise negatively affect our business, financial condition and results of operations.

Shifts in short-term interest rates may reduce net interest income, which is the principal component of our earnings. Net interest income is the difference between the amounts received by us on our interest-earning assets and the interest paid by us on our interest-bearing liabilities. When interest rates rise, the rate of interest we receive on our assets, such as floating interest rate loans, rises more quickly than the rate of interest that we pay on our interest-bearing liabilities, such as deposits, which may cause our profits to increase. When interest rates decrease, the rate of interest we receive on our assets, such as floating interest rate loans, declines more quickly than the rate of interest that we pay on our interest-bearing liabilities, such as deposits, which may cause our profits to decrease.

Changes in interest rates could influence our ability to originate loans and deposits. Historically, there has been an inverse correlation between the demand for loans and interest rates. Loan origination volume usually declines during periods of rising or high interest rates and increases during periods of declining or low interest rates.

Changes in interest rates can also affect the level of loan refinancing activity, which impacts the amount of prepayment penalty income we receive on loans we hold. Because prepayment penalties are recorded as interest income when received, the extent to which they increase or decrease during any given period could have a significant impact on the level of net interest income and net income we generate during that time. A decrease in our prepayment penalty income resulting from any change in interest rates or as a result of regulatory limitations on our ability to charge prepayment penalties could therefore adversely affect our net interest income, net income or results of operations.

An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. Subsequently, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income.

Changes in interest rates also can affect the value of loans, securities and other assets. Rising interest rates will result in a decline in value of the fixed-rate debt securities we hold in our investment securities portfolio. The unrealized losses resulting from holding these securities would be recognized in accumulated other comprehensive income and reduce total shareholders' equity. Unrealized losses do not negatively impact our regulatory capital ratios. However, tangible common equity and the associated ratios would be reduced. If debt securities in an unrealized loss position are sold, such losses become realized and will reduce our regulatory capital ratios.

Failure to maintain effective internal controls over financial reporting could have a material adverse effect on our business and stock price.

We are required to comply with the Securities and Exchange Commission's ("SEC") rules implementing Section 302, Section 404, and Section 906 of the Sarbanes-Oxley Act, which will require management to certify financial and other information in our quarterly and annual reports and provide an annual management report as to the effectiveness of controls over financial reporting. If we identify any material weaknesses in our internal control over financial reporting or are unable to comply with the requirements of Section 404 in a timely manner or assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors, counterparties and clients may lose confidence in the accuracy and completeness of our financial statements and reports; our liquidity, access to capital markets and perceptions of our creditworthiness could be adversely affected; and the market price of our common stock could decline. In addition, we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, the Federal Reserve, the FDIC, the California Department of Financial Protection and Innovation ("DFPI") or other regulatory authorities, which could require additional financial and management resources. These events could have a material adverse effect on our business and stock price.

We have significant deferred tax assets and cannot assure that they will be fully realized.

Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between the carrying amounts and tax basis of assets and liabilities computed using enacted tax rates. We regularly assess available positive and negative evidence to determine whether it is more likely than not that our net deferred tax assets will be realized. Realization of a deferred tax asset requires us to apply significant judgment and is inherently speculative because it requires estimates that cannot be made with certainty. At December 31, 2024, we had a net deferred tax asset of $27.8 million. If we were to determine at some point in the future that we will not achieve sufficient future taxable income to realize our net deferred tax asset, we would be required, under generally accepted accounting principles, to establish a full or partial valuation allowance which would require us to incur a charge to income for the period in which the determination was made.

Fluctuations in market interest rates may have a material effect on the value of the Company's securities portfolio.

As of December 31, 2024, the fair value of our securities portfolio was approximately $753.3 million, of which approximately $256.3 million were categorized as available-for-sale. Fixed-rate investment securities, such as bonds, treasuries and mortgage-backed securities, generally decline in value when interest rates rise above the rates applicable to such securities. Correspondingly, declining interest rates tend to increase the value of fixed-rate securities issued in times of relatively higher rates, but those declines also affect our net interest income because they force us to pay above-market rates on certificates of deposit and other longer-term obligations, and clients tend to exit those investments less frequently under those conditions because their earning capacity in other investments is relatively less attractive.

In response to inflationary pressures and other general economic conditions, the Federal Open Market Committee of the Board of Governors of the Fed rapidly and significantly increased interest rates between early 2022 and mid-2024, which resulted in declines in the carrying value of both our held-to-maturity and, particularly, our available-for-sale securities portfolios. Market interest rates have declined modestly in response to the Fed's recent interest rate reductions. However, the economy remains highly uncertain with respect to various factors, including inflation and employment statistics, and it is thus extremely difficult for management to predict when, to what degree, or in which direction the Fed may attempt to adjust rates further. Such fluctuations have in the past resulted in declines, and in the future may cause further declines, in the carrying value of our available-for-sale securities portfolio and our portfolio of fixed rate loans, as well as the value of securities pledged as collateral for certain borrowing lines. These trends can be exacerbated if the Company were required to sell such securities to meet liquidity needs, including in the event of deposit outflows or slower deposit growth. Correspondingly, additional rate reductions may affect our net interest income as we seek to price our deposit products in a way that remains competitive and attractive to clients, while also mitigating the risk that future declines may leave us with elevated borrowing costs.

Additional factors beyond our control can further significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. Additional factors include, but are not limited to, rating agency downgrades of the securities or our own analysis of the value of the security, defaults by the issuer or individual mortgagors with respect to the underlying securities, and continued instability in the credit markets. Any of the foregoing factors could cause credit-related impairment in future periods and result in realized losses. The process for determining whether impairment is credit related usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting interest rates, we may recognize realized and/or unrealized losses in future periods, or we may face periods of compressed net interest margins, either of which could have a material adverse effect on our business, financial condition and results of operations.

Adverse changes to our credit ratings could limit our access to funding and increase our borrowing costs.

Credit ratings are subject to ongoing review by rating agencies, which consider a number of factors, including our financial strength, performance, prospects and operations as well as factors not under our control. Other factors that influence our credit ratings include changes to the rating agencies' methodologies for our industry or certain security types; the rating agencies' assessment of the general operating environment for financial services companies; our relative positions in the markets in which we compete; our various risk exposures and risk management policies and activities; pending litigation and other contingencies; our reputation; our liquidity position, diversity of funding sources and funding costs; the current and expected level and volatility of our earnings; our capital position and capital management practices; our corporate governance; current or future regulatory and legislative initiatives; and the agencies' views on whether the U.S. government would provide meaningful support to us or our subsidiaries in a crisis. Rating agencies could make adjustments to our credit ratings at any time, and there can be no assurance that they will maintain our ratings at current levels or that downgrades will not occur.

Any downgrade in our credit ratings could potentially adversely affect the cost and other terms upon which we are able to borrow or obtain funding, increase our cost of capital and/or limit our access to capital markets. Credit rating downgrades or negative watch warnings could negatively impact our reputation with lenders, investors and other third parties, which could also impair our ability to compete in certain markets or engage in certain transactions. In particular, holders of deposits may perceive such a downgrade or warning negatively and withdraw all or a portion of such deposits. While certain aspects of a credit rating downgrade are quantifiable, the impact that such a downgrade would have on our liquidity, business and results of operations in future periods is inherently uncertain and would depend on a number of interrelated factors, including, among other things, the magnitude of the downgrade, the rating relative to peers, the rating assigned by the relevant agency pre-downgrade, individual client behavior and future mitigating actions we might take.

Liquidity risks could affect operations and jeopardize our business, financial condition, and results of operations.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and/or investment securities, and from other sources could have a substantial negative effect on our liquidity. Our most important source of funds consists of our client deposits. If the Company is unable to maintain or grow its deposits, it may be subject to paying higher funding costs. The composition of our deposit base, and particularly the extent to which our deposits are not federally insured, may present a heightened risk of withdrawal. Such deposit balances can decrease during periods of economic uncertainty or when clients perceive alternative investments are providing a better risk/return tradeoff. Our measures to mitigate these risks, including correspondent deposit relationships, may not be completely effective in retaining and reassuring clients about their deposits and may increase the costs of maintaining or growing those deposits resulting in higher funding costs. Further, significant economic fluctuations, or clients' expectations about such events (whether or not those expectations materialize) may exacerbate depositors' sensitivity to the availability of cash to fund immediate withdrawals. If clients move money out of bank deposits and into other investments, we could face a material decrease in the volume of our deposits and lose a relatively low cost source of funds, thereby increasing our funding costs and reducing net interest income and net income. We could have to raise interest rates to retain deposits, thereby increasing our funding costs and reducing net interest income and net income.

Additional liquidity is provided by our ability to borrow from the Federal Reserve Bank of San Francisco and the Federal Home Loan Bank of San Francisco. We also may borrow from third-party lenders from time to time. Our access to funding sources in amounts adequate to finance or capitalize our activities on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry.

Any decline in available funding could adversely impact our ability to continue to implement our strategic plan, including our ability to originate loans, invest in securities, meet our expenses, or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse effect on our liquidity, business, financial condition and results of operations.

Risks Related to Our Capital

We may be subject to more stringent capital requirements in the future.

We are subject to current and changing regulatory requirements specifying minimum amounts and types of capital that we must maintain. The failure to meet applicable regulatory capital requirements could result in one or more of our regulators placing limitations or conditions on our activities, including our growth initiatives, or restricting the commencement of new activities, and could affect client and investor confidence, our costs of funds and FDIC insurance costs, our ability to pay dividends on our common stock, our ability to fund share repurchases, our ability to make acquisitions, and could materially adversely affect our business, financial condition and results of operations.

We may need to raise additional capital in the future, and if we fail to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, as well as our ability to maintain regulatory compliance, would be adversely affected.

We face significant capital and other regulatory requirements as a financial institution. We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, which could include the possibility of financing acquisitions. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on our financial condition and performance. Any occurrence that may limit our access to the capital markets may adversely affect our capital costs and our ability to raise capital. Moreover, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would have to compete with those institutions for investors. We, therefore, may not be able to raise additional capital if needed or on terms acceptable to us.

Risks Related to Our Legal and Regulatory Environment

We are subject to extensive and complex regulations which are costly to comply with and may subject us to significant penalties for noncompliance.

Our operations are subject to extensive regulation by federal, state and local governmental authorities, including the FDIC, the Federal Reserve and the California Department of Financial Protection and Innovation, and to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Many of these laws are complex, especially those governing fair lending, predatory or unfair or deceptive practices, and other consumer-focused practices. Similarly, these laws and regulations have expanded substantially in terms of scope and complexity in recent years, and this expansion can be expected to continue. The complexity of those rules creates additional potential liability for us because noncompliance could result in significant regulatory action, including restrictions on operations and fines, and could lead to class action lawsuits from shareholders, consumers and employees. In addition, various states, particularly California, where substantially all our operations and banking activities take place, have their own laws and regulations. These state-specific regulations include heightened data privacy, employment law and consumer protection regulations, and the cost of complying with state rules that differ from federal rules can significantly increase compliance costs.

The laws, rules and regulations to which we are subject evolve and change frequently, including changes that come from judicial or administrative agency interpretations of laws and regulations outside of the legislative process that may be more difficult to anticipate, and changes to our regulatory environment are often driven by shifts of political power in the federal government. In addition, we are subject to various examinations by our regulators during the course of the year. Regulatory authorities who conduct these examinations have extensive discretion in their interpretation of various laws and regulations and in their supervisory and enforcement activities, including the authority to restrict our operations and certain corporate actions. Administrative and judicial interpretations of the rules that apply to our business may change the way such rules are applied, which also increases our compliance risk if the interpretation differs from our understanding or prior practice. Moreover, an increasing amount of the regulatory authority that pertains to financial institutions is in the form of informal "guidance" such as handbooks, guidelines, examination manuals, field interpretations by regulators or similar provisions that could affect our business or require changes in our practices in the future even if they are not formally adopted as laws or regulations. Any such changes could adversely affect our cost of doing business and our profitability and may create operational and legal risks that are difficult to anticipate or to mitigate.

In addition, changes in regulation of our industry have the potential to create higher costs of compliance, including short-term costs to meet new compliance standards, limit our ability to pursue business opportunities and increase our exposure to potential fines, penalties and litigation.

Changes in accounting standards could materially impact our financial statements.

From time to time, the Financial Accounting Standards Board or the SEC, may change the financial accounting and reporting standards that govern the preparation of our financial statements. Such changes may result in us being subject to new or changing accounting and reporting standards. In addition, the bodies that interpret the accounting standards (such as banking regulators or outside auditors) may change their interpretations or positions on how these standards should be applied. These changes may be beyond our control, can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retrospectively, or apply an existing standard differently, also retrospectively, in each case resulting in our needing to revise or restate prior period financial statements. Restating or revising our financial statements may result in reputational harm or may have other adverse effects on us.

Litigation, regulatory actions, investigations or similar matters, could subject us to uninsured liabilities and reputational harm and otherwise materially affect our business, financial condition and results of operations.

We are and will continue to be involved from time to time in a variety of litigation, regulatory actions, investigations or similar matters arising out of our business. These matters may include supervisory or enforcement actions by our regulators, criminal proceedings by prosecutorial authorities, claims by clients or by former and current employees, including class, collective and representative actions, or environmental lawsuits stemming from property that we may hold as OREO following a foreclosure action in the course of our business. It is inherently difficult to assess the outcome of these matters, and we may not prevail in any proceedings or litigation. Any such matters could be time-consuming and expensive to resolve, involve regulatory sanctions, civil money penalties or fines, divert management attention from executing our business plan, and lead to attempts on the part of other parties to pursue similar claims. Any proceedings or claims asserted against us, regardless of merit or eventual outcome may harm our reputation. To mitigate the cost of some of these matters, we maintain insurance coverage in amounts and with deductibles that we believe are appropriate for our operations. However, our insurance coverage does not cover any civil monetary penalties, punitive damages or fines imposed by government authorities and may not cover all other claims that might be brought against us, including certain wage and hour class, collective and representative actions brought by clients, team members or former team members, and ponzi schemes. In addition, such insurance coverage may not continue to be available to us at a reasonable cost or at all. As a result, we may be exposed to substantial uninsured liabilities, reputational harm, regulatory sanctions or other effects which could adversely affect our business, prospects, financial condition, results of operations and capital position.

The failure to protect our clients' confidential information, data and privacy could adversely affect our business.

We are subject to federal and state privacy regulations and confidentiality obligations, including the California Consumer Privacy Act of 2018 and the California Privacy Rights Act of 2020, that, among other things restrict the use and dissemination of, and access to, certain information that we produce, store or maintain in the course of our business and establishes a new state agency to enforce these rules. We also have contractual obligations to protect certain confidential information we obtain from our existing vendors and clients. These obligations generally include protecting such confidential information in the same manner and to the same extent as we protect our own confidential information, and in some instances may impose indemnity obligations on us relating to unlawful or unauthorized disclosure of any such information.

The continued development and enhancement of our information security controls, processes and practices designed to protect client information, our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for our management as we increase our online and mobile banking offerings. As cyber threats continue to evolve, including supply chain risks, our costs to combat the cybersecurity threat can be expected to increase. Nonetheless, our measures may be insufficient to prevent all physical and electronic break-ins, denial of service and other cyber-attacks or security breaches.

If we do not properly comply with privacy regulations and contractual obligations that require us to protect confidential information, or if we experience a security breach or network compromise, we could face regulatory sanctions, penalties or fines, increased compliance costs, remedial costs such as providing credit monitoring or other services to affected clients, litigation and damage to our reputation, which in turn could result in decreased revenues and loss of clients, any or all of which would have a material adverse effect on our business, financial condition, results of operations and capital position.

Risks from Competition

We face strong competition from financial services companies and other companies that offer commercial banking services, which could harm our business.

We face substantial competition in all phases of our operations from a variety of different competitors. Our competitors, including larger commercial banks, community banks, savings and loan associations, mutual savings banks, credit unions, consumer finance companies, insurance companies, securities dealers, brokers, mortgage bankers, investment advisors, money market mutual funds and other financial institutions, compete with lending and deposit gathering services offered by us. Many of these competing institutions have much greater financial and marketing resources than we have. Due to their size, many competitors can achieve larger economies of scale and may offer a broader range of products and services than we can. If we are unable to offer competitive products and services, our business may be negatively affected. Some of the financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on bank holding companies and federally insured financial institutions or are not subject to increased supervisory oversight arising from regulatory examinations. As a result, these non-bank competitors have certain advantages over us in accessing funding and in providing various services.

We anticipate intense competition will continue for the coming year due to the recent consolidation of many financial institutions and more changes in legislation, regulation and technology. Further, we expect loan demand to continue to be challenging due to the uncertain economic climate and the intensifying competition for creditworthy borrowers, both of which could lead to loan rate concession pressure and could impact our ability to generate profitable loans. We expect we may see tighter competition in the industry as banks seek to take market share in the most profitable client segments, particularly the small business segment and the mass affluent segment, which offers a rich source of deposits as well as more profitable and less risky client relationships. Further, if there is a rebound of higher interest rates our deposit clients may perceive alternative investment opportunities as providing superior expected returns. Efforts and initiatives we undertake to retain and increase deposits, including deposit pricing, can increase our costs. When our clients move money into higher yielding deposits or in favor of alternative investments, we can lose a relatively inexpensive source of funds, thus increasing our funding costs.

New technology and other changes are allowing parties to effectuate financial transactions that previously required the involvement of banks. For example, consumers can maintain funds in brokerage accounts or mutual funds that would have historically been held as bank deposits. Consumers can also complete transactions such as paying bills and transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as “disintermediation,” could result in the loss of fee income, as well as the loss of client deposits and the related income generated from those deposits.

Increased competition in our markets may result in reduced loans, deposits, and fee income, as well as reduced net interest margin and profitability. If we are unable to attract and retain banking clients and expand our loan and deposit growth, then we may be unable to continue to grow our business which could have a material adverse effect on our financial condition and results of operations.

We have a continuing competitive need for technological change, and we may not have the resources to effectively implement new technology or we may experience operational challenges when implementing new technology.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new, technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve clients and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements than we do. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. We may not be able to effectively implement new, technology-driven products and services or be successful in marketing these products and services to our clients. In addition, the implementation of technological changes and upgrades to maintain current systems and integrate new ones may also cause service interruptions, transaction processing errors and system conversion delays and may cause us to fail to comply with applicable laws. Failure to successfully keep pace with technological change affecting the financial services industry and avoid interruptions, errors and delays could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Common Stock

An investment in our common stock is not an insured deposit.

An investment in our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described herein, and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you could lose some or all of your investment.

Issuing additional shares of our common stock to acquire other banks and bank holding companies or future equity raises may result in dilution for existing shareholders and may adversely affect the market price of our stock.

In connection with our growth strategy, we have issued, and may issue in the future, shares of our common stock to acquire additional banks or bank holding companies that may complement our organizational structure or to raise capital. Sales and resales of substantial amounts of common stock in the public market and the potential of such sales could adversely affect the prevailing market price of our common stock and impair the market price of our stock and our ability to raise additional capital through the sale of equity securities. We sometimes must pay an acquisition premium above the fair market value of acquired assets for the acquisition of banks or bank holding companies. Paying this acquisition premium, in addition to the dilutive effect of issuing additional shares, may also adversely affect the prevailing market price of our common stock.

The trading volume in our common stock is less than that of other larger financial services companies.

Although our common stock is listed for trading on The Nasdaq Stock Market LLC (“Nasdaq”), its trading volume is less than that of other, larger financial services companies, and investors are not assured that a liquid market will exist at any given time for our common stock. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace at any given time of willing buyers and sellers of our common stock. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the lower trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause our stock price to fall.

The price of our common stock may fluctuate significantly, and this may make it difficult for you to resell shares of common stock owned by you at times or at prices you find attractive.

The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility. In some cases, the markets have produced downward pressure on stock prices for certain issuers without regard to those issuers’ underlying financial strength. As a result, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur.

The trading price of the shares of our common stock will depend on many factors, which may change from time to time and which may be beyond our control, including, without limitation, our financial condition, performance, creditworthiness and prospects, future sales or offerings of our equity or equity related securities, and other factors identified above under "Cautionary Note Regarding Forward Looking Statements" and "Risk Factors" contained in this report. These broad market fluctuations have adversely affected and may continue to adversely affect the market price of our common stock, some of which are out of our control. Among the factors that could affect our stock price are:

- changes in business and economic condition;
- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- actual occurrence of one or more of the risk factors outlined above;
- recommendations by securities analysts or failure to meet, securities analysts' estimates of our financial and operating performance, or lack of research reports by industry analysts or ceasing of coverage;
- speculation in the press or investment community generally or relating to our reputation, our operations, our market area, our competitors or the financial services industry in general;
- strategic actions by us or our competitors, such as acquisitions, restructurings, dispositions or financings;
- actions by institutional investors;
- fluctuations in the stock price and operating results of our competitors;
- future sales of our equity, equity related or debt securities;
- proposed or adopted regulatory changes or developments;
- anticipated or pending investigations, proceedings, or litigation that involve or affect us;
- the level and extent to which we do or are allowed to pay dividends;
- trading activities in our common stock, including short selling;
- deletion from well-known index or indices;
- domestic and international economic factors unrelated to our performance; and
- general market conditions and, in particular, developments related to market conditions for the financial services industry.

Our dividend policy may change without notice, and our future ability to pay dividends is subject to restrictions.

Historically, our Board has declared quarterly dividends on our common stock. However, we have no obligation to continue doing so and may change our dividend policy at any time without notice to holders of our common stock. Holders of our common stock are only entitled to receive such cash dividends as our Board, in its discretion, may declare out of funds legally available for such payments. Furthermore, consistent with our strategic plans, growth initiatives, capital availability, projected liquidity needs, and other factors, we have made, and will continue to make, capital management decisions and policies that could adversely impact the amount of dividends paid to holders of our common stock.

HCC is a separate and distinct legal entity from HBC. We receive substantially all of our revenue from dividends paid to us by HBC, which we use as the principal source of funds to pay our expenses and to pay dividends to our shareholders, if any. Various federal and/or state laws and regulations limit the amount of dividends that HBC may pay us. The Basel III capital rules also provide for risk-based capital, leverage and liquidity standards, including capital conservation buffers, that result in restrictions on HBC and the Company's ability to make dividend payments, redemptions or other capital distributions. If the HBC does not receive regulatory approval or does not maintain a level of capital sufficient to permit it to make dividend payments to us while maintaining adequate capital levels, our ability to pay our expenses and our business, financial condition and results of operations could be materially adversely impacted.

As a bank holding company, we are subject to regulation by the Fed. The Fed has indicated that bank holding companies should carefully review their dividend policy in relation to the organization's overall asset quality, current and prospective earnings and level, composition and quality of capital. The guidance provides that we inform and consult with the Fed prior to declaring and paying a dividend that exceeds earnings for the period for which the dividend is being paid or that could result in an adverse change to our capital structure, including interest on our debt obligations. If required payments on our debt obligations are not made or are deferred, or dividends on any preferred stock we may issue are not paid, we will be prohibited from paying dividends on our common stock.

We have limited the circumstances in which our directors will be liable for monetary damages.

We have included in our articles of incorporation a provision to eliminate the liability of directors for monetary damages to the maximum extent permitted by California law. The effect of this provision will be to reduce the situations in which we or our shareholders will be able to seek monetary damages from our directors.

Our bylaws also have a provision providing for indemnification of our directors and executive officers and advancement of litigation expenses to the fullest extent permitted or required by California law, including circumstances in which indemnification is otherwise discretionary. Also, we have entered into agreements with our officers and directors in which we similarly agreed to provide indemnification that is otherwise discretionary. Such indemnification may be available for liabilities arising in connection with future offerings.

We may issue shares of preferred stock in the future, which could make it difficult for another company to acquire us or could otherwise adversely affect holders of our common stock, which could depress the price of our common stock.

Although there are currently no shares of our preferred stock issued and outstanding, our articles of incorporation authorize us to issue up to 10 million shares of one or more series of preferred stock. The board also has the power, without shareholder approval (subject to Nasdaq shareholder approval rules), to set the terms of any series of preferred stock that may be issued, including voting rights, dividend rights, preferences over our common stock with respect to dividends or in the event of a dissolution, liquidation or winding up and other terms. In the event that we issue preferred stock in the future that has preference over our common stock with respect to payment of dividends or upon our liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of the holders of our common stock or the market price of our common stock could be adversely affected. In addition, the ability of our Board to issue shares of preferred stock without any action on the part of our shareholders may impede a takeover of us and prevent a transaction perceived to be favorable to our shareholders.

The holders of our debt obligations will have priority over our common stock with respect to payment in the event of liquidation, dissolution or winding up and with respect to the payment of interest and dividends.

The holders of our debt obligations will have priority over our common stock with respect to payment in the event of liquidation, dissolution or winding up and with respect to the payment of interest and dividends.

In any liquidation, dissolution or winding up of the Company, our common stock would rank below all claims of the holders of outstanding debt issued by the Company. As of December 31, 2024, we had $40.0 million principal amount of subordinated notes outstanding due May 15, 2032. In such event, holders of our common stock would not be entitled to receive any payment or other distribution of assets upon the liquidation, dissolution or winding up of the Company until after all of the Company's obligations to the debt holders were satisfied and holders of the subordinated debt had received any payment or distribution due to them. In addition, we are required to pay interest on the subordinated notes and if we are in default in the payment of interest we would not be able to pay any dividends on our common stock.

Provisions in our charter documents and California law may have an anti-takeover effect, and there are substantial regulatory limitations on changes of control of bank holding companies.

Our articles of incorporation and bylaws contain a number of provisions relating to corporate governance and rights of shareholders that might discourage future takeover attempts. As a result, shareholders who might desire to participate in such transactions may not have an opportunity to do so. In addition, these provisions will also render the removal of our Board or management more difficult. Such provisions include a requirement that shareholder approval for any action proposed by the Company must be obtained at a shareholders meeting and may not be obtained by written consent. Our bylaws provide that shareholders seeking to make nominations of candidates for election as directors, or to bring other business before an annual meeting of the shareholders, must provide timely notice of their intent in writing and follow specific procedural steps in order for nominees or shareholder proposals to be brought before an annual meeting.

Provisions of our charter documents and the California General Corporation Law could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial by our shareholders. Furthermore, with certain limited exceptions, federal regulations prohibit a person or company or a group of persons deemed to be “acting in concert” from, directly or indirectly, acquiring more than 10% (5% if the acquirer is a bank holding company) of any class of our voting stock or obtaining the ability to control in any manner the election of a majority of our directors or otherwise direct the management or policies of our company without prior notice or application to and the approval of the Fed. Under the California Financial Code, no person may, directly or indirectly, acquire control of a California state bank or its holding company unless the DFPI has approved such acquisition of control. Moreover, the combination of these provisions effectively inhibits certain mergers or other business combinations, which, in turn, could adversely affect the market price of our common stock.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 1C. *CYBERSECURITY*

Risk Management and Strategy

Our cybersecurity program provides what we believe is an effective level of protection of client information and of our operating systems while also promoting the timely detection of, and defense against, cyberattacks and other unauthorized access to our information technology (“IT”) systems. In order to accomplish these goals, we invest heavily in up-to-date information security and monitoring controls, which we believe provide the best mechanism to mitigate cybersecurity risks and threats. At the same time, cyberattacks are becoming increasingly common, sophisticated and destructive, and several highly sophisticated financial institutions have been successfully targeted in recent years, leading to significant losses of client data, denials and loss of online banking and other data services, and other critical functions that have become essential to modern banking. In order to mitigate these risks and the potential harm that may result, our Chief Information Security Officer, who reports directly to the Chief Operating Officer and who reports regularly to our Board’s Audit Committee, oversees certain policies and procedures that are intended to guard against, detect, and respond to potential breaches of our IT systems. We also maintain and periodically review our cybersecurity disclosure procedures to assure the timely compliance with the Company’s obligations under Item 1.05 of Form 8-K.

Managing Material Risks & Integrated Overall Risk Management

We have strategically integrated cybersecurity risk management into our broader risk management framework to promote a company-wide culture of cybersecurity risk management. Our Company’s Information Security Program encompasses the guiding policies over our cybersecurity risk management. Additionally, our IT team uses industry-leading tools to help protect stakeholders against cybercriminals. We leverage the latest encryption practices and cyber technologies on our systems, devices, and third-party connections and further review vendor encryption to ensure proper information security safeguards are maintained. Our Company team members are responsible for complying with our cybersecurity standards and complete training to understand the behaviors and technical requirements necessary to keep information secure.

Engaging Third Parties for Risk Management

We recognize the complexity and evolving nature of cybersecurity threats, which is why we engage a range of external experts, including cybersecurity consultants, in evaluating and testing our risk management systems. Our IT security team partners with third-parties to perform annual penetration testing, vulnerability scanning, and monitoring of any potentially suspicious activity across the Company.

Oversight of Third-party Risk

The Company's Third-Party Relationship Risk Management ("TPRM") Policy governs of all aspects of third-party risk management. The Board has ultimate responsibility for providing oversight for third-party risk management and holding management accountable. The Board provides clear guidance to the Audit Committee and management regarding the Company's strategic goals and acceptable risk appetite with respect to third-party relationships. The Board reviews the TPRM Policy on at least an annual basis and ensures that appropriate implementation procedures and practices have been established by management. The Chief Risk Officer is responsible for development and implementation of third-party risk management policies, procedures, and practices, commensurate with the Company's strategic goals, risk appetite and the level of risk and complexity of its third-party relationships. The Chief Risk Officer periodically provides reports to the Audit Committee on third-party risk management activities. The Company's Internal Audit department determines the frequency and scope of independent third-party audits of the TPRM program and its effectiveness.

The Company recognizes that not all third-party relationships present the same level of risk, and therefore not all third-party relationships require the same level, degree or type of oversight or risk management. As part of its risk management program, management analyzes the specific risks associated with each third-party relationship, including but not limited to, cybersecurity and information security related risks.

Risks from Cybersecurity Threats

We have not encountered cybersecurity risks or threats that have materially impaired our business strategy, results of operations, or financial condition.

Governance

The Board recognizes the importance of managing risks associated with cybersecurity threats. The Board has established robust oversight procedures to promote effective governance in managing cybersecurity risks because of the significance of these threats to our operational integrity and shareholder confidence.

Board of Directors Oversight

The Audit Committee is central to the Board's oversight of cybersecurity risks. The Audit Committee currently oversees risks relating to cybersecurity, technology, and finance, and in support of this objective, receives regular reports from the Chief Information Security Officer and other third party advisors, to assure the Board maintains appropriate expertise to assure the appropriate management of cybersecurity risk. The Audit Committee reports periodically to the Board on the effectiveness of cybersecurity risk management processes and cybersecurity risk trends. The Board also receives specific reports from senior management with oversight responsibility for cybersecurity risks within the Company. These reports include cybersecurity and related risks and our exposure to those risks. The Audit Committee conducts an annual review of the company's cybersecurity posture and the effectiveness of its risk management strategies. This review helps in identifying areas for improvement and ensuring the alignment of cybersecurity efforts with its overall risk management framework.

Management's Role in Managing Risk

The Chief Information Security Officer plays a pivotal role in informing the Audit Committee on cybersecurity risks. He reports quarterly to the Audit Committee on a range of topics, including:

- Current cybersecurity landscape and risks;

- Status of ongoing cybersecurity incidents, threats and strategies;
- Cybersecurity incident reporting and post-incident reviews; and
- Compliance with regulatory requirements and evolving industry trends.

The Chief Information Security Officer reports to the Chief Operating Officer, has a dotted line to the Audit Committee and the Chief Information Officer, and maintains independence in reporting on the status and impact of any information security related developments and strategic initiatives to the Audit Committee, and depending on the severity of the situation, directly to the Board of Directors. In addition to regular meetings, the Audit Committee, Chief Information Security Officer, Chief Information Officer, Chief Risk Officer and Chief Executive Officer maintain an ongoing dialogue regarding emerging or potential cybersecurity risks that we face, particularly as a financial institution. The Company's internal Risk Management Steering Committee also reports directly to the Audit Committee regarding our risk management initiatives. The Audit Committee also receives quarterly reports from the Risk Management Steering Committee, the Company's Internal Audit department, and IT department in order to stay informed on all aspects of cybersecurity risk affecting the Company.

Risk Management Personnel

Primary responsibility for assessing, monitoring and managing our cybersecurity risks rests with our Chief Information Security Officer, who has more than 20 years of cybersecurity experience working with large financial institutions and actively maintains multiple information security certifications. Additionally, our Chief Information Security Officer oversees our cybersecurity incident disclosure and communications. Our Chief Risk Officer separately chairs our Risk Management Steering Committee. Our Chief Risk Officer has served in her position since 2014 and is an accomplished banking professional with more than 40 years of experience in compliance and risk management.

Monitoring Cybersecurity Incidents

The Company monitors cybersecurity events using multiple methods. The Company's 24/7 Security Operations Center ("SOC") has the ability to detect and respond to threats in real time and is authorized to shut threats down before they can harm the organization. Additionally, the SOC periodically performs pro-active "threat hunts," searching for potential indicators of compromise and bad actors on our network. Endpoint and network detection tools alert IT staff of security events that warrant further analysis. The Chief Information Security Officer is kept abreast of all active investigations. If an incident is identified, we attempt to contain the threat immediately, such as if systems could be taken offline to stop the spread of an attack. Eradication of an attacker's artifacts, such as user accounts and malicious code, would then be performed. The Company maintains Business Continuity and Disaster Recovery plans, processes, and technology to restore systems affected by a cybersecurity incident. The Chief Information Security Officer may determine that an incident has the potential to be materially relevant and would escalate that determination to the Cybersecurity Incident Disclosure Team comprised of the senior leaders, including the Chief Executive Officer, Chief Risk Officer, Chief Information Officer, Chief Financial Officer, outside counsel and other leaders and advisors to the Company. In addition, we maintain insurance that we believe is customary against certain insurable cybersecurity risks. However, certain aspects of cybersecurity risks are not insurable, and the availability, extent, and cost of coverage may limit our recourse to these sources of risk mitigation.

Reporting to Board of Directors

The Chief Information Security Officer, in his capacity as such, regularly reports to management and the Audit Committee on all aspects related to cybersecurity risks and incidents. This ensures that the highest levels of management are kept informed of our cybersecurity and the potential risks we face. In the event of certain cybersecurity matters which present increasing concern, our policies require escalating these cybersecurity and risk management decisions to the full Board.

ITEM 2. *PROPERTIES*

The main and executive offices of Heritage Commerce Corp and Heritage Bank of Commerce are located at 224 Airport Parkway in San Jose, California 95110, with branch offices located at 15575 Los Gatos Boulevard in Los Gatos, California 95032, at 3137 Stevenson Boulevard in Fremont, California 94538, at 387 Diablo Road in Danville, California 94526, at 300 Main Street in Pleasanton, California 94566, at 1990 N. California Boulevard in Walnut Creek, California 94596, at 1987 First Street in Livermore, California 94550, at 18625 Sutter Boulevard in Morgan Hill, California 95037, at 7598 Monterey Street in Gilroy, California 95020, at 351 Tres Pinos Road in Hollister, California 95023, at 419 S. San Antonio Road in Los Altos, California 94022, at 325 Lytton Avenue in Palo Alto, California 94301, at 400 S. El Camino Real in San Mateo, California, 94402, at 2400 Broadway in Redwood City, California 94063, at 120 Kearny Street in San Francisco, California 94108, at 999 5th Avenue in San Rafael, California 94901 and at 1111 Broadway in Oakland, California 94607. Bay View Funding's administrative offices are located at 224 Airport Parkway, San Jose, California 95110.

Main Offices

The main office of HBC, the San Jose branch office of HBC and the Bay View Funding administrative office are located at 224 Airport Parkway in San Jose, consisting of approximately 60,278 square feet in a six story Class A type office building, which are subject to a direct lease dated June 27, 2019, as amended, which expires on July 31, 2030. The current monthly rent payment is $250,794, subject to 3% annual increases. The Company has reserved the right to extend the term of the lease for one additional period of five years.

Branch Offices

In June of 2007, as part of the acquisition of Diablo Valley Bank, the Company took ownership of an 8,285 square foot one story commercial office building, including the land, located at 387 Diablo Road in Danville, California.

In May of 2019, the Company amended its lease for approximately 4,096 square feet in a one story stand alone office building located at 300 Main Street in Pleasanton, California. The current monthly rent payment is $23,736, subject to 3% annual increases, until the lease expires on April 30, 2026. The Company has reserved the right to extend the term of the lease for two additional periods of five years.

In October of 2019, as part of the acquisition of Presidio Bank, the Company assumed a lease for approximately 7,029 square feet on the first floor in a multi-tenant office building located at 1990 N. California Boulevard in Walnut Creek, California. The current monthly rent payment is $31,560, subject to annual increases of 3%, until the lease expires December 31, 2027. The Company has reserved the right to extend the lease for one additional period of five years.

In October of 2019, also as part of the acquisition of Presidio Bank, the Company assumed a lease for approximately 3,063 square feet on the first floor in a multi-tenant office building located at 400 S. Camino Real in San Mateo, California, with a lease expiration date of October 31,2024. In January 2020, The Company amended the lease expiration date to October 31, 2030, and executed a new lease for additional space on the tenth floor for approximately 5,023 square feet. The current monthly rent payment for the combined space of approximately 8,086 square feet is $67,998, subject to annual increases of 3%, until the lease expires October 31, 2030. The Company has reserved the right to extend the lease for two additional period of five years.

In January of 2021, the Company amended and extended its lease for approximately 6,233 square feet on the twenty third floor in a multi-tenant office building located at 120 Kearny Street in San Francisco, California. The current monthly rent payment is $48,244, subject to annual increases of 3%, until the lease expires on March 31, 2026. The Company has reserved the right to extend the term of the lease for one additional period of five years.

In May of 2021, the Company extended its lease for approximately 4,716 square feet in a one-story multi tenant office building located at 18625 Sutter Boulevard in Morgan Hill, California. The current monthly rent payment is $6,256, subject to annual increases of 2%, until the lease expires on October 31, 2026. The Company has reserved the right to extend the term of the lease for one additional period of five years.

In December of 2021, the Company entered into a new lease agreement for approximately 4,099 square feet on the sixteenth floor in a multi-tenant office building located at 1111 Broadway in Oakland, California. The current monthly rent payment is $25,005, subject to annual increases of 3%, until the lease expires on June 30, 2029. The Company has reserved the right to extend the term of the lease for one additional period of five years.

In August of 2022, the Company extended its lease for approximately 4,188 square feet on the first floor in a multi-tenant office building located at 999 5th Avenue in San Rafael, California. In May of 2023, the Company amended the lease to include an additional 916 square feet, for a total of 5,104 square feet. The current monthly rent payment for the combined space is $22,179, subject to annual increases of 3%, until the lease expires on December 31, 2027. The Company has reserved the right to extend the lease for one additional period of five years.

In January of 2023, the Company extended its lease for approximately 5,213 square feet on the first floor in a two-story multi tenant office building located at 419 S. San Antonio Road in Los Altos, California. The current monthly rent payment is $33,915, subject to annual increases of 3% until the lease expires on April 30, 2030. The Company has reserved the right to extend the term of the lease for one additional period of five years.

In September of 2023, the Company extended its lease for approximately 2,505 square feet on the first floor in a three-story multi tenant multi use building located at 7598 Monterey Street in Gilroy, California. The current monthly rent payment is $6,287 until the lease expires on September 30, 2025. The Company has reserved the right to extend the term of the lease for one additional period of two years.

In October of 2023, the Company extended its lease for approximately 2,369 square feet on the first floor of a two-story multi-tenant multi-use building located at 2400 Broadway in Redwood City, California. The current monthly rent payment is $13,059, subject to annual increases of 3%, until the lease expires on October 31, 2028.

In November of 2023, the Company extended its lease for approximately 1,920 square feet in a one-story stand alone building located in an office complex at 15575 Los Gatos Boulevard in Los Gatos, California. The current monthly rent payment is $7,020, subject to annual increases of 3%, until the lease expires on November 30, 2028. The Company has reserved the right to extend the term of the lease for one additional period of five years.

In February 2024, the Company extended its lease for approximately 3,172 square feet in a one-story multi tenant multi use building located at 3137 Stevenson Boulevard in Fremont, California. The current monthly rent payment is $11,174, subject to annual increases of 3%, until the lease expires on February 28, 2027.

In May of 2024, the Company extended its lease for an additional seven years for approximately 4,154 square feet on the first floor in a multi-tenant office building located at 325 Lytton Avenue in Palo Alto, California. The current monthly rent payment is $33,855, until the lease expires on January 31, 2032. The Company has reserved the right to extend the lease for one additional period of five years.

In July of 2024, the Company extended its lease for an additional five years for approximately 3,391 square feet in a two-story multi tenant commercial center located at 351 Tres Pinos in Hollister, California. The current monthly rent payment is $5,730, until the lease expires on June 30, 2029. The Company has reserved the right to extend the term of the lease for one additional period of five years.

In July of 2024, the Company extended its lease for approximately 3,772 square feet on the first and second floors in a two-story multi-tenant multi-use building located at 1987 First Street in Livermore, California. The current monthly rent payment is $9,456 until the lease expires on September 30, 2029. The Company has reserved the right to extend the term of the lease for one additional period of five years.

Bay View Funding Office

The Bay View Funding administrative office is located at 224 Airport Parkway in San Jose, California, consisting of approximately 7,849 square feet and is subject to a sublease with Heritage Bank of Commerce dated March 6, 2020. The current monthly rent payment is $31,793, which is included in the main office of HBC's total rent of $250,794, and is subject to 3% annual increases, until the sublease expires July 31, 2030.

For additional information on operating leases and rent expense, refer to Note 7 to the Consolidated Financial Statements following "Item 15 — *Exhibits and Financial Statement Schedules*."

ITEM 3. *LEGAL PROCEEDINGS*

We evaluate all claims and lawsuits with respect to their potential merits, our potential defenses and counterclaims, settlement or litigation potential and the expected effect on us. The outcome of any claims or litigation, regardless of the merits, is inherently uncertain. Any claims and other lawsuits, and the disposition of such claims and lawsuits, whether through settlement or litigation, could be time-consuming and expensive to resolve, divert our attention from executing our business plan, result in efforts to enjoin our activities, and lead to attempts by third parties to seek similar claims.

For more information regarding legal proceedings, see Note 15 “Commitments and Contingencies” to the consolidated financial statements.

ITEM 4. *MINE SAFETY DISCLOSURES*

Not Applicable.

PART II

ITEM 5. *MARKET FOR THE REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

Market Information

The Company’s common stock is listed on the Nasdaq Global Select Market under the symbol “HTBK.”

The closing price of our common stock on February 14, 2025 was $10.65 per share as reported by the Nasdaq Global Select Market.

As of February 14, 2025, there were approximately 756 holders of record of common stock. There are no other classes of common equity outstanding.

Dividend Policy

The amount of future dividends will depend upon our earnings, financial condition, capital requirements and other factors, and will be determined by our Board on a quarterly basis. It is Federal Reserve policy that bank holding companies generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization’s expected future needs and financial condition. It is also Federal Reserve policy that bank holding companies not maintain dividend levels that undermine the holding company’s ability to be a source of strength to its banking subsidiaries. Additionally, in consideration of the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong. Under the federal Prompt Corrective Action regulations, the Federal Reserve or the FDIC may prohibit a bank holding company from paying any dividends if the holding company’s bank subsidiary is classified as undercapitalized.

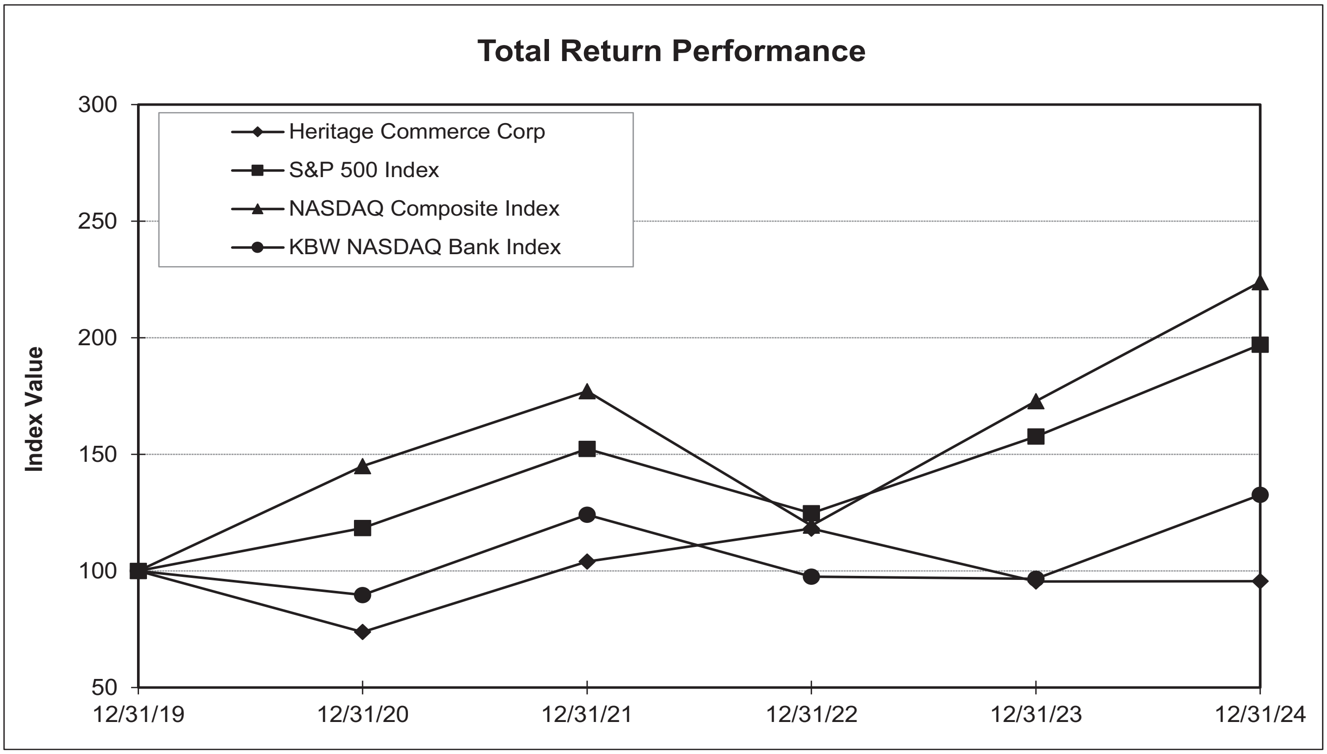
As a holding company, our ability to pay cash dividends is affected by the ability of our bank subsidiary, HBC, to pay cash dividends. The ability of HBC (and our ability) to pay cash dividends in the future and the amount of any such cash dividends is and could be in the future further influenced by bank regulatory requirements and approvals and capital guidelines.

The decision whether to pay dividends will be made by our Board in light of conditions then existing, including factors such as our results of operations, financial condition, business conditions, regulatory capital requirements and covenants under any applicable contractual arrangements, including agreements with regulatory authorities.

For information on the statutory and regulatory limitations on the ability of the Company to pay dividends and on HBC to pay dividends to HCC see "*Item 1 — Business — Supervision and Regulation — Heritage Commerce Corp – Dividend Payments, Stock Redemptions, and Repurchases and – Heritage Bank of Commerce – Dividend Payments.*"

Performance Graph

The following graph compares the stock performance of the Company from December 31, 2019 to December 31, 2024, to the performance of several specific industry indices. The performance of the S&P 500 Index, NASDAQ Composite Index and KBW NASDAQ Bank Index were used as comparisons to the Company's stock performance. Management believes that a performance comparison to these indices provides meaningful information and has therefore included those comparisons in the following graph.



The following chart compares the stock performance of the Company from December 31, 2019 to December 31, 2024, to the performance of several specific industry indices. The performance of the S&P 500 Index, NASDAQ Composite Index and KBW NASDAQ Bank Index were used as comparisons to the Company's stock performance.

	Period Ending					
Index	**12/31/19**	**12/31/20**	**12/31/21**	**12/31/22**	**12/31/23**	**12/31/24**
Heritage Commerce Corp *	100	74	104	118	96	96
S&P 500 Index *	100	118	152	125	158	197
NASDAQ Composite Index*	100	145	177	119	173	224
KBW NASDAQ Bank Index*	100	90	124	98	97	133

* Source: S&P Global Market Intelligence — (434) 977-1600

ITEM 6. *[RESERVED]*

ITEM 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

The following discussion provides information about the consolidated results of operations, financial condition, liquidity, and capital resources of Heritage Commerce Corp (the "Company" or "HCC"), its wholly-owned subsidiary, Heritage Bank of Commerce (the "Bank" or "HBC"), and HBC's wholly-owned subsidiary, CSNK Working Capital Finance Corp, a California Corporation, dba Bay View Funding. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our financial condition and the results of operations. This discussion and analysis should be read in conjunction with our consolidated financial statements and the accompanying notes presented elsewhere in this report. Unless we state otherwise or the context indicates otherwise, references to the "Company," "Heritage," "we," "us," and "our," in this Report on Form 10-K refer to Heritage Commerce Corp and its subsidiaries.

Critical Accounting Policies and Estimates

Financial results are presented in accordance with the accounting principles generally accepted in the United States of America ("GAAP") and with reference to certain non-GAAP financial measures. The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expense in the financial statements. Various elements of our accounting policies, by their nature, involve the application of highly sensitive and judgmental estimates and assumptions. Some of these policies and estimates relate to matters that are highly complex and contain inherent uncertainties. It is possible that, in some instances, different estimates and assumptions could reasonably have been made and used by management, instead of those we applied, which might have produced different results that could have had a material effect on the financial statements.

Management believes that the presentation of certain non-GAAP financial measures provide useful supplemental information to investors as these financial measures are commonly used in the banking industry. A reconciliation of GAAP to non-GAAP financial measures are presented in the tables under *"Reconciliation of Non-GAAP Financial Measures."*

Our most significant accounting policies are described in Note 1 — *Summary of Significant Accounting Policies* in the consolidated financial statements included in this Form 10-K. Certain of these accounting policies require management to use significant judgment and estimates, which can have a material impact on reported income or loss and on the carrying value of certain assets and liabilities, and we consider these policies to be our critical accounting estimates. These judgments and assumptions are based upon historical experience, future forecasts, or other factors that management believes to be reasonable under the circumstances. Because of the nature of the judgments and assumptions, actual results could differ from management's estimates, which could have a material effect on our financial condition and results of operations. The following accounting policies materially affect our reported earnings and financial condition and require significant judgments and estimates. Management has reviewed these critical accounting estimates and related disclosures with our Board of Director's Audit Committee.

Allowance for Credit Losses on Loans ("ACLL")

The allowance for credit losses, or ACLL, on loans represents management's estimate of all expected credit losses over the expected contractual life of the loan portfolio, utilizing the current expected credit loss ("CECL") model. The ACLL is a valuation amount that is deducted from the amortized cost basis of loans, and is adjusted each period by an expense or credit for credit losses, which is recognized in earnings, and reduced by loan charge-offs, net of recoveries. Determining the appropriateness of the ACLL is complex and requires judgement by management about inherently uncertain factors.

Management utilizes a discounted cash flow methodology to estimate the ACLL. Expected cash flows are estimated for each loan and discounted using the contractual terms of the loan, calculated probabilities of default, loss given default, prepayment and curtailment estimates as well as qualitative factors. The probability-of-default estimates are generated using a regression model used to estimate the likelihood of a loan being charged-off within the life of the loan. The regression model uses combinations of variables to assess historical loss correlations to economic factors and these variables become model forecast inputs for economic factors that are updated in the model each period. Management uses an economic forecast provided by a third-party for these model inputs. These economic factors included variables such as California state gross product, California unemployment rate, California home price index, and a commercial real estate value index. Qualitative factors are also applied by management to reflect increased portfolio risks from such factors as collateral value risk, portfolio growth, or loan grade and performance trends that management has assessed as not being fully captured in the quantitative estimate.

The ACLL represents management's best estimate of potential loan losses, but significant changes in prevailing economic conditions could result in material changes in the allowance. Generally, an improving economic forecast generates a lower ACLL estimate than a weakening economic forecast. One of the most significant judgments used in estimating the ACLL is the reasonable and supportable macroeconomic forecast for the economic factors used in the model. Changes in the macroeconomic forecast, especially for California state gross product and the California unemployment rate, could significantly impact the calculated estimated credit loss. The economic forecast utilized for the ACLL model input is inherently uncertain and many external factors could impact these forecasts. Management reviews the forecast inputs to ensure they are reasonable and supportable, however, changes in local and national economic conditions will impact the allowance level and an increase in the California unemployment rate specifically would have the largest impact on the allowance level. While management utilizes its best judgement and current information available, the adequacy of the ACLL is significantly determined by certain factors outside the Company's control, such as the performance of our loan portfolio, changes in the economic environment including economic uncertainty, changes in interest rates, and any regulatory changes. Additionally, the level of ACLL may fluctuate based on the balance and mix of the loan portfolio.

Qualitative factors are evaluated each period and applied in instances when management assesses that additional risks not captured in the quantitative estimate should be factored into the overall ACLL estimate. These risks include loan performance trends, collateral value risk and portfolio growth characteristics. Changes in the assessment of these qualitative factors could significantly impact the calculated estimated credit loss.

Other key assumptions used to calculate the ACLL include the forecast and reversion to mean time periods for the economic factor inputs, and prepayment and curtailment assumptions. The model calculation is less sensitive to these assumptions than to the macroeconomic forecast and the application of qualitative factors.

Executive Summary

The Company conducts a general commercial banking business through the Bank. Our primary operations are located in the general San Francisco Bay Area of California in the counties of Alameda, Contra Costa, Marin, San Benito, San Francisco, San Mateo, and Santa Clara. Our market includes the cities of Oakland, San Francisco, and San Jose, the headquarters of a number of technology based companies in the region known commonly as Silicon Valley. The Bank's clients are primarily closely held businesses and professionals. We also have limited operations in other regions primarily by virtue of Bay View Funding, the Bank's factoring subsidiary, which provides factoring and other alternative corporate financing services.

Performance Overview

2024 was a year of solid progress. We saw deposit balances grow by 10% year-over-year as our team deepened relationships with local businesses. Loan growth was steady at 4%, reinforcing our role as a trusted financial partner in the Bay Area. One of the most important things we did in 2024 was invest in the future by hiring top-tier bankers, upgrading our technology, and reinforcing our operational strength. Our capital position remains strong, our loan portfolio is high quality, and we have the liquidity and earnings power to continue strengthening our franchise.

For the year ended December 31, 2024, net income was $40.5 million, or $0.66 per average diluted common share, compared to $64.4 million, or $1.05 per average diluted common share, for the year ended December 31, 2023, and $66.6 million, or $1.09 per average diluted common share for the year ended December 31, 2022. The Company's annualized return on average tangible assets was 0.78% and annualized return on average tangible common equity was 8.05% for the year ended December 31, 2024, compared to 1.26% and 13.57%, respectively, for the year ended December 31, 2023, and 1.27% and 15.57%, respectively, for the year ended December 31, 2022. The annualized return on average tangible assets and annualized return on average tangible common equity are non-GAAP financial measures.

2024 Highlights

Results of Operations:

- For the year ended December 31, 2024, net interest income decreased (11%) to 163.6 million, compared to $183.2 million for the year ended December 31, 2023. The fully tax equivalent ("FTE") net interest margin decreased (42) basis points to 3.28% for the year ended December 31, 2024, from 3.70% for the year ended December 31, 2023, primarily due to higher rates paid on client deposits, a decrease in the average balance of noninterest-bearing deposits, and a lower average yield on investment securities, partially offset by an increase in the average balances of loans and overnight funds. The FTE net interest margin is a non-GAAP financial measure.

- The average yield on the total loan portfolio increased to 5.47% for the year ended December 31, 2024, compared to 5.45% for the year ended December 31, 2023.

- In the aggregate, the remaining net purchase discount on total loans acquired was $2.1 million at December 31, 2024.

- The average cost of total deposits increased to 1.70% for the year ended December 31, 2024, compared to 1.06% for the year ended December 31, 2023. The average cost of funds increased to 1.74% for the year ended December 31, 2024, compared to 1.13% for the year ended December 31, 2023.

- There was a provision for credit losses on loans of $2.1 million for the year ended December 31, 2024, compared to a $749,000 provision for credit losses on loans for the year ended December 31, 2023, primarily due to the increase in the balance of total loans, and an increase in specific reserves for individually analyzed loans.

- For the year ended December 31, 2024, total noninterest income decreased (3%) to $8.7 million, compared to $9.0 million for the year ended December 31, 2023, primarily due to lower service charges and fees on deposit accounts, partially offset by higher income in various other noninterest income categories.

- Total noninterest expense for the year ended December 31, 2024 increased to $113.6 million, compared to $101.1 million for the year ended December 31, 2023, primarily due to higher salaries and employee benefits, rent expense, professional fees, marketing related expenses, insurance expense, homeowner association third-party vendor payments, and Insured Cash Sweep ("ICS")/Certificate of Deposit Account Registry Service ("CDARS") fee expense.

- The efficiency ratio increased to 65.88% for the year ended December 31, 2024, compared to 52.57% for the year ended December 31, 2023, primarily due to both higher noninterest expense and lower net revenue. The efficiency ratio is a non-GAAP financial measure.

- Income tax expense for the year ended December 31, 2024 was $16.1 million, compared to $26.0 million for the year ended December 31, 2023. The effective tax rate for the year ended December 31, 2024 was 28.5%, compared to 28.7% for the year ended December 31, 2023.

Current Financial Condition and Liquidity Position:

- Our liquidity, including cash on hand, undrawn lines of credit, and other sources of liquidity, totaled $3.3 billion, or 69% of the Company's total deposits and approximately 155% of the Bank's estimated uninsured deposits at December 31, 2024. The Bank's uninsured deposits were approximately $2.2 billion, representing 45% of total deposits, at December 31, 2024. The following table shows our liquidity, available lines of credit and the amounts outstanding at December 31, 2024:

	Total Available	Outstanding	Remaining Available
	(Dollars in thousands)		
Excess funds at the Federal Reserve Bank ("FRB")	$ 935,400	$ —	$ 935,400
FRB discount window collateralized line of credit	1,383,149	—	1,383,149
Federal Home Loan Bank ("FHLB") collateralized borrowing capacity	815,760	—	815,760
Unpledged investment securities (at fair value)	94,088	—	94,088
Federal funds purchase arrangements	90,000	—	90,000
Holding company line of credit	25,000	—	25,000
Total	$ 3,343,397	$ —	$ 3,343,397

- Cash, interest bearing deposits in other financial institutions and securities available-for-sale, at fair value, increased 44% to $1.2 billion at December 31, 2024, from $850.8 million at December 31, 2023.

- Securities held-to-maturity, at amortized cost, totaled $590.0 million at December 31, 2024, compared to $650.6 million at December 31, 2023.

- The pre-tax unrealized (loss) on the securities available-for-sale portfolio was ($5.1) million, or ($3.7) million net of taxes, which equaled less than 1% of total shareholders' equity at December 31, 2024. The pre-tax unrecognized loss on the securities held-to-maturity portfolio was ($93.0) million at December 31, 2024, or ($65.5) million net of taxes, which equaled 9.5% of total shareholders' equity at December 31, 2024. The fair value is expected to recover as the securities approach their maturity date and/or interest rates decline.

- The weighted average life of the securities available-for-sale portfolio was 1.57 years, the weighted average life of the securities held-to-maturity portfolio was 6.35 years, and the average life of the total investment securities portfolio was 4.88 years at December 31, 2024.

- During the fourth quarter of 2024, the Company purchased $20.5 million of agency mortgage-backed securities and $9.8 million of U.S. Treasury securities, for total purchases of $30.3 million in the available-for-sale portfolio. Securities purchased had a book yield of 4.79% and an average life of 4.80 years.

- 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:

	U.S. Treasury (Par Value)	Agency Mortgage-backed and Municipal Securities	Total
	(Dollars in thousands)		
First quarter of 2025	$ 35,000	$ 20,986	$ 55,986
Second quarter of 2025	118,000	19,666	137,666
Third quarter of 2025	25,500	20,822	46,322
Fourth quarter of 2025	—	19,228	19,228
Total	$ 178,500	$ 80,702	$ 259,202

- Loans, excluding loans held-for-sale, increased $141.6 million, or 4%, to $3.5 billion at December 31, 2024, compared to $3.4 billion at December 31, 2023. Loans, excluding residential mortgages, increased $166.8 million, or 6%, to $3.0 billion at December, 2024, compared to $2.9 billion at December 31, 2023.

- There were 9 borrowers included in nonperforming assets ("NPAs") totaling $7.7 million, or 0.14% of total assets, at December 31, 2024, compared to 12 borrowers totaling $7.7 million, or 0.15% of total assets, at December 31, 2023.

- Classified assets totaled $41.7 million, or 0.74% of total assets, at December 31, 2024, compared to $31.8 million, or 0.61% of total assets, at December 31, 2023. The increase in classified assets at December 31, 2024 was primarily the result of one downgraded owner occupied commercial real estate ("CRE") credit, and a number of residential related loans. The loans are well-collateralized and we do not anticipate to incur losses as a result of the downgrades of these loans.

- Net charge-offs totaled $1.1 million for the year ended December 31, 2024, compared to $303,000 for the year ended December 31, 2023.

- The ACLL at December 31, 2024, was $49.0 million, or 1.40% of total loans, representing 638.49% of nonperforming loans. The ACLL at December 31, 2023, was $48.0 million, or 1.43% of total loans, representing 622.27% of nonperforming loans.

- Total deposits increased $441.6 million or 10% to $4.8 billion at December 31, 2024, compared to $4.4 billion at December 31, 2023.

- Migration of client deposits into insured interest-bearing accounts resulted in an increase in ICS/ CDARS deposits to $1.1 billion at December 31, 2024, compared to $854.1 million at December 31, 2023.

- Noninterest-bearing demand deposits decreased ($78.3) million, or (6%), to $1.2 billion at December 31, 2024 from $1.3 billion at December 31, 2023.

- The ratio of noncore funding (which consists of time deposits of $250,000 and over, brokered deposits, securities under agreement to repurchase, subordinated debt and short-term borrowings) to total assets was 4.37% at December 31, 2024, compared to 4.46% at December 31, 2023.

- The loan to deposit ratio was 72.45% at December 31, 2024, compared to 76.52% at December 31, 2023.

Capital Adequacy:

- The Company's consolidated capital ratios exceeded regulatory guidelines and HBC's capital ratios exceeded the prompt corrective action ("PCA") regulatory guidelines for a well-capitalized financial institution, and the Basel III minimum regulatory requirements at December 31, 2024, as reflected in the following table:

Capital Ratios	Heritage Commerce Corp	Heritage Bank of Commerce	Well-capitalized Financial Institution PCA Regulatory Guidelines	Basel III Minimum Regulatory Requirements [1]
Total Capital	15.6 %	15.1%	10.0%	10.5%
Tier 1 Capital	13.4%	13.9%	8.0%	8.5%
Common Equity Tier 1 Capital	13.4%	13.9%	6.5%	7.0%
Tier 1 Leverage	9.6%	10.0%	5.0%	4.0%
Tangible common equity / tangible assets [2]	9.4%	9.8%	N/A	N/A

(1) Basel III minimum regulatory requirements for both HCC and HBC include a 2.5% capital conservation buffer, except the Tier 1 Leverage ratio.
(2) This is a non-GAAP financial measure that represents shareholders' equity minus goodwill and other intangible assets divided by total assets minus goodwill and other intangible assets.

RESULTS OF OPERATIONS

The Company earns income from two primary sources. The first is net interest income, which is interest income generated by earning assets less interest expense on interest-bearing liabilities. The second is noninterest income, which primarily consists of gains on the sale of loans, loan servicing fees, client service charges and fees, and the increase in cash surrender value of life insurance. The majority of the Company's noninterest expenses are operating costs that relate to providing banking services to our clients.

Net Interest Income and Net Interest Margin

The level of net interest income depends on several factors in combination, including growth in earning assets, yields on earning assets, the cost of interest-bearing liabilities, the relative volumes of earning assets and interest-bearing liabilities, and the mix of products that comprise the Company's earning assets, deposits, and other interest-bearing liabilities. Net interest income can also be impacted by the reversal of interest on loans placed on nonaccrual status, and recovery of interest on loans that have been on nonaccrual and are either sold or returned to accrual status. To maintain its net interest margin, the Company must manage the relationship between interest earned and interest paid.

The following Distribution, Rate and Yield table presents for each of the past three years, the average amounts outstanding for the major categories of the Company's balance sheet, the average interest rates earned or paid thereon, and the resulting net interest margin on average interest earning assets for the periods indicated. Average balances are based on daily averages.

Distribution, Rate and Yield

	Year Ended December 31,								
	2024			2023			2022		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
	(Dollars in thousands)								
Assets:									
Loans, gross [1][2]	$3,345,662	$ 182,983	5.47 %	$3,262,194	$ 177,628	5.45 %	$3,119,006	$ 153,010	4.91 %
Securities — taxable	905,418	20,817	2.30 %	1,124,190	27,351	2.43 %	983,137	20,666	2.10 %
Securities — exempt from Federal tax [3]	31,403	1,127	3.59 %	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	716,880	38,009	5.30 %	534,828	28,374	5.31 %	908,931	14,068	1.55 %
Total interest earning assets [3]	4,999,363	242,936	4.86 %	4,955,018	234,549	4.73 %	5,051,552	189,116	3.74 %
Cash and due from banks	33,156			35,955			37,287		
Premises and equipment, net	10,252			9,421			9,574		
Goodwill and other intangible assets	175,220			177,536			180,061		
Other assets	120,714			111,445			122,746		
Total assets	$5,338,705			$5,289,375			$5,401,220		
Liabilities and shareholders' equity:									
Deposits:									
Demand, noninterest-bearing	$1,174,854	$1,393,949	$1,863,928						
Demand, interest-bearing	916,466	6,439	0.70 %	1,074,523	6,655	0.62 %	1,224,676	2,415	0.20 %
Savings and money market	1,175,391	32,734	2.78 %	1,144,032	19,857	1.74 %	1,394,283	3,720	0.27 %
Time deposits — under $100	11,112	184	1.66 %	11,809	97	0.82 %	12,587	21	0.17 %
Time deposits — $100 and over	228,388	8,968	3.93 %	218,131	6,874	3.15 %	122,018	609	0.50 %
ICS/CDARS — interest-bearing demand, money market and time deposits	1,007,563	28,574	2.84 %	625,045	14,074	2.25 %	29,708	5	0.02 %
Total interest-bearing deposits	3,338,920	76,899	2.30 %	3,073,540	47,557	1.55 %	2,783,272	6,770	0.24 %
Total deposits	4,513,774	76,899	1.70 %	4,467,489	47,557	1.06 %	4,647,200	6,770	0.15 %
Short-term borrowings	24	—	0.00 %	27,145	1,365	5.03 %	24	—	— %
Subordinated debt, net of issuance costs	39,572	2,152	5.44 %	39,420	2,152	5.46 %	41,739	2,178	5.22 %
Total interest-bearing liabilities	3,378,516	79,051	2.34 %	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	4,553,370	79,051	1.74 %	4,534,054	51,074	1.13 %	4,688,963	8,948	0.19 %
Other liabilities	106,792			102,872			104,654		
Total liabilities	4,660,162			4,636,926			4,793,617		
Shareholders' equity	678,543			652,449			607,603		
Total liabilities and shareholders' equity	$5,338,705			$5,289,375			$5,401,220		
Net interest income [3] / margin		163,885	3.28 %		183,475	3.70 %		180,168	3.57 %
Less tax equivalent adjustment [3]		(237)	(251)		(288)				
Net interest income		$ 163,648	3.27 %		$ 183,224	3.70 %		$ 179,880	3.56 %

(1) Includes loans held-for-sale. Nonaccrual loans are included in average balance.

(2) Yield amounts earned on loans include fees and costs. The accretion of net deferred loan fees into loan interest income was $628,000 for the year ended December 31, 2024, compared to $742,000 for the year ended December 31, 2023, and $3.4 million (of which $2.1 million was from Small Business Administration ("SBA") Paycheck Protection Program ("PPP") loans) for the year ended December 31, 2022. Prepayment fees totaled $117,000 for the year ended December 31, 2024, compared to $484,000 for the year ended December 31, 2023, and $1.3 million for the year ended December 31, 2022.

(3) Reflects the non-GAAP FTE adjustment for Federal tax exempt income based on a 21% tax rate for the years ended December 31, 2024, 2023 and 2022.

Volume and Rate Variances

The Volume and Rate Variances table below sets forth the dollar difference in interest earned and paid for each major category of interest-earning assets and interest-bearing liabilities for the noted periods, and the amount of such change attributable to changes in average balances (volume) or changes in average interest rates. Volume variances are equal to the increase or decrease in the average balance multiplied by prior period rates and rate variances are equal to the increase or decrease in the average rate multiplied by the prior period average balance. Variances attributable to both rate and volume changes are equal to the change in rate multiplied by the change in average balance and are included below in the average volume column.

	Year Ended December 31, 2024 vs. 2023			Year Ended December 31, 2023 vs. 2022		
	Increase (Decrease) Due to Change in:			Increase (Decrease) Due to Change in:		
	Average Volume	Average Rate	Net Change	Average Volume	Average Rate	Net Change
	(Dollars in thousands)					
Income from the interest earning assets:						
Loans, gross	$ 4,541	$ 814	$ 5,355	$ 7,642	$ 16,976	$ 24,618
Securities — taxable	(5,039)	(1,495)	(6,534)	3,461	3,224	6,685
Securities — exempt from Federal tax (1)	(87)	18	(69)	(237)	61	(176)
Other investments, interest-bearing deposits in other financial institutions and Federal funds sold	9,663	(28)	9,635	(19,890)	34,196	14,306
Total interest income on interest-earning assets	9,078	(691)	8,387	(9,024)	54,457	45,433
Expense from the interest-bearing liabilities:						
Demand, interest-bearing	(1,083)	867	(216)	(938)	5,178	4,240
Savings and money market	930	11,947	12,877	(4,404)	20,541	16,137
Time deposits — under $100	(12)	99	87	(6)	82	76
Time deposits — $100 and over	395	1,699	2,094	3,030	3,235	6,265
CDARS — interest-bearing demand, money market and time deposits	10,823	3,677	14,500	13,406	663	14,069
Short-term borrowings	—	(1,365)	(1,365)	1,364	1	1,365
Subordinated debt, net of issuance costs	8	(8)	—	(127)	101	(26)
Total interest expense on interest-bearing liabilities	11,061	16,916	27,977	12,325	29,801	42,126
Net interest income	$ (1,983)	$ (17,607)	(19,590)	$ (21,349)	$ 24,656	3,307
Less tax equivalent adjustment			14			37
Net interest income			$ (19,576)			$ 3,344

(1) Reflects the non-GAAP FTE adjustment for Federal tax exempt income based on a 21% tax rate for the years ended December 31, 2024, 2023 and 2022.

Net interest income decreased 11% to $163.6 million for the year ended December 31, 2024, compared to $183.2 million for the year ended December 31, 2023. For the year ended December 31, 2024, the non-GAAP FTE net interest margin decreased (42) basis points to 3.28% for the year ended December 31, 2024, compared to 3.70% for the year ended December 31, 2023, primarily due to higher rates paid on client deposits, a decrease in the average balance of noninterest-bearing deposits, and a lower average yield on investment securities, partially offset by an increase in the average balances of loans and overnight funds.

Net interest income increased 2% to $183.2 million for the year ended December 31, 2023, compared to $179.9 million for the year ended December 31, 2022. For the year ended December 31, 2023, the non-GAAP FTE net interest margin increased 13 basis points to 3.70%, compared to 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 higher rates paid on client deposits, a decrease in the average balances of noninterest-bearing demand deposits, and an increase in the average balances of short-term borrowings.

The following tables present the average balance of loans outstanding, interest income, and the average yield for the periods indicated:

	Year Ended December 31,								
	2024			2023			2022		
	Average Balance	Interest Income	Average Yield	Average Balance	Interest Income	Average Yield	Average Balance	Interest Income	Average Yield
	(Dollars in thousands)								
Loans, core bank	$2,848,206	$155,690	5.47%	$2,730,789	$147,028	5.38%	$2,643,017	$123,779	4.68%
Prepayment fees	—	117	0.00%	—	484	0.02%	—	1,278	0.05%
Bay View Funding factored receivables	55,717	10,980	19.71%	62,642	13,426	21.43%	64,099	12,819	20.00%
Purchased residential mortgages	444,476	15,038	3.38%	472,582	15,309	3.24%	417,672	12,395	2.97%
Loan credit mark / accretion	(2,737)	1,158	0.04%	(3,819)	1,381	0.05%	(5,782)	2,739	0.11%
Total loans (includes loans held-for-sale)	$3,345,662	$182,983	5.47%	$3,262,194	$177,628	5.45%	$3,119,006	$153,010	4.91%

The average yield on the total loan portfolio increased to 5.47% for the year ended December 31, 2024, compared to 5.45% for the year ended December 31, 2023, primarily due to an increase in the yield on the core bank loan portfolio. 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 the aggregate, the remaining net purchase discount on total loans acquired was $2.1 million at December 31, 2024.

The average cost of deposits was 1.70% for the year ended December 31, 2024, compared to 1.06% for the year ended December 31, 2023, and 0.15% for the year ended December 31, 2022. The increase in the average cost of total deposits and the average cost of funds for the year ended December 31, 2024 was primarily due to clients seeking higher yields and moving noninterest-bearing deposits to the Bank's interest-bearing ICS/CDARS deposits and interest-bearing money market accounts and increases in market rates.

Provision for Credit Losses on Loans

Credit risk is inherent in the business of making loans. The Company establishes an allowance for credit losses on loans through charges to earnings, which are presented in the statements of income as the provision for credit losses on loans. Specifically identifiable and quantifiable known losses are promptly charged off against the allowance. The provision for credit losses on loans is determined by conducting a quarterly evaluation of the adequacy of the Company's allowance for credit losses on loans and charging the shortfall or excess, if any, to the current quarter's expense. This has the effect of creating variability in the amount and frequency of charges to the Company's earnings. The provision for credit losses on loans and level of allowance for each period are dependent upon many factors, including loan growth, net charge-offs, changes in the composition of the loan portfolio, delinquencies, management's assessment of the quality of the loan portfolio, the valuation of problem loans and the general economic conditions in the Company's market area. The provision for credit losses on loans and level of allowance for each period are also dependent on forecast data for the state of California including GDP and unemployment rate projections.

There was a $2.1 million provision for credit losses on loans for the year ended December 31, 2024, compared to a $749,000 provision for credit losses on loans for the year ended December 31, 2023, and $766,000 provision for credit losses on loans for the year ended December 31, 2022. Provisions for credit losses on loans are charged to operations to bring the allowance for credit losses on loans to a level deemed appropriate by management based on the factors discussed under *"Credit Quality and Allowance for Credit Losses on Loans."*

Noninterest Income

The following table sets forth the various components of the Company's noninterest income for the periods indicated:

	Year Ended December 31,			Increase (decrease) 2024 versus 2023		Increase (Decrease) 2023 versus 2022	
	2024	2023	2022	Amount	Percent	Amount	Percent
	(Dollars in thousands)						
Service charges and fees on deposit accounts	$ 3,561	$ 4,341	$ 4,640	$ (780)	(18)%	$ (299)	(6)%
Increase in cash surrender value of life insurance	2,097	2,031	1,925	66	3 %	106	6 %
Gain on sales of SBA loans	473	482	491	(9)	(2)%	(9)	(2)%
Servicing income	365	400	508	(35)	(9)%	(108)	(21)%
Gain on proceeds from company-owned life insurance	219	125	27	94	75 %	98	363 %
Termination fees	177	154	61	23	15 %	93	152 %
Gain on warrants	—	—	669	—	N/A	(669)	(100)%
Other	1,856	1,465	1,790	391	27 %	(325)	(18)%
Total	$ 8,748	$ 8,998	$ 10,111	$ (250)	(3)%	$ (1,113)	(11)%

For the year ended December 31, 2024, total noninterest income decreased (3%) to $8.7 million, compared to $9.0 million for the year ended December 31, 2023, primarily due to lower service charges and fees on deposit accounts, partially offset by higher income in various other noninterest income categories.

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.

A portion of the Company's noninterest income is associated with its SBA lending activity, as gain on sales of loans sold in the secondary market and servicing income from loans sold with servicing rights retained. During 2024, SBA loan sales resulted in a $473,000 gain, compared to a $482,000 gain on sales of SBA loans in 2023, and an $491,000 gain on sales of SBA loans in 2022.

The servicing assets that result from the sales of SBA loans with servicing retained are amortized over the expected term of the loans using a method approximating the interest method. Servicing income generally declines as the respective loans are repaid.

Noninterest Expense

The following table sets forth the various components of the Company's noninterest expense for the periods indicated:

	Year Ended December 31,			Increase (Decrease) 2024 versus 2023		Increase (Decrease) 2023 versus 2022	
	2024	2023	2022	Amount	Percent	Amount	Percent
	(Dollars in thousands)						
Salaries and employee benefits	$ 63,952	$ 56,862	$ 55,331	$ 7,090	12 %	$ 1,531	3 %
Occupancy and equipment	10,226	9,490	9,639	736	8 %	(149)	(2)%
Insurance expense	6,724	6,264	4,958	460	7 %	1,306	26 %
Professional fees	5,416	4,350	5,015	1,066	25 %	(665)	(13)%
Client services	3,920	2,512	1,851	1,408	56 %	661	36 %
Data processing	3,183	3,429	2,482	(246)	(7)%	947	38 %
Software subscriptions	3,046	2,599	1,958	447	17 %	641	33 %
Other	17,116	15,548	13,625	1,568	10 %	1,923	14 %
Total noninterest expense	$ 113,583	$ 101,054	$ 94,859	$ 12,529	12 %	$ 6,195	7 %

The following table indicates the percentage of noninterest expense in each category for the periods indicated:

	Year Ended December 31,					
	2024	Percent of Total	2023	Percent of Total	2022	Percent of Total
	(Dollars in thousands)					
Salaries and employee benefits	$ 63,952	56 %	$ 56,862	56 %	$ 55,331	58 %
Occupancy and equipment	10,226	9 %	9,490	9 %	9,639	10 %
Insurance expense	6,724	6 %	6,264	6 %	4,958	5 %
Professional fees	5,416	5 %	4,350	4 %	5,015	5 %
Client services	3,920	3 %	2,512	3 %	1,851	2 %
Data processing	3,183	3 %	3,429	4 %	2,482	3 %
Software subscriptions	3,046	3 %	2,599	3 %	1,958	2 %
Other	17,116	15 %	15,548	15 %	13,625	15 %
Total noninterest expense	$ 113,583	100 %	$ 101,054	100 %	$ 94,859	100 %

Noninterest expense for the year ended December 31, 2024 increased 12% to $113.6 million, compared to $101.1 million for the year ended December 31, 2023, primarily due to higher salaries and employee benefits, rent expense, professional fees, marketing related expenses, insurance expense, homeowner association third-party vendor payments, and ICS/CDARS fee expense.

Noninterest expense for the year ended December 31, 2023 increased 7% to $101.1 million, compared to $94.9 million for the year ended December 31, 2022, primarily due to higher salaries and employee benefits, higher insurance, 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 355 at December 31, 2024, and 349 at December 31, 2023, and 340 at December 31, 2022.

Income Tax Expense

The Company computes its provision for income taxes on a monthly basis. The effective tax rate is determined by applying the Company's statutory income tax rates to pre-tax book income as adjusted for permanent differences between pre-tax book income and actual taxable income. These permanent differences include, but are not limited to increases in the cash surrender value of life insurance policies, interest on tax-exempt securities, certain expenses that are not allowed as tax deductions, and tax credits.

The following table shows the effective tax rate at the dates indicated:

	Year Ended December 31,		
	2024	2023	2022
Effective income tax rate	28.5 %	28.7 %	29.5 %

The Company's Federal and state income tax expense in 2024 was $16.1 million, compared to $26.0 million in 2023, and $27.8 million in 2022.

Some items of income and expense are recognized in different years for tax purposes than when applying generally accepted accounting principles leading to timing differences between the Company's actual tax liability, and the amount accrued for this liability based on book income. These temporary differences comprise the "deferred" portion of the Company's tax expense or benefit, which is accumulated on the Company's books as a deferred tax asset or deferred tax liability until such time as they reverse.

Realization of the Company's deferred tax assets is primarily dependent upon the Company generating sufficient future taxable income to obtain benefit from the reversal of net deductible temporary differences and the utilization of tax credit carryforwards and the net operating loss carryforwards for Federal and state income tax purposes. The amount of deferred tax assets considered realizable is subject to adjustment in future periods based on estimates of future taxable income. Under generally accepted accounting principles a valuation allowance is required to be recognized if it is "more likely than not" that the deferred tax assets will not be realized. The determination of the realizability of the deferred tax assets is highly subjective and dependent upon judgment concerning management's evaluation of both positive and negative evidence, including forecasts of future income, cumulative losses, applicable tax planning strategies, and assessments of current and future economic and business conditions.

The Company had the net deferred tax assets of $27.8 million and $29.8 million at December 31, 2024, and December 31, 2023, respectively. After consideration of the matters in the preceding paragraph, management determined that it is more likely than not that the net deferred tax assets at December 31, 2024 and December 31, 2023 will be fully realized in future years.

FINANCIAL CONDITION

At December 31, 2024, total assets increased 9% to $5.6 billion, compared to $5.2 billion at December 31, 2023, primarily related to growth in client deposits.

Securities available-for-sale, at fair value, were $256.3 million at December 31, 2024, a decrease of (42%) from $442.6 million at December 31, 2023, due to maturities and paydowns. Securities held-to-maturity, at amortized cost, were $590.0 million at December 31, 2024, a decrease of (9%) from $650.6 million at December 31, 2023.

Loans, excluding loans held-for-sale, increased $141.6 million, or 4%, to $3.5 billion at December 31, 2024, compared to $3.4 billion at December 31, 2023. Loans, excluding residential mortgages, increased $166.8 million, or 6%, to $3.0 billion at December 31, 2024, compared to $2.9 billion at December 31, 2023.

Total deposits increased $441.6 million, or 10% to $4.8 billion at December 31, 2024, compared to $4.4 billion at December 31, 2023.

Securities Portfolio

The following table reflects the balances for each category of securities at the dates indicated:

	December 31, 2024	December 31, 2023
	(Dollars in thousands)	
Securities available-for-sale (at fair value):		
U.S. Treasury	$ 186,183	$ 382,369
Agency mortgage-backed securities	70,091	60,267
Total	$ 256,274	$ 442,636
Securities held-to-maturity (at amortized cost):		
Agency mortgage-backed securities	$ 559,548	$ 618,374
Municipals — exempt from Federal tax [1]	30,480	32,203
Total [1]	$ 590,028	$ 650,577

(1) Gross of the allowance for credit losses of $12,000 at both December 31, 2024 and December 31, 2023.

The table below summarizes the weighted average life and weighted average yields of securities at December 31, 2024:

	Weighted Average Life									
	Within One Year or Less		After One and Within Five Years		After Five and Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
Securities available-for-sale (at fair value):										
U.S. Treasury	$ 176,405	2.89 %	$ 9,778	4.31 %	$ —	— %	$ —	— %	$ 186,183	2.96 %
Agency mortgage-backed securities	85	2.78 %	40,769	2.52 %	29,237	4.24 %	—	— %	70,091	3.24 %
Total	$ 176,490	2.89 %	$ 50,547	2.86 %	$ 29,237	4.24 %	$ —	— %	$ 256,274	3.04 %
Securities held-to-maturity (at amortized cost):										
Agency mortgage-backed securities	$ 1,083	2.05 %	$ 98,445	1.86 %	$ 378,920	1.84 %	$ 81,100	2.76 %	$ 559,548	1.98 %
Municipals — exempt from Federal tax [1] [2]	3,350	4.08 %	6,906	3.28 %	20,224	3.62 %	—	0.00 %	30,480	3.59 %
Total [2]	$ 4,433	3.58 %	$ 105,351	1.95 %	$ 399,144	1.93 %	$ 81,100	2.76 %	$ 590,028	2.06 %

(1) Reflects the non-GAAP FTE adjustment for Federal tax exempt income based on a 21% tax rate.
(2) Gross of the allowance for credit losses of ($12,000) at December 31, 2024.

The securities portfolio serves the following purposes: (i) it provides a source of pledged assets for securing certain deposits and borrowed funds, as may be required by law or by specific agreement with a depositor or lender; (ii) it provides liquidity to even out cash flows from the loan and deposit activities of clients; (iii) it can be used as an interest rate risk management tool, since it provides a large base of assets, the maturity and interest rate characteristics of which can be changed more readily than the loan portfolio to better match changes in the deposit base and other funding sources of the Company; and (iv) it is an alternative interest-earning use of funds when loan demand is weak or when deposits grow more rapidly than loans.

The Company's portfolio may include: (i) U.S. Treasury securities and U.S. Government sponsored entities' debt securities for liquidity and pledging; (ii) mortgage-backed securities, which in many instances can also be used for pledging, and which generally enhance the yield of the portfolio; (iii) municipal obligations, which provide tax free income and limited pledging potential; (iv) single entity issue trust preferred securities, which generally enhance the yield on the portfolio; (v) corporate bonds, which also enhance the yield on the portfolio; (vi) money market mutual funds; (vii) certificates of deposit; (viii) commercial paper; (ix) bankers acceptances; (x) repurchase agreements; (xi) collateralized mortgage obligations; and (xii) asset-backed securities.

The Company classifies its securities as either available-for-sale or held-to-maturity at the time of purchase. Accounting guidance requires available-for-sale securities to be marked to fair value with an offset to accumulated other comprehensive income (loss), a component of shareholders' equity. Monthly adjustments are made to reflect changes in the fair value of the Company's available-for-sale securities.

The following table shows the net pre-tax unrealized and unrecognized (loss) on securities available-for-sale and securities held-to-maturity and the allowance for credit losses at the dates indicated:

	December 31, 2024	December 31, 2023
	(Dollars in thousands)	
Securities available-for-sale pre-tax unrealized (loss):		
U.S. Treasury	(912)	(5,621)
Agency mortgage-backed securities	$ (4,148)	$ (4,313)
Total	$ (5,060)	$ (9,934)
Securities held-to-maturity pre-tax unrecognized (loss):		
Agency mortgage-backed securities	$ (91,585)	$ (85,729)
Municipals — exempt from Federal tax	(1,431)	(721)
Total	$ (93,016)	$ (86,450)
Allowance for credit losses on municipal securities	(12)	(12)

The net pre-tax unrealized loss on the securities available-for-sale portfolio was ($5.1) million, or ($3.7) million net of taxes, which was less than 1% of total shareholders' equity at December 31, 2024. The net pre-tax unrecognized loss on the securities held-to-maturity portfolio was ($93.0) million, or ($65.5) million net of taxes, which was 9.5% of total shareholders' equity at December 31, 2024. 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, 2024 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 interest rates decline.

Loans

The Company's loans represent the largest portion of earning assets, substantially greater than the securities portfolio or any other asset category, and the quality and diversification of the loan portfolio is an important consideration when reviewing the Company's financial condition. Gross loans, excluding loans held-for-sale, represented 62% of total assets at December 31, 2024, compared to 65% at December 31, 2023. The loans to deposit ratio was 72.45% at December 31, 2024, compared to 76.52% at December 31, 2023.

Loan Distribution

The Loan Distribution table that follows sets forth the Company's gross loans, excluding loans held-for-sale, outstanding and the percentage distribution in each category at the dates indicated:

	December 31, 2024		December 31, 2023	
	Balance	% to Total	Balance	% to Total
	(Dollars in thousands)			
Commercial	$ 531,350	15 %	$ 463,778	14 %
Real estate:				
CRE - owner occupied	601,636	17 %	583,253	17 %
CRE - non-owner occupied	1,341,266	38 %	1,256,590	37 %
Land and construction	127,848	4 %	140,513	4 %
Home equity	127,963	4 %	119,125	4 %
Multifamily	275,490	8 %	269,734	8 %
Residential mortgages	471,730	14 %	496,961	15 %
Consumer and other	14,837	<1 %	20,919	1 %
Total Loans	3,492,120	100 %	3,350,873	100 %
Deferred loan fees, net	(183)	—	(495)	—
Loans, net of deferred fees	3,491,937	100 %	3,350,378	100 %
Allowance for credit losses on loans	(48,953)		(47,958)	
Loans, net	$ 3,442,984		$ 3,302,420	

The Company's loan portfolio is concentrated in commercial loans (primarily manufacturing, wholesale, and services-oriented entities) and CRE, with the remaining balance in land development and construction, home equity, purchased residential mortgages, and consumer loans. The Company does not have any material concentrations by industry or group of industries in its loan portfolio; however, 85% of its gross loans were secured by real property at December 31, 2024, and December 31, 2023. While no specific industry concentration is considered significant, the Company's bank lending operations are substantially located in areas that are dependent on the technology and real estate industries and their supporting companies.

The Company has established concentration limits in its loan portfolio for commercial real estate loans, commercial loans, construction loans and unsecured lending, among others. All loan types are within established limits. The Company uses underwriting guidelines to assess the borrowers' historical cash flow to determine debt service, and we further stress test the debt service under higher interest rate scenarios. Financial and performance covenants are used in commercial lending to allow the Company to react to a borrower's deteriorating financial condition, should that occur. Stress testing and debt service on commercial real estate loans are reviewed quarterly.

The Company's commercial loans are made for working capital, financing the purchase of equipment or for other business purposes. Commercial loans include loans with maturities ranging from thirty days to two years and "term loans" with maturities normally ranging from one to five years. Short-term business loans are generally intended to finance current transactions and typically provide for periodic principal payments, with interest payable monthly. Term loans normally provide for floating interest rates, with monthly payments of both principal and interest.

The Company is an active participant in the SBA and U.S. Department of Agriculture guaranteed lending programs, and has been approved by the SBA as a lender under the Preferred Lender Program. The Company regularly makes such loans conditionally guaranteed by the SBA (collectively referred to as "SBA loans"). The guaranteed portion of these loans is typically sold in the secondary market depending on market conditions. When the guaranteed portion of an SBA loan is sold the Company retains the servicing rights for the sold portion. During 2024, loans were sold resulting in a gain on sales of SBA loans of $473,000, compared to a gain on sales of SBA loans of $482,000 for 2023, and $491,000 for 2022.

The Company's factoring receivables are from the operations of Bay View Funding, whose primary business is purchasing and collecting factored receivables on a nation-wide basis. Factored receivables are receivables that have been transferred by the originating organization and typically have not been subject to previous collection efforts. These receivables are acquired from a variety of companies, including, but not limited to, service providers, transportation companies, manufacturers, distributors, wholesalers, apparel companies, advertisers, and temporary staffing companies. The portfolio of factored receivables is included in the Company's commercial loan portfolio. The average life of the factored receivables was 34 days for the year ended December 31, 2024, and 37 days for the year ended December 31, 2023, and 38 days for the year ended December 31, 2022. The following table shows the balance of factored receivables at period-end, average balances during the period, and full time equivalent employees of Bay View Funding at period-end:

	December 31, 2024	December 31, 2023
	(Dollars in thousands)	
Total factored receivables at period-end	$ 68,897	$ 57,458
Average factored receivables:		
For the year ended	55,717	62,642
Total full time equivalent employees at period-end	30	28

The commercial loan portfolio increased $67.6 million, or 15%, to $531.4 million at December 31, 2024, from $463.8 million at December 31, 2023. Commercial and industrial line usage increased to 34% at December 31, 2024, compared to 29% at December 31, 2023.

The Company's CRE loans consist primarily of loans based on the borrower's cash flow and are secured by deeds of trust on commercial property to provide a secondary source of repayment. The Company generally restricts real estate term loans to no more than 75% of the property's appraised value or the purchase price of the property depending on the type of property and its utilization. For each category of CRE, the Company has set its requirements for loan to appraised value or purchase price to a level that is below supervisory limits. The Company offers both fixed and floating rate loans. Maturities for CRE loans are generally between five and ten years (with amortization ranging from fifteen to twenty-five years and a balloon payment due at maturity), however, SBA, and certain other real estate loans that can be sold in the secondary market, may be granted for longer maturities.

The CRE owner occupied loan portfolio increased $18.3 million, or 3% to $601.6 million at December 31, 2024, from $583.3 million at December 31, 2023. CRE non-owner occupied loans increased $84.7 million, or 7% to $1.34 billion at December 31, 2024, from $1.26 billion at December 31, 2023. At December 31, 2024, 31% of the CRE loan portfolio was secured by owner occupied real estate, compared to 32% at December 31, 2023.

During the fourth quarter of 2024, there were 39 new owner occupied and non-owner occupied CRE loans originated totaling $72 million with a weighted average loan-to-value ("LTV") of 42%; the weighted average debt-service coverage ratio ("DSCR") for the non-owner occupied portfolio was 2.58 times. The average loan size for all CRE loans was $1.6 million, and the average loan size for office CRE loans was $1.7 million. The Company has personal guarantees on 92% of its CRE portfolio. A substantial portion of the unguaranteed CRE loans were made to credit-worthy non-profit organizations.

Total office exposure (excluding medical/dental offices) in the CRE portfolio was $413 million, including 34 loans totaling approximately $74 million in San Jose, 18 loans totaling approximately $25 million in San Francisco, and eight loans totaling approximately $16 million in Oakland at December 31, 2024. Non-owner occupied CRE with office exposure totaled $322 million at December 31, 2024. At December 31, 2024, the weighted average LTV and DSCR for the entire non-owner occupied office portfolio were 41.5% and 2.16 times, respectively. Total medical/dental office exposure in the non-owner occupied CRE portfolio consisted of 15 loans totaling $12.3 million, with a weighted average LTV and DSCR ratio of 37.1% and 3.05 times, respectively, at December 31, 2024.

The following table presents the weighted average LTV and DSCR by collateral type for CRE loans at December 31, 2024:

	CRE - Non-owner Occupied			CRE - Owner Occupied		Total CRE	
Collateral Type	**Outstanding**	**LTV**	**DSCR**	**Outstanding**	**LTV**	**Outstanding**	**LTV**
Retail	26 %	37.4 %	2.18	16 %	46.1 %	24 %	38.9 %
Industrial	18 %	38.7 %	2.98	33 %	42.9 %	22 %	40.3 %
Mixed-Use, Special Purpose and Other	19 %	41.6 %	1.99	35 %	40.6 %	22 %	41.2 %
Office	20 %	41.5 %	2.16	16 %	44.1 %	19 %	42.1 %
Multifamily	17 %	42.9 %	1.91	0 %	0.0 %	13 %	42.9 %
Hotel/Motel	< 1 %	16.3 %	1.32	0 %	0.0 %	< 1 %	16.3 %
Total	100 %	40.0 %	2.24	100 %	42.8 %	100 %	40.8 %

The following table presents the weighted average LTV and DSCR by county for CRE loans at December 31, 2024:

	CRE - Non-owner Occupied			CRE - Owner Occupied		Total CRE	
County	Outstanding	LTV	DSCR	Outstanding	LTV	Outstanding	LTV
Alameda	25 %	43.8 %	1.92	19 %	45.3 %	23 %	44.1 %
Contra Costa	7 %	41.6 %	1.77	8 %	46.9 %	7 %	43.1 %
Marin	6 %	45.9 %	2.02	1 %	51.7 %	5 %	46.3 %
Monterey	2 %	42.8 %	1.82	2 %	40.8 %	2 %	42.1 %
Napa	< 1 %	29.1 %	2.40	1 %	51.6 %	< 1 %	36.8 %
Out of Area	9 %	42.3 %	2.04	9 %	48.9 %	9 %	44.0 %
San Benito	1 %	38.3 %	1.84	3 %	39.3 %	2 %	38.7 %
San Francisco	9 %	37.3 %	2.19	4 %	39.5 %	8 %	37.6 %
San Mateo	11 %	38.1 %	2.33	15 %	40.0 %	12 %	38.7 %
Santa Clara	24 %	36.9 %	2.80	34 %	40.7 %	27 %	38.3 %
Santa Cruz	2 %	32.2 %	1.75	1 %	49.6 %	2 %	35.5 %
Solano	1 %	32.5 %	2.91	1 %	37.5 %	1 %	33.9 %
Sonoma	3 %	38.7 %	2.58	2 %	42.8 %	2 %	39.6 %
Total	100 %	40.0 %	2.24	100 %	42.8 %	100 %	40.8 %

The Company's land and construction loans are primarily to finance the development/construction of commercial and single family residential properties. The Company utilizes underwriting guidelines to assess the likelihood of repayment from sources such as sale of the property or availability of permanent mortgage financing prior to making the construction loan. Construction loans are provided primarily in our market area, and we have extensive controls for the disbursement process. Land and construction loans decreased ($12.7) million, or (9%), to $127.8 million at December 31, 2024, from $140.5 million at December 31, 2023.

The Company makes home equity lines of credit available to its existing clients. Home equity lines of credit are underwritten initially with a maximum 75% loan to value ratio. Home equity lines of credit increased $8.8 million, or 7%, to $127.9 million at December 31, 2024, from $119.1 million at December 31, 2023.

Multifamily loans increased $5.8 million, or 2%, to $275.5 million at December 31, 2024, compared to $269.7 million at December 31, 2023.

From time to time the Company has purchased single family residential mortgage loans. Purchases of residential loans have been an attractive alternative for replacing mortgage-backed security paydowns in the investment securities portfolio. Residential mortgage loans decreased ($25.3) million, or (5%), to $471.7 million at December 31, 2024, compared to $497.0 million at December 31, 2023.

Additionally, the Company makes consumer loans for the purpose of financing automobiles, various types of consumer goods, and other personal purposes. Consumer loans generally provide for the monthly payment of principal and interest. Most of the Company's consumer loans are secured by the personal property being purchased or, in the instances of home equity loans or lines of credit, real property. Consumer and other loans decreased ($6.1) million, or (29%), to $14.8 million at December 31, 2024, compared to $20.9 million at December 31, 2023.

With certain exceptions, state chartered banks are permitted to make extensions of credit to any one borrowing entity up to 15% of the bank's capital and reserves for unsecured loans and up to 25% of the bank's capital and reserves for secured loans. For HBC, these lending limits were $113.7 million and $189.6 million at December 31, 2024, respectively.

Loan Maturities

The following table presents the maturity distribution of the Company's loans (excluding loans held-for-sale), as of December 31, 2024. 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 and contractual repricing dates. At December 31, 2024, approximately 26% of the Company's loan portfolio consisted of floating interest rate loans.

	Due in One Year or Less	Over One Year But Less than Five Years	Over Five Years	Total
		(Dollars in thousands)		
Commercial	$ 376,538	$ 109,423	$ 45,389	$ 531,350
Real estate:				
CRE - owner occupied	41,447	191,688	368,501	601,636
CRE - non-owner occupied	56,605	513,626	771,035	1,341,266
Land and construction	119,167	8,556	125	127,848
Home equity	5,641	26,777	95,545	127,963
Multifamily	14,682	135,845	124,963	275,490
Residential mortgages	6,764	16,709	448,257	471,730
Consumer and other	12,533	2,128	176	14,837
Loans	$ 633,377	$ 1,004,752	$ 1,853,991	$ 3,492,120
Loans with variable interest rates	$ 469,400	$ 188,849	$ 236,771	$ 895,020
Loans with fixed interest rates	163,977	815,903	1,617,220	2,597,100
Loans	$ 633,377	$ 1,004,752	$ 1,853,991	$ 3,492,120

Loan Servicing

At December 31, 2024, 2023, and 2022, SBA loans that the Company serviced for others totaled $48.3 million, $55.8 million, and $64.8 million, respectively. Activity for loan servicing rights was as follows for the periods indicated:

	Year Ended December 31, 2024	2023	2022
	(Dollars in thousands)		
Beginning of period balance	$ 415	$ 549	$ 655
Additions	110	126	124
Amortization	(181)	(260)	(230)
End of period balance	$ 344	$ 415	$ 549

Loan servicing rights are included in accrued interest receivable and other assets on the consolidated balance sheets and reported net of amortization. There was no valuation allowance at December 31, 2024 and 2023, as the fair value of the assets was greater than the carrying value.

Activity for the interest-only ("I/O") strip receivable was as follows for the periods indicated:

	Year Ended December 31, 2024	2023	2022
	(Dollars in thousands)		
Beginning of period balance	$ 117	$ 152	$ 221
Unrealized holding loss	(35)	(35)	(69)
End of period balance	$ 82	$ 117	$ 152

Management reviews the key economic assumptions used to estimate the fair value of I/O strip receivables on a quarterly basis. The fair value of the I/O strip can be adversely impacted by a significant increase in either the prepayment speed of the portfolio or the discount rate. At December 31, 2024, key economic assumptions and the sensitivity of the fair value of the I/O strip receivables to immediate changes to the CPR assumption of 10% and 20%, and changes to the discount rate assumption of 1% and 2%, are as follows:

	(Dollars in thousands)	
Carrying amount/fair value of Interest-Only (I/O) strip	$	82
Prepayment speed assumption (annual rate)		19.1 %
Impact on fair value of 10% adverse change in prepayment speed (CPR 21.0%)	$	(1)
Impact on fair value of 20% adverse change in prepayment speed (CPR 22.9%)	$	(2)
Residual cash flow discount rate assumption (annual)		14.7 %
Impact on fair value of 1% adverse change in discount rate (14.9% discount rate)	$	(1)
Impact on fair value of 2% adverse change in discount rate (15.0% discount rate)	$	(2)

Off-Balance Sheet Arrangements

In the normal course of business, the Company makes commitments to extend credit to its clients as long as there are no violations of any conditions established in contractual arrangements. These commitments are obligations that represent a potential credit risk to the Company, yet are not reflected in any form within the Company's consolidated balance sheets. Total unused commitments to extend credit were $1.0 billion and $1.2 billion at December 31, 2024 and December 31, 2023, respectively. Unused commitments represented 30% of outstanding gross loans at December 31, 2024 and 34% at December 31, 2023.

The effect on the Company's revenues, expenses, cash flows and liquidity from the unused portion of the commitments to provide credit cannot be reasonably predicted, because there is no certainty that the lines of credit will ever be fully utilized. For more information regarding the Company's off-balance sheet arrangements, see Note 15 to the consolidated financial statements located elsewhere herein.

Credit Quality and Allowance for Credit Losses on Loans

Like all financial institutions, HBC has exposure to credit quality risk, which generally arises because we could potentially receive less than a full return of principal and interest if a debtor becomes unable or unwilling to repay. Since loans are the Company's most significant assets and generate the largest portion of its revenues, the Company's management of credit quality risk is focused primarily on loan quality. Banks have generally suffered their most severe earnings declines as a result of clients' inability to generate sufficient cash flow to service their debts and/or downturns in national and regional economies and declines in overall asset values, including real estate. In addition, certain debt securities that the Company may purchase have the potential of declining in value if the obligor's financial capacity to repay deteriorates.

The Company's policies and procedures identify market segments, set goals for portfolio growth or contraction, and establish limits on industry and geographic credit concentrations. In addition, these policies establish the Company's underwriting standards and the methods of monitoring ongoing credit quality. The Company's internal credit risk controls are centered in underwriting practices, credit granting procedures, training, risk management techniques, and familiarity with loan clients as well as the relative diversity and geographic concentration of our loan portfolio.

The Company's credit risk also may be affected by external factors such as the level of interest rates, employment, general economic conditions, real estate values, and trends in particular industries or geographic markets. As an independent community bank serving a specific geographic area, the Company must contend with the unpredictable changes in the general California market and, particularly, primary local markets. The Company's asset quality has suffered in the past from the impact of national and regional economic recessions, consumer bankruptcies, and depressed real estate values.

Nonperforming assets are comprised of the following: loans for which the Company is no longer accruing interest; restructured loans which have been current under six months; loans 90 days or more past due and still accruing interest (although they are generally placed on nonaccrual when they become 90 days past due, unless they are both well-secured and in the process of collection); and foreclosed assets. The following tables present the aging of past due loans by class at the dates indicated:

	December 31, 2024					
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total
	(Dollars in thousands)					
Commercial	$ 7,364	$ 2,295	$ 1,393	$ 11,052	$ 520,298	$ 531,350
Real estate:						
CRE - Owner Occupied	1,879	—	—	1,879	599,757	601,636
CRE - Non-Owner Occupied	4,479	—	—	4,479	1,336,787	1,341,266
Land and construction	4,290	2,323	5,874	12,487	115,361	127,848
Home equity	78	750	—	828	127,135	127,963
Multifamily	—	—	—	—	275,490	275,490
Residential mortgages	850	—	—	850	470,880	471,730
Consumer and other	—	117	213	330	14,507	14,837
Total	$ 18,940	$ 5,485	$ 7,480	$ 31,905	$ 3,460,215	$ 3,492,120

	December 31, 2023					
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total
	(Dollars in thousands)					
Commercial	$ 6,688	$ 2,030	$ 1,264	$ 9,982	$ 453,796	$ 463,778
Real estate:						
CRE - Owner Occupied	—	—	—	—	583,253	583,253
CRE - Non-Owner Occupied	1,289	—	—	1,289	1,255,301	1,256,590
Land and construction	955	—	3,706	4,661	135,852	140,513
Home equity	—	—	142	142	118,983	119,125
Multifamily	—	—	—	—	269,734	269,734
Residential mortgages	3,794	510	779	5,083	491,878	496,961
Consumer and other	—	—	—	—	20,919	20,919
Total	$ 12,726	$ 2,540	$ 5,891	$ 21,157	$ 3,329,716	$ 3,350,873

The following table presents the past due loans on nonaccrual and current loans on nonaccrual at the dates indicated:

	December 31, 2024	December 31, 2023
	(Dollars in thousands)	
Past due nonaccrual loans	$ 7,068	$ 6,100
Current nonaccrual loans	110	718
Total nonaccrual loans	$ 7,178	$ 6,818

Management's classification of a loan as "nonaccrual" is an indication that there is reasonable doubt as to the full recovery of principal or interest on the loan. At that point, the Company stops accruing interest income, and reverses any uncollected interest that had been accrued as income. The Company resumes recognizing interest income only as cash interest payments are received and it has been determined the collection of all outstanding principal is not in doubt. The loans may or may not be collateralized, and collection efforts are pursued. Loans may be restructured by management when a borrower has experienced some change in financial status, causing an inability to meet the original repayment terms and where the Company believes the borrower will eventually overcome those circumstances and make full restitution. Foreclosed assets consist of properties and other assets acquired by foreclosure or similar means that management is offering or will offer for sale.

There were no foreclosed assets on the balance sheet at December 31, 2024 or December 31, 2023. There were no CRE loans in NPAs as of December 31, 2024 or December 31, 2023. There were no Shared National Credits or material purchased participations included in NPAs or total loans at December 31, 2024 or December 31, 2023.

The following table summarizes the Company's nonperforming assets at the dates indicated:

	December 31, 2024	December 31, 2023
	(Dollars in thousands)	
Nonaccrual loans — held-for-investment	$ 7,178	$ 6,818
Loans 90 days past due and still accruing	489	889
Total nonperforming loans	7,667	7,707
Foreclosed assets	—	—
Total nonperforming assets	$ 7,667	$ 7,707
Nonperforming assets as a percentage of loans plus foreclosed assets	0.22 %	0.23 %
Nonperforming assets as a percentage of total assets	0.14 %	0.15 %

The following table presents the amortized cost basis of nonperforming loans and loans past due over 90 days and still accruing at the dates indicated:

	December 31, 2024			
	Nonaccrual with no Special Allowance for Credit Losses	Nonaccrual with Special Allowance for Credit Losses	Loans over 90 Days Past Due and Still Accruing	Total
	(Dollars in thousands)			
Commercial	$ 313	$ 701	$ 489	$ 1,503
Real estate:				
CRE - Owner Occupied	—	—	—	—
CRE - Non-Owner Occupied	—	—	—	—
Land and construction	5,874	—	—	5,874
Home equity	77	—	—	77
Consumer and other	—	—	—	—
Total	$ 6,264	$ 914	$ 489	$ 7,667

	December 31, 2023			
	Nonaccrual with no Special Allowance for Credit Losses	Nonaccrual with Special Allowance for Credit Losses	Loans over 90 Days Past Due and Still Accruing	Total
	(Dollars in thousands)			
Commercial	$ 946	$ 290	$ 889	$ 2,125
Real estate:				
CRE - Owner Occupied	—	—	—	—
CRE - Non-Owner Occupied	—	—	—	—
Land and construction	4,661	—	—	4,661
Home equity	142	—	—	142
Residential mortgages	779	—	—	779
Total	$ 6,528	$ 290	$ 889	$ 7,707

Loans with a well-defined weakness, which are characterized by the distinct possibility that the Company will sustain a loss if the deficiencies are not corrected, are categorized as "classified." Classified loans include all loans considered as substandard, substandard-nonaccrual, and doubtful, and may result from problems specific to a borrower's business or from economic downturns that affect the borrower's ability to repay or that cause a decline in the value of the underlying collateral (particularly real estate). Loans held for sale are carried at the lower of cost or estimated fair value, and are not allocated an allowance for credit losses.

The amortized cost basis of collateral-dependent commercial loans, collateralized by business assets, totaled $701,000 and $290,000 at December 31, 2024 and December 31, 2023, respectively.

When management determines that foreclosures are probable, expected credit losses for collateral-dependent loans are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. For loans for which foreclosure is not probable, but for which repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty, management has elected the practical expedient under ASC 326 to estimate expected credit losses based on the fair value of collateral, adjusted for selling costs as appropriate. The class of loan represents the primary collateral type associated with the loan. Significant quarter over quarter changes are reflective of changes in nonaccrual status and not necessarily associated with credit quality indicators like appraisal value.

Classified loans increased to $41.7 million, or 0.74% of total assets, at December 31, 2024, compared to $31.8 million, or 0.61% of total assets at December 31, 2023. The increase in classified assets at December 31, 2024 was primarily the result of one downgraded owner occupied CRE credit, and a number of residential related loans. The loans are well-collateralized and we do not anticipate to incur losses as a result of the downgrades of these loans.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed in accordance with the Company's underwriting policy.

The ACLL is calculated by using the CECL methodology. The ACLL estimation process involves procedures to appropriately consider the unique characteristics of loan portfolio segments. These segments are further disaggregated into loan classes, the level at which credit risk is monitored. When computing the level of expected credit losses, credit loss assumptions are estimated using a model that categorizes loan pools based on loss history, delinquency status, and other credit trends and risk characteristics, including current conditions and reasonable and supportable forecasts about the future. Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. In future periods, evaluations of the overall loan portfolio in light of the factors and forecasts then prevailing, may result in significant changes in the allowance and credit loss expense in those future periods.

The allowance level is influenced by loan volumes, loan risk rating migration or delinquency status, changes in historical loss experience, and other conditions influencing loss expectations, such as reasonable and supportable forecasts of economic conditions. The methodology for estimating the amount of expected credit losses reported in the allowance for credit losses has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics. Descriptions of the Company's loan portfolio segments are included in Note 1 "*Summary of Significant Accounting Policies – Allowance for Credit Losses on Loans*" in this Form 10-K.

Loans are charged-off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for credit losses on loans.

Allocation of Allowance for Credit Losses on Loans

As a result of the matters mentioned above, changes in the financial condition of individual borrowers, economic conditions, historical loss experience and the condition of the various markets in which collateral may be sold may all affect the required level of the allowance for credit losses on loans and the associated provision for credit losses on loans.

On an ongoing basis, we have engaged an outside firm to perform independent credit reviews of our loan portfolio on a sample basis, subject to review by the Federal Reserve Board and the California Department of Financial Protection and Innovation. Based on information currently available, management believes that the allowance for credit losses on loans is adequate. However, the loan portfolio can be adversely affected if economic conditions in general, and the real estate market in the San Francisco Bay Area market in particular, were to weaken further. Also, any weakness of a prolonged nature in the technology industry would have a negative impact on the local market. The effect of such events, although uncertain at this time, could result in an increase in the level of nonperforming loans and increased loan losses, which could adversely affect the Company's future growth and profitability. No assurance of the ultimate level of credit losses can be given with any certainty.

Changes in the allowance for credit losses on loans were as follows for the periods indicated:

	2024	2023	2022	2021	2020
	(Dollars in thousands)				
Beginning of year balance	$ 47,958	$ 47,512	$ 43,290	$ 44,400	$ 23,285
Charge-offs:					
Commercial	(1,305)	(750)	(434)	(520)	(1,776)
Real estate:					
CRE - owner occupied	—	—	—	—	—
CRE - non-owner occupied	—	—	—	—	—
Home equity	—	(246)	—	—	—
Consumer and other	(299)	(15)	—	—	(104)
Total charge-offs	(1,604)	(1,011)	(434)	(520)	(1,880)
Recoveries:					
Commercial	336	346	427	1,354	998
Real estate:					
CRE - owner occupied	27	11	15	16	1
CRE - non-owner occupied	—	—	—	—	—
Land and construction	—	—	—	884	70
Home equity	97	351	105	93	93
Consumer and other	—	—	3,343	197	30
Total recoveries	460	708	3,890	2,544	1,192
Net (charge-offs) recoveries	(1,144)	(303)	3,456	2,024	(688)
Impact of adopting Topic 326	—	—	—	—	8,570
Provision for (recapture of) credit losses on loans	2,139	749	766	(3,134)	13,233
End of year balance	$ 48,953	$ 47,958	$ 47,512	$ 43,290	$ 44,400

	Year Ended December 31, 2024								
	Commercial	CRE Owner Occupied	CRE Non-owner Occupied	Land & Construction	Home Equity	Multi-Family	Residential Mortgages	Consumer and Other	Total
	(Dollars in thousands)								
Beginning of period balance	$ 5,853	$ 5,121	$ 25,323	$ 2,352	$ 644	$ 5,053	$ 3,425	$ 187	$ 47,958
Charge-offs	(1,305)	—	—	—	—	—	—	(299)	(1,604)
Recoveries	336	27	—	—	97	—	—	—	460
Net (charge-offs) recoveries	(969)	27	—	—	97	—	—	(299)	(1,144)
Provision for (recapture of) credit losses on loans	1,176	77	1,456	(952)	57	(318)	193	450	2,139
End of period balance	$ 6,060	$ 5,225	$ 26,779	$ 1,400	$ 798	$ 4,735	$ 3,618	$ 338	$ 48,953
Percent of ACLL to Total ACLL at end of period	12%	11%	55%	3%	1%	10%	7%	1%	100%

	Year Ended December 31, 2023								
	Commercial	CRE Owner Occupied	CRE Non-owner Occupied	Land & Construction	Home Equity	Multi-Family	Residential Mortgages	Consumer and Other	Total
	(Dollars in thousands)								
Beginning of period balance	$ 6,617	$ 5,751	$ 22,135	$ 2,941	$ 666	$ 3,366	$ 5,907	$ 129	$ 47,512
Charge-offs	(750)	—	—	—	(246)	—	—	(15)	(1,011)
Recoveries	346	11	—	—	351	—	—	0	708
Net (charge-offs) recoveries	(404)	11	—	—	105	—	—	(15)	(303)
Provision for (recapture of) credit losses on loans	(360)	(641)	3,188	(589)	(127)	1,687	(2,482)	73	749
End of period balance	$ 5,853	$ 5,121	$ 25,323	$ 2,352	$ 644	$ 5,053	$ 3,425	$ 187	$ 47,958
Percent of ACLL to Total ACLL at end of period	12%	11%	53%	5%	1%	11%	7%	0%	100%

The increase in the allowance for credit losses on loans of $995,000 for the year ended December 31, 2024, was primarily attributed to a net increase of $632,000 in specific reserves for individually evaluated loans and net increase of $363,000 in the reserve for pooled loans compared to December 31, 2023. The increase in specific reserves was the result of reserve additions to nonaccrual loans that were undercollateralized and the increase in the pooled loan reserve was primarily driven by an increase in the loan portfolio.

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

	December 31,									
	2024		2023		2022		2021		2020	
	Allowance	Percent of Loans in each category to total loans	Allowance	Percent of Loans in each category to total loans	Allowance	Percent of Loans in each category to total loans	Allowance	Percent of Loans in each category to total loans	Allowance	Percent of Loans in each category to total loans
	(Dollars in thousands)									
Commercial	$ 6,060	15 %	$ 5,853	14 %	$ 6,617	16 %	$ 8,414	22 %	$ 11,587	32 %
Real estate:										
CRE - owner occupied	5,225	17 %	5,121	17 %	5,751	19 %	7,954	19 %	8,560	21 %
CRE - non-owner occupied	26,779	38 %	25,323	37 %	22,135	32 %	17,125	29 %	16,416	27 %
Land and construction	1,400	4 %	2,352	4 %	2,941	5 %	1,831	5 %	2,509	6 %
Home equity	798	4 %	644	4 %	666	4 %	864	4 %	1,297	4 %
Multifamily	4,735	8 %	5,053	8 %	3,366	7 %	2,796	7 %	2,804	6 %
Residential mortgages	3,618	14 %	3,425	15 %	5,907	16 %	4,132	13 %	943	3 %
Consumer and other	338	<1 %	187	1 %	129	1 %	174	1 %	284	1 %
Total	$ 48,953	100 %	$ 47,958	100 %	$ 47,512	100 %	$ 43,290	100 %	$ 44,400	100 %

The ACLL totaled $49.0 million, or 1.40% of total loans, at December 31, 2024, compared to $48.0 million, or 1.43% of total loans at December 31, 2023. The allowance for credit losses on loans to total nonperforming loans was 638.49% at December 31, 2024, compared to 622.27% at December 31, 2023. The Company had net charge-offs of $1.1 million, or 0.03% of average loans, for the year ended December 31, 2024, compared to 303,000, or 0.01% of average loans, for the year ended December 31, 2023, and net recoveries of ($3.5) million, or (0.11)% of average loans, for the year ended December 31, 2022.

The following table shows the drivers of change in ACLL for the year ended December 31, 2024:

	(Dollars in thousands)
ACLL at December 31, 2023	$ 47,958
Portfolio changes during the first quarter of 2024	(234)
Qualitative and quantitative changes during the first quarter of 2024 including changes in economic forecasts	164
ACLL at March 31, 2024	47,888
Portfolio changes during the second quarter of 2024	616
Qualitative and quantitative changes during the second quarter of 2024 including changes in economic forecasts	(550)
ACLL at June 30, 2024	47,954
Portfolio changes during the third quarter of 2024	599
Qualitative and quantitative changes during the third quarter of 2024 including changes in economic forecasts	(734)
ACLL at September 30, 2024	47,819
Portfolio changes during the fourth quarter of 2024	1,912
Qualitative and quantitative changes during the fourth quarter of 2024 including changes in economic forecasts	(778)
ACLL at December 31, 2024	$ 48,953

Leases

The Company recognizes the following for all leases, at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use ("ROU") asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The Company's lease agreements include options to renew at the Company's discretion. The extensions are not reasonably certain to be exercised, therefore it was not considered in the calculation of the ROU asset and lease liability. Total assets and total liabilities included $30.6 million and $31.7 million at December 31, 2024 and December 31, 2023, respectively, as a result of recognizing right-of-use assets, which are included in other assets, and lease liabilities, included in other liabilities, related to non-cancelable operating lease agreements for office space. See Note 7 to the consolidated financial statements.

Deposits

The composition and cost of the Company's deposit base are important components in analyzing the Company's net interest margin and balance sheet liquidity characteristics, both of which are discussed in greater detail in other sections herein. The Company's liquidity is impacted by the volatility of deposits from the propensity of that money to leave the institution for rate-related or other reasons. Deposits can be adversely affected if economic conditions weaken in California, and the Company's market area in particular. Potentially, the most volatile deposits in a financial institution are jumbo certificates of deposit, meaning time deposits with balances that equal or exceed $250,000, as clients with balances of that magnitude are typically more rate-sensitive than clients with smaller balances.

The following table summarizes the distribution of deposits and the percentage of distribution in each category of deposits at the dates indicated:

	December 31, 2024		December 31, 2023	
	Balance	% to Total	Balance	% to Total
	(Dollars in thousands)			
Demand, noninterest-bearing	$ 1,214,192	25 %	$ 1,292,486	30 %
Demand, interest-bearing	936,587	19 %	914,066	21 %
Savings and money market	1,325,923	28 %	1,087,518	25 %
Time deposits — under $250	38,988	1 %	38,055	1 %
Time deposits — $250 and over	206,755	4 %	192,228	4 %
ICS/CDARS — interest-bearing demand, money market and time deposits	1,097,586	23 %	854,105	19 %
Total deposits	$ 4,820,031	100 %	$ 4,378,458	100 %

The Company obtains deposits from a cross-section of the communities it serves. The Company's business is not generally seasonal in nature. Public funds were less than 1% of deposits at December 31, 2024 and December 31, 2023.

Total deposits increased $441.6 million, or 10% to $4.8 billion at December 31, 2024, compared to $4.4 billion at December 31, 2023. Migration of client deposits into insured interest-bearing accounts resulted in an increase in ICS/CDARS deposits to $1.1 billion at December 31, 2024, compared to $854.1 million at December 31, 2023. Noninterest-bearing demand deposits decreased ($78.3) million, or (6%), to $1.2 billion at December 31, 2024 from $1.3 billion at December 31, 2023.

The Company had 25,427 deposit accounts at December 31, 2024, with an average balance of $190,000, compared to 24,737 deposit accounts, with an average balance of $177,000 at December 31, 2023.

Deposits from the Bank's top 100 client relationships, representing 22% of the total number of accounts, totaled $2.2 billion, representing 47% of total deposits, with an average account size of $400,000 at December 31, 2024. At December 31, 2023, deposits from the Bank's top 100 client relationships, representing 22% of the total number of accounts, totaled $2.0 billion, representing 45% of total deposits, with an average account size of $368,000.

The Bank's uninsured deposits were approximately $2.2 billion, or 45% of total deposits, at December 31, 2024, compared to $2.0 billion, or 46% of total deposits, at December 31, 2023.

At December 31, 2024, the $1.10 billion ICS/CDARS deposits were comprised of $433.4 million of interest-bearing demand deposits, $345.5 million of money market accounts and $318.7 million of time deposits. At December 31, 2023, the $854.1 million ICS/CDARS deposits were comprised of $425.0 million of interest-bearing demand deposits, $189.9 million of money market accounts and $239.2 million of time deposits.

The following table indicates the contractual maturity schedule of the Company's uninsured time deposits in excess of $250,000 at December 31, 2024:

	Balance	% of Total
	(Dollars in thousands)	
Three months or less	$ 50,918	34 %
Over three months through six months	38,286	26 %
Over six months through twelve months	33,761	23 %
Over twelve months	24,540	17 %
Total	$ 147,505	100 %

The Company focuses primarily on providing and servicing business deposit accounts that are frequently over $250,000 in average balance per account. As a result, certain types of business clients that the Company serves typically carry average deposits in excess of $250,000. The account activity for some account types and client types necessitates appropriate liquidity management practices by the Company to ensure its ability to fund deposit withdrawals.

The contractual maturity of total deposits at December 31, 2024, are as follows:

	Less Than One Year	One to Three Years	Three to Five Years	After Five Years	Total
	(Dollars in thousands)				
Deposits [1]	$ 4,762,847	$ 56,880	$ 22	$ 282	$ 4,820,031

[1] Deposits with indeterminate maturities, such as demand, savings and money market accounts, are reflected as obligations due in less than one year.

Return on Equity and Assets

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

	Year Ended December 31,		
	2024	2023	2022
Return on average assets	0.76 %	1.22 %	1.23 %
Return on average tangible assets (1)	0.78 %	1.26 %	1.27 %
Return on average equity	5.97 %	9.88 %	10.95 %
Return on average tangible common equity (1)	8.05 %	13.57 %	15.57 %
Average equity to average assets ratio	12.71 %	12.62 %	11.25 %

(1) This is a non-GAAP financial measure.

Liquidity, Asset/Liability Management and Available Lines of Credit

The Company's liquidity position supports its ability to maintain cash flows sufficient to fund operations, meet all of its financial obligations and commitments, and accommodate unexpected sudden changes in balances of loans and demand for deposits in a timely manner. At various times the Company requires funds to meet short term cash requirements brought about by loan growth or deposit outflows, the purchase of assets, or repayment of liabilities. An integral part of the Company's ability to manage its liquidity position appropriately is derived from its large base of core deposits which are generated by offering traditional banking services in its service area and which have historically been a stable source of funds.

The Company manages liquidity to be able to meet unexpected sudden changes in levels of its assets or deposit liabilities without maintaining excessive amounts of balance sheet liquidity. In order to meet short term liquidity needs the Company utilizes overnight Federal funds purchase arrangements and other borrowing arrangements with correspondent banks, solicits brokered deposits if cost effective deposits are not available from local sources, and maintains collateralized lines of credit with the FHLB and FRB.

The Company monitors its liquidity position and funding strategies on a daily basis, but recognizes that unexpected events, economic or market conditions, earnings issues or situations beyond its control could cause either a short or long term liquidity crisis. The Company has a detailed Contingency Funding Plan that will be used in the event of a "Liquidity Event" defined as a reduction in liquidity such that a normal deposit and liquidity environment cannot meet funding needs. In addition to other tools used to monitor liquidity and funding, the Company prepares liquidity stress scenarios that include lower-probability, higher impact scenarios, with various levels of severity. The liquidity stress scenarios incorporate the impact of moderate risk and higher risk situations, at least on a quarterly basis, or more often as circumstances require. The liquidity stress scenarios include a dashboard showing key liquidity ratios compared to established target limits and estimated cash flows for the next several quarters.

One of the measures of liquidity is the loan to deposit ratio. The loan to deposit ratio was 72.45% at December 31, 2024, compared to 76.52% at December 31, 2023.

The Company's total liquidity and borrowing capacity at December 31, 2024 was $3.3 billion, all of which remained available. The available liquidity and borrowing capacity was 69% of the Company's total deposits and approximately 155% of the Bank's estimated uninsured deposits at December 31, 2024.

HBC has off-balance sheet liquidity in the form of Federal funds purchase arrangements with correspondent banks, and lines of credit from the FHLB and FRB. HBC maintains a collateralized line of credit with the FHLB of San Francisco. Under this line, HBC can borrow from the FHLB on a short-term (typically overnight) or long-term (over one year) basis. HBC can also borrow from the FRB discount window. In addition, the Company has a line of credit with a correspondent bank. The following table shows the collateral value of loans and securities pledged for the lines of credit (if collateralized), total available lines of credit, the amounts outstanding, and the remaining available at the dates indicated:

	December 31, 2024			
	Collateral Value	Total Available	Outstanding	Remaining Available
	(Dollars in thousands)			
FHLB collateralized borrowing capacity	$ 1,233,768	$ 815,760	$ —	$ 815,760
FRB discount window collateralized line of credit	1,755,347	1,383,149	—	1,383,149
Federal funds purchase arrangements	N/A	90,000	—	90,000
Holding company line of credit	N/A	25,000	—	25,000
	$ 2,989,115	$ 2,313,909	$ —	$ 2,313,909

	December 31, 2023			
	Collateral Value	Total Available	Outstanding	Remaining Available
	(Dollars in thousands)			
FHLB collateralized borrowing capacity	$ 1,600,371	$ 1,100,931	$ —	$ 1,100,931
FRB discount window collateralized line of credit	1,658,642	1,235,573	—	1,235,573
Federal funds purchase arrangements	N/A	90,000	—	90,000
Holding company line of credit	N/A	20,000	—	20,000
Total	$ 3,259,013	$ 2,446,504	$ —	$ 2,446,504

HBC may also utilize securities sold under repurchase agreements to manage our liquidity position. There were no securities sold under agreements to repurchase at December 31, 2024 and 20223

Capital Resources

The Company uses a variety of measures to evaluate capital adequacy. Management reviews various capital measurements on a regular basis and takes appropriate action to ensure that such measurements are within established internal and external guidelines. The external guidelines, which are issued by the Federal Reserve and the FDIC, establish a risk-adjusted ratio relating capital to different categories of assets and off-balance sheet exposures.

On July 25, 2024, the Company announced that its Board of Directors adopted a share repurchase program (the “Repurchase Program”) under which the Company is authorized to repurchase up to $15.0 million of the Company’s shares of its issued and outstanding common stock. Unless otherwise suspended or terminated, the Repurchase Program expires on July 31, 2025. The Company did not repurchase any of its common stock during the year ended December 31, 2024.

On May 11, 2022, the Company completed a private placement offering of $40.0 million aggregate principal amount of its 5.00% fixed-to-floating rate subordinated notes due May 15, 2032 (“Sub Debt due 2032”). The Company used the net proceeds of the Sub Debt due 2032 for general corporate purposes, including the repayment on June 1, 2022 of the Company’s $40.0 million aggregate principal amount of 5.25% fixed-to-floating rate subordinated notes due June 1, 2027. The Sub Debt due 2032, net of unamortized issuance costs of $347,000, totaled $39.7 million at December 31, 2024, and qualifies as Tier 2 capital for the Company under the guidelines established by the Federal Reserve Bank.

The following table summarizes risk based capital, risk weighted assets, and risk based capital ratios of the consolidated Company under the Basel III requirements at the dates indicated:

	December 31, 2024	December 31, 2023	December 31, 2022
		(Dollars in thousands)	
Capital components:			
Common Equity Tier 1 capital	$ 524,204	$ 511,799	$ 475,609
Additional Tier 1 capital	—	—	—
Tier 1 Capital	524,204	511,799	475,609
Tier 2 Capital	86,439	82,572	79,201
Total Capital	$ 610,643	$ 594,371	$ 554,810
Risk-weighted assets	$ 3,917,931	$ 3,838,667	$ 3,747,246
Average assets for capital purposes	$ 5,436,274	$ 5,100,600	$ 5,196,294
Capital ratios:			
Total Capital	15.6 %	15.5 %	14.8 %
Tier 1 Capital	13.4 %	13.3 %	12.7 %
Common equity Tier 1 Capital	13.4 %	13.3 %	12.7 %
Tier 1 Leverage [(1)]	9.6 %	10.0 %	9.2 %

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

The following table summarizes risk-based capital, risk-weighted assets, and risk-based capital ratios of HBC under the Basel III requirements at the dates indicated:

	December 31, 2024	December 31, 2023	December 31, 2022
		(Dollars in thousands)	
Capital components:			
Common Equity Tier 1 capital	$ 543,872	$ 529,836	$ 492,725
Additional Tier 1 capital	—	—	—
Tier 1 Capital	543,872	529,836	492,725
Tier 2 Capital	46,786	43,071	39,851
Total Capital	$ 590,658	$ 572,907	$ 532,576
Risk-weighted assets	$ 3,914,648	$ 3,835,419	$ 3,745,725
Average assets for capital purposes	$ 5,432,806	$ 5,097,382	$ 5,194,802
Capital ratios:			
Total Capital	15.1 %	14.9 %	14.2 %
Tier 1 Capital	13.9 %	13.8 %	13.2 %
Common Equity Tier 1 Capital	13.9 %	13.8 %	13.2 %
Tier 1 Leverage [(1)]	10.0 %	10.4 %	9.5 %

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

The following table presents the applicable well-capitalized regulatory guidelines and the standards for minimum capital adequacy requirements under Basel III and the regulatory guidelines for a "well-capitalized" financial institution under PCA:

	Basel III Minimum Regulatory Requirements (1)	Well-capitalized Financial Institution PCA Regulatory Guidelines
Capital ratios:		
Total Capital	10.5 %	10.0 %
Tier 1 Capital	8.5 %	8.0 %
Common equity Tier 1 Capital	7.0 %	6.5 %
Tier 1 Leverage	4.0 %	5.0 %

(1) Includes 2.5% capital conservation buffer, except the leverage ratio.

The Basel III capital rules introduced a "capital conservation buffer," for banking organizations to maintain a common equity Tier 1 ratio more than 2.5% above these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of common equity Tier 1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

At December 31, 2024, the Company's consolidated capital ratio exceeded regulatory guidelines and HBC's capital ratios exceed the highest regulatory capital requirement of "well-capitalized" under Basel III prompt corrective action provisions. Quantitative measures established by regulation to help ensure capital adequacy require the Company and HBC to maintain minimum amounts and ratios of total risk-based capital, Tier 1 capital, and common equity Tier 1 (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes that, as of December 31, 2024, December 31, 2023, and December 31, 2022, the Company and HBC met all capital adequacy guidelines to which they were subject. There are no conditions or events since December 31, 2024, that management believes have changed the categorization of the Company or HBC as well-capitalized.

At December 31, 2024, the Company had total shareholders' equity of $689.7 million, compared to $672.9 million at December 31, 2023. At December 31, 2024, total shareholders' equity included $510.1 million in common stock, $187.7 million in retained earnings, and ($8.1) million of accumulated other comprehensive loss. The book value per share was $11.24 at December 31, 2024, compared to $11.00 at December 31, 2023. Tangible common equity was $515.7 million at December 31, 2024, compared to $496.6 million at December 31, 2023. The tangible book value per share was $8.41 at December 31, 2024, compared to $8.12 at December 31, 2023. Tangible common equity and tangible book value per share are non-GAAP financial measures.

The following table reflects the components of accumulated other comprehensive loss, net of taxes, at the dates indicated:

	December 31,	
Accumulated Other Comprehensive Loss	**2024**	**2023**
	(Dollars in thousands)	
Unrealized loss on securities available-for-sale	$ (3,656)	$ (7,116)
Split dollar insurance contracts liability	(2,339)	(2,809)
Supplemental executive retirement plan liability	(2,173)	(2,892)
Unrealized gain on interest-only strip from SBA loans	63	87
Total accumulated other comprehensive loss	$ (8,105)	$ (12,730)

Market Risk

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

Interest Rate Management

The Company's market risk exposure is primarily that of interest rate risk. Interest rate risk arises when the maturity or re-pricing periods and interest rated indices of the interest-earning assets and interest-bearing liabilities are different. It is the risk that changes in the level of market interest rates will result in disproportionate changes in the value of, and the net earnings generated from, the Company's interest-earning assets and interest-bearing liabilities. Management has established policies and procedures to monitor and limit earnings and balance sheet exposure to changes in interest rates. The Company does not engage in the trading of financial instruments, nor does the Company have exposure to currency exchange rates.

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

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

Interest rate changes do not affect all categories of assets and liabilities equally or at the same time. Varying interest rate environments can create unexpected changes in prepayment levels of assets and liabilities, which may have a significant effect on the net interest margin and are not reflected in the interest sensitivity analysis table. Because of these factors, an interest sensitivity GAP report may not provide a complete assessment of the exposure to changes in interest rates.

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

The following tables set forth the estimated changes in the Company's annual net interest income and economic value of equity (a non-GAAP financial measure) that would result from the designated instantaneous parallel shift in interest rates noted, and assuming a flat balance sheet with consistent product mix, as of December 31, 2024:

Change in Interest Rates (basis points)	Increase/(Decrease) in Estimated Net Interest Income (1) Amount	Increase/(Decrease) in Estimated Net Interest Income (1) Percent
	(Dollars in thousands)	
+400	$ 27,272	14.0 %
+300	$ 20,340	10.5 %
+200	$ 13,451	6.9 %
+100	$ 6,590	3.4 %
0	—	—
−100	$ (8,368)	(4.3)%
−200	$ (19,659)	(10.1)%
−300	$ (33,576)	(17.3)%
−400	$ (54,794)	(28.2)%

Change in Interest Rates (basis points)	Increase/(Decrease) in Estimated Economic Value of Equity (1) Amount	Increase/(Decrease) in Estimated Economic Value of Equity (1) Percent
	(Dollars in thousands)	
+400	$ 124,156	9.0 %
+300	$ 104,693	7.6 %
+200	$ 78,580	5.7 %
+100	$ 44,383	3.2 %
0	—	—
−100	$ (71,172)	(5.2)%
−200	$ (177,928)	(13.0)%
−300	$ (314,451)	(22.9)%
−400	$ (492,841)	(35.9)%

(1) Computations of prospective effects of hypothetical interest rate changes are for illustrative purposes only, 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 "*Cautionary Note Regarding Forward-Looking Statements*" on page 3. Actual rates paid on deposits may differ from the hypothetical interest rates modeled due to competitive or market factors, which could affect any actual impact on net interest income.

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

Selected Financial Data

The following table presents a summary of selected financial information that should be read in conjunction with the Company's Consolidated Financial Statements and notes thereto following Item 15 — *Exhibits and Financial Statement Schedules.*

SELECTED FINANCIAL DATA

	AT OR FOR THE YEAR ENDED DECEMBER 31,				
	2024	2023	2022	2021	2020
	(Dollars in thousands, except per share data)				
INCOME STATEMENT DATA:					
Interest income	$ 242,699	$ 234,298	$ 188,828	$ 153,256	$ 150,471
Interest expense	79,051	51,074	8,948	7,131	8,581
Net interest income before provision for credit losses on loans	163,648	183,224	179,880	146,125	141,890
Provision for (recapture of) credit losses on loans	2,139	749	766	(3,134)	13,233
Net interest income after provision for credit losses on loans	161,509	182,475	179,114	149,259	128,657
Noninterest income	8,748	8,998	10,111	9,688	9,922
Noninterest expense	113,583	101,054	94,859	93,077	89,511
Income before income taxes	56,674	90,419	94,366	65,870	49,068
Income tax expense	16,146	25,976	27,811	18,170	13,769
Net income	$ 40,528	$ 64,443	$ 66,555	$ 47,700	$ 35,299
PER COMMON SHARE DATA:					
Basic earnings per share	$ 0.66	$ 1.06	$ 1.10	$ 0.79	$ 0.59
Diluted earnings per share	$ 0.66	$ 1.05	$ 1.09	$ 0.79	$ 0.59
Book value per share	$ 11.24	$ 11.00	$ 10.39	$ 9.91	$ 9.64
Tangible book value per share [1]	$ 8.41	$ 8.12	$ 7.46	$ 6.91	$ 6.57
Dividend payout ratio	78.61 %	49.25 %	47.32 %	65.56 %	88.04 %
Weighted average number of shares outstanding — basic	61,270,730	61,038,857	60,602,962	60,133,821	59,478,343
Weighted average number of shares outstanding — diluted	61,527,372	61,311,318	61,090,290	60,689,062	60,169,139
Common shares outstanding at period-end	61,348,095	61,146,835	60,852,723	60,339,837	59,917,457
BALANCE SHEET DATA:					
Securities (available-for sale and held-to-maturity)	$ 846,290	$ 1,093,201	$ 1,204,586	$ 760,649	$ 533,163
Total loans, net of deferred fees	$ 3,491,937	$ 3,350,378	$ 3,298,550	$ 3,087,326	$ 2,619,261
Allowance for credit losses on loans	$ (48,953)	$ (47,958)	$ (47,512)	$ (43,290)	$ (44,400)
Loans, net	$ 3,442,984	$ 3,302,420	$ 3,251,038	$ 3,044,036	$ 2,574,861
Goodwill and other intangible assets	$ 174,070	$ 176,258	$ 178,664	$ 181,299	$ 184,295
Total assets	$ 5,645,006	$ 5,194,095	$ 5,157,580	$ 5,499,409	$ 4,634,114
Total deposits	$ 4,820,031	$ 4,378,458	$ 4,389,604	$ 4,759,412	$ 3,914,486
Subordinated debt, net of issuance costs	$ 39,653	$ 39,502	$ 39,350	$ 39,925	$ 39,740
Total shareholders' equity	$ 689,727	$ 672,901	$ 632,456	$ 598,028	$ 577,889
Tangible common equity [1]	$ 515,657	$ 496,643	$ 453,792	$ 416,729	$ 393,594
SELECTED PERFORMANCE RATIOS: [2]					
Return on average assets	0.76 %	1.21 %	1.23 %	0.92 %	0.80 %
Return on average tangible assets [1]	0.78 %	1.26 %	1.27 %	0.96 %	0.83 %
Return on average equity	5.97 %	9.88 %	10.95 %	8.15 %	6.12 %
Return on average tangible common equity [1]	8.05 %	13.57 %	15.57 %	11.86 %	9.04 %
Net interest margin (FTE) [1]	3.28 %	3.70 %	3.57 %	3.05 %	3.50 %
Efficiency ratio [1]	65.88 %	52.57 %	49.93 %	59.74 %	58.96 %
Average net loans as a percentage of average deposits [3]	73.01 %	71.89 %	66.10 %	61.39 %	69.58 %
Average total shareholders' equity as a percentage of average total assets	12.71 %	12.29 %	11.25 %	11.33 %	13.00 %
SELECTED CREDIT QUALITY DATA: [4]					
Net charge-offs (recoveries) to average loans	0.03 %	0.01 %	(0.11)%	(0.07)%	0.03 %
Allowance for credit losses on loans to total loans	1.40 %	1.43 %	1.44 %	1.40 %	1.70 %
Nonperforming loans to total loans	0.22 %	0.23 %	0.07 %	0.12 %	0.30 %
Nonperforming assets to total assets	0.14 %	0.15 %	0.05 %	0.07 %	0.17 %
Nonperforming assets	$ 7,667	$ 7,707	$ 2,425	$ 3,738	$ 7,869
Classified assets	$ 41,661	$ 31,763	$ 14,544	$ 33,846	$ 34,028
HERITAGE COMMERCE CORP CAPITAL RATIOS:					
Tangible common equity to tangible assets [1]	9.43 %	9.90 %	9.11 %	7.84 %	8.85 %
Total capital ratio	15.6 %	15.5 %	14.8 %	14.4 %	16.5 %
Tier 1 capital ratio	13.4 %	13.3 %	12.7 %	12.3 %	14.0 %
Common equity Tier 1 capital ratio	13.4 %	13.3 %	12.7 %	12.3 %	14.0 %
Tier 1 leverage ratio	9.6 %	10.0 %	9.2 %	7.9 %	9.1 %

Notes:

(1) This is a non-GAAP financial measure. See *"Reconciliation of Non-GAAP Financial Measures"* below.

(2) Average balances used in this table are based on daily averages.

(3) Average loans net of the average allowance for credit losses on loans and exclude loans held-for-sale.

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

Quarterly Financial Data (Unaudited)

The following table discloses the Company's selected unaudited quarterly financial data for the periods indicated:

	Quarter Ended			
	12/31/2024	9/30/2024	6/30/2024	3/31/2024
	(Dollars in thousands, except per share amounts)			
Interest income	$ 64,633	$ 61,438	$ 59,077	$ 57,551
Interest expense	20,448	21,523	19,622	17,458
Net interest income	44,185	39,915	39,455	40,093
Provision for credit losses on loans	1,331	153	471	184
Net interest income after provision for credit losses on loans	42,854	39,762	38,984	39,909
Noninterest income	2,185	2,240	2,276	2,047
Noninterest expense	30,304	27,555	28,188	27,536
Income before income taxes	14,735	14,447	13,072	14,420
Income tax expense	4,114	3,940	3,838	4,254
Net income	$ 10,621	$ 10,507	$ 9,234	$ 10,166
Earnings per common share				
Basic	$ 0.17	$ 0.17	$ 0.15	$ 0.17
Diluted	$ 0.17	$ 0.17	$ 0.15	$ 0.17

	Quarter Ended			
	12/31/2023	9/30/2023	6/30/2023	3/31/2023
	(Dollars in thousands, except per share amounts)			
Interest income	$ 58,892	$ 60,791	$ 58,341	$ 56,274
Interest expense	16,591	15,419	12,048	7,016
Net interest income	42,301	45,372	46,293	49,258
Provision for (recapture of) credit losses on loans	289	168	260	32
Net interest income after provision for credit losses on loans	42,012	45,204	46,033	49,226
Noninterest income	1,942	2,216	2,074	2,766
Noninterest expense	25,491	25,171	24,991	25,401
Income before income taxes	18,463	22,249	23,116	26,591
Income tax expense	5,135	6,454	6,713	7,674
Net income	$ 13,328	$ 15,795	$ 16,403	$ 18,917
Earnings per common share				
Basic	$ 0.22	$ 0.26	$ 0.27	$ 0.31
Diluted	$ 0.22	$ 0.26	$ 0.27	$ 0.31

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

The accounting and reporting policies of the Company conform to GAAP in the United States and prevailing practices in the banking industry. However, certain non-GAAP performance measures and ratios are used by management to evaluate and measure the Company's performance. The Company believes these non-GAAP financial measures are common in the banking industry, and may enhance comparability for peer comparison purposes. These non-GAAP financial measures should be supplemental to primary GAAP financial measures and should not be read in isolation or relied upon as a substitute for primary GAAP financial measures.

Management reviews yields on certain asset categories and the net interest margin of the Company on a FTE basis. In this non-GAAP presentation, net interest income is adjusted to reflect tax-exempt interest income on an equivalent before-tax basis using tax rates effective as of the end of the period. This measure ensures comparability of net interest income arising from both taxable and tax-exempt sources.

The following table summarizes components of FTE net interest income of the Company for the periods indicated:

	December 31,				
	2024	2023	2022	2021	2020
	(Dollars in thousands)				
Net interest income before provision for credit losses on loans (GAAP)	$ 163,648	$ 183,224	$ 179,880	$ 146,125	$ 141,890
Tax-equivalent adjustment on securities - exempt from Federal tax	237	251	288	419	507
Net interest income, FTE (non-GAAP)	$ 163,885	$ 183,475	$ 180,168	$ 146,544	142,397
Average balance of total interest earning assets	$ 4,999,363	$ 4,955,018	$ 5,051,552	$ 4,805,630	4,071,805
Net interest margin (annualized net interest income divided by the average balance of total interest earnings assets) (GAAP)	3.27 %	3.70 %	3.56 %	3.04 %	3.48 %
Net interest margin, FTE (annualized net interest income, FTE, divided by the average balance of total interest earnings assets) (non-GAAP)	3.28 %	3.70 %	3.57 %	3.05 %	3.50 %

The efficiency ratio is a non-GAAP financial measure, which is calculated by dividing noninterest expense by total revenue (net interest income plus noninterest income), and measures how much it costs to produce one dollar of revenue. The following table summarizes components of the efficiency ratio of the Company for the periods indicated:

	December 31,				
	2024	2023	2022	2021	2020
	(Dollars in thousands)				
Noninterest expense	$ 113,583	$ 101,054	$ 94,859	$ 93,077	$ 89,511
Net interest income before provision for credit losses on loans	$ 163,648	$ 183,224	$ 179,880	146,125	141,890
Noninterest income	8,748	8,998	10,111	9,688	9,922
Total revenue	$ 172,396	$ 192,222	$ 189,991	$ 155,813	$ 151,812
Efficiency ratio (noninterest expense divided by total revenue) (non-GAAP)	65.88 %	52.57 %	49.93 %	59.74 %	58.96 %

Management considers the tangible common equity ratio and tangible book value per common share as useful measurements of the Company's equity. The Company references the return on average tangible common equity as a measurement of profitability.

The following table summarizes components of the annualized return on average tangible assets and the annualized return on average tangible common equity for the periods indicated:

	December 31, 2024	2023	2022	2021	2020
	(Dollars in thousands)				
Net income	$ 40,528	$ 64,443	$ 66,555	$ 47,700	$ 35,299
Average tangible assets components:					
Average Assets (GAAP)	$ 5,338,705	$ 5,289,375	$ 5,401,220	$ 5,166,294	$ 4,434,329
Less: Goodwill	(167,631)	(167,631)	(167,631)	(167,631)	(167,631)
Less: Other Intangible Assets	(7,589)	(9,905)	(12,430)	(15,256)	(18,608)
Total Average Tangible Assets (non-GAAP)	$ 5,163,485	$ 5,111,839	$ 5,221,159	$ 4,983,407	$ 4,248,090
Annualized return on average tangible assets (non-GAAP)	0.78 %	1.26 %	1.27 %	0.96 %	0.83 %
Average tangible common equity components:					
Average Equity (GAAP)	$ 678,543	$ 652,449	$ 607,603	$ 585,156	$ 576,675
Less: Goodwill	(167,631)	(167,631)	(167,631)	(167,631)	(167,631)
Less: Other Intangible Assets	(7,589)	(9,905)	(12,430)	(15,256)	(18,608)
Total Average Tangible Common Equity (non-GAAP)	$ 503,323	$ 474,913	$ 427,542	$ 402,269	$ 390,436
Annualized return on average tangible common equity (non-GAAP)	8.05 %	13.57 %	15.57 %	11.86 %	9.04 %

The following table summarizes components of the tangible common equity to tangible assets ratio of the Company at the dates indicated:

	December 31, 2024	2023	2022	2021	2020
	(Dollars in thousands)				
Capital components:					
Total Equity (GAAP)	$ 689,727	$ 672,901	$ 632,456	$ 598,028	$ 577,889
Less: Preferred Stock	—	—	—	—	—
Total Common Equity	689,727	672,901	632,456	598,028	577,889
Less: Goodwill	(167,631)	(167,631)	(167,631)	(167,631)	(167,631)
Less: Other Intangible Assets	(6,439)	(8,627)	(11,033)	(13,668)	(16,664)
Total Tangible Common Equity (non-GAAP)	$ 515,657	$ 496,643	$ 453,792	$ 416,729	$ 393,594
Asset components:					
Total Assets (GAAP)	$ 5,645,006	$ 5,194,095	$ 5,157,580	$ 5,499,409	$ 4,634,114
Less: Goodwill	(167,631)	(167,631)	(167,631)	(167,631)	(167,631)
Less: Other Intangible Assets	(6,439)	(8,627)	(11,033)	(13,668)	(16,664)
Total Tangible Assets (non-GAAP)	$ 5,470,936	$ 5,017,837	$ 4,978,916	$ 5,318,110	$ 4,449,819
Tangible common equity to tangible assets (non-GAAP)	9.43 %	9.90 %	9.11 %	7.84 %	8.85 %

The following table summarizes components of the tangible common equity to tangible assets ratio of HBC at the dates indicated:

	December 31,				
	2024	2023	2022	2021	2020
	(Dollars in thousands)				
Capital components:					
Total Equity (GAAP)	$ 709,379	$ 690,918	$ 649,545	$ 616,108	$ 595,681
Less: Preferred Stock	—	—	—	—	—
Total Common Equity	709,379	690,918	649,545	616,108	595,681
Less: Goodwill	(167,631)	(167,631)	(167,631)	(167,631)	(167,631)
Less: Other Intangible Assets	(6,439)	(8,627)	(11,033)	(13,668)	(16,664)
Total Tangible Common Equity (non-GAAP)	$ 535,309	$ 514,660	$ 470,881	$ 434,809	$ 411,386
Asset components:					
Total Assets (GAAP)	$ 5,641,646	$ 5,190,829	$ 5,157,093	$ 5,496,724	$ 4,632,230
Less: Goodwill	(167,631)	(167,631)	(167,631)	(167,631)	(167,631)
Less: Other Intangible Assets	(6,439)	(8,627)	(11,033)	(13,668)	(16,664)
Total Tangible Assets (non-GAAP)	$ 5,467,576	$ 5,014,571	$ 4,978,429	$ 5,315,425	$ 4,447,935
Tangible common equity to tangible assets (non-GAAP)	9.79 %	10.26 %	9.46 %	8.18 %	9.25 %

The following table summarizes components of the tangible book value per share at the dates indicated:

	December 31,				
	2024	2023	2022	2021	2020
	(Dollars in thousands, except per share amounts)				
Capital components:					
Total Equity (GAAP)	$ 689,727	$ 672,901	$ 632,456	$ 598,028	$ 577,889
Less: Preferred Stock	—	—	—	—	—
Total Common Equity	689,727	672,901	632,456	598,028	577,889
Less: Goodwill	(167,631)	(167,631)	(167,631)	(167,631)	(167,631)
Less: Other Intangible Assets	(6,439)	(8,627)	(11,033)	(13,668)	(16,664)
Total Tangible Common Equity (non-GAAP)	$ 515,657	$ 496,643	$ 453,792	$ 416,729	$ 393,594
Common shares outstanding at period-end	61,348,095	61,146,835	60,852,723	60,339,837	59,917,457
Tangible book value per share (non-GAAP)	$ 8.41	$ 8.12	$ 7.46	$ 6.91	$ 6.57

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

As a financial institution, the Company's primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of the Company's assets and liabilities and the market value of all interest-earning assets, other than those which have a short term to maturity. Based upon the nature of the Company's operations, the Company is not subject to foreign exchange or commodity price risk. The Company has no market risk sensitive instruments held for trading purposes. At December 31, 2024, the Company did not use interest rate derivatives to hedge its interest rate risk.

The information concerning quantitative and qualitative disclosure or market risk called for by Item 305 of Regulation S-K is included as part of Item 7 of this report.

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

The financial statements and report of the Independent Registered Public Accounting Firm are set forth on pages 89 through 143.

ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES*

None.

ITEM 9A. *CONTROLS AND PROCEDURES*

Disclosure Control and Procedures

The Company has carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures at December 31, 2024. As defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), disclosure controls and procedures are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported on a timely basis. Disclosure controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls were effective as of December 31, 2024, the period covered by this report.

Management's Annual Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Rule 13a-15(f) under the Exchange Act, internal control over financial reporting is a process designed by, or under the supervision of, a company's principal executive and principal financial officers and effected by a company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. It includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of a company;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of a company are being made only in accordance with authorizations of management and the board of directors of the company; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of a company's assets that could have a material effect on its financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management has used the criteria established in the 2013 *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to evaluate the effectiveness of the Company's internal control over financial reporting. Management has selected the COSO framework for its evaluation as it is a control framework recognized by the SEC and the Public Company Accounting Oversight Board, that is free from bias, permits reasonably consistent qualitative and quantitative measurement of the Company's internal controls, is sufficiently complete so that relevant controls are not omitted and is relevant to an evaluation of internal controls over financial reporting.

Based on our assessment, management has concluded that our internal control over financial reporting, based on criteria established in the 2013 *Internal Control — Integrated Framework* issued by COSO was effective at December 31, 2024.

The independent registered public accounting firm of Crowe LLP, as auditors of our consolidated financial statements, has issued an audit report on the effectiveness of the Company's internal control over financial reporting based on criteria established in the 2013 "*Internal Control — Integrated Framework*," issued by COSO.

Inherent Limitations on Effectiveness of Controls

The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the year ended December 31, 2024 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B. *OTHER INFORMATION*

None.

ITEM 9C. *DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS*

Not applicable.

PART III

ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

Information required by this item will be contained in our Definitive Proxy Statement for our 2025 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A with the Securities and Exchange Commission within 120 days of December 31, 2024. Such information is incorporated herein by reference.

We have adopted a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, and to our other principal financial officers, and other senior management personnel, as designated. The code of ethics is available at the Governance Documents section of our website at *www.heritagecommercecorp.com.* We intend to disclose future amendments to, or waivers from, certain provisions of our code of ethics on the above website.

We have adopted an Insider Trading Policy governing the purchase, sale, and/or other dispositions of our securities, as well as the securities of publicly traded companies with whom we have a business relationship, by directors, officers and employees, and consultants. Our Insider Trading Policy is designed to promote compliance with all applicable insider trading laws, listing standards, rules and regulations. A copy of our insider trading policy is incorporated by reference as Exhibit 19.1 to this Annual Report on Form 10-K.

ITEM 11. *EXECUTIVE COMPENSATION*

Information required by this item will be contained in our Definitive Proxy Statement for our 2025 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A with the Securities and Exchange Commission within 120 days of December 31, 2024. Such information is incorporated herein by reference.

ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS*

(a) Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2024 regarding equity compensation plans under which equity securities of the Company were authorized for issuance:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	2,222,496 (1)	$ 10.73	900,292 (2)
Equity compensation plans not approved by security holders	N/A	N/A	N/A

(1) Consists of 1,976,873 options to acquire shares under the Company's 2013 Equity Incentive Plan 20,000 options to acquire shares under the Company's 2023 Equity Incentive Plan, and the aggregate amount of 225,623 stock options assumed from the Presidio stock option and equity incentive plans.

(2) Available under the Company's 2023 Equity Incentive Plan.

(b) Information required by this item will be contained in our Definitive Proxy Statement for our 2025 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A with the Securities and Exchange Commission within 120 days of December 31, 2024. Such information is incorporated herein by reference.

ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE*

Information required by this item will be contained in our Definitive Proxy Statement for our 2025 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A with the Securities and Exchange Commission within 120 days of December 31, 2024. Such information is incorporated herein by reference.

ITEM 14. *PRINCIPAL ACCOUNTANT FEES AND SERVICES*

Information required by this item will be contained in our Definitive Proxy Statement for our 2025 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A with the Securities and Exchange Commission within 120 days of December 31, 2024. Such information is incorporated herein by reference.

PART IV

ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*

(1) FINANCIAL STATEMENTS

The Financial Statements of the Company and the Report of Independent Registered Public Accounting Firm are set forth on pages 89 through 143.

(2) FINANCIAL STATEMENT SCHEDULES

All schedules to the Financial Statements are omitted because of the absence of the conditions under which they are required or because the required information is included in the Financial Statements or accompanying notes.

(3) EXHIBITS

The exhibits listed below are filed or incorporated by reference as part of this Annual Report on Form 10-K.

Exhibit Number	Description
3.1	Heritage Commerce Corp Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K filed on March 16, 2009).
3.2	Certificate of Amendment of Articles of Incorporation of Heritage Commerce Corp, as filed with the California Secretary of State on June 1, 2010 (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 filed July 23, 2010).
3.3	Certificate of Amendment of Articles of Incorporation of Heritage Commerce Corp, as filed with the California Secretary of State on August 29, 2019 (incorporated by reference to Exhibit 3.3 to the Registrant's Quarterly Report on Form 10-Q filed November 11, 2019).
3.4	Heritage Commerce Corp Bylaws, as amended (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on June 28, 2013).
4.1	Description of Securities Registered under Section 12 of the Securities Exchange Act of 1934 (incorporated herein by reference to the Registrant's Annual Report on Form 10-K filed on March 11, 2020).
*10.1	Heritage Commerce Corp Management Cash Incentive Bonus Plan (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed January 28, 2022).
*10.2	Non-qualified Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K filed March 31, 2005).
*10.3	Amended and Restated Employment Agreement with Lawrence McGovern, dated July 21, 2011 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed July 21, 2011).
*10.4	Employment Agreement with Robertson Clay Jones, dated September 15, 2022 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed September 19, 2022).
*10.5	Employment Agreement with Chris Edmonds-Waters, dated April 30, 2024 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 6, 2024).

Exhibit Number	Description
*10.6	Employment Agreement with Deborah K. Reuter, dated March 23, 2023 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed March 27, 2023).
*10.7†	Amended and Restated Employment Agreement with Glen Shu, dated February 1, 2024 (incorporated by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-K filed March 11, 2024).
*10.8†	Employment Agreement with Thomas A. Sa, dated September 26, 2024 (incorporated by reference to Exhibit 10.01 to the Registrant's Current Report on Form 8-K filed on October 2, 2024).
*10.9†	Amended and Restated Employment Agreement with Susan Just, dated February 1, 2024 (incorporated by reference to Exhibit 10.10 to the Registrant's Annual Report on Form 10-K filed March 11, 2024).
*10.10†	Employment Agreement with Dustin Warford, dated February 1, 2024 (incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K filed March 11, 2024).
*10.11	Employment Agreement with Janisha Sabnani, dated February 3, 2025 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed February 3, 2025).
*10.12	Heritage Commerce Corp 2013 Equity Incentive Plan (incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form S-8 filed July 15, 2013).
*10.13	Amendment No. 1 to Heritage Commerce Corp 2013 Equity Incentive Plan, dated May 25, 2017 (incorporated by reference to Exhibit A to the Registrant's Proxy Statement, filed April 19, 2017).
*10.14	Amendment No. 2 to Heritage Commerce Corp 2013 Equity Incentive Plan, dated May 21, 2020 (incorporated by reference to Appendix A to the Registrant's Proxy Statement, filed April 15, 2020).
*10.15	Form of Restricted Stock Agreement for 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-8 filed July 15, 2013).
*10.16	Form of Stock Option Agreement for 2013 Equity Incentive Plan (incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form S-8 filed July 15, 2013).
*10.17	Form of Restricted Stock Unit Agreement (serviced-based) for 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K filed March 9, 2023).
*10.18	Form of Restricted Stock Unit Agreement (performance-based) for 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K filed March 9, 2023).
*10.19	Heritage Commerce Corp 2023 Equity Incentive Plan (incorporated by reference to Appendix A to the Registrant's Proxy Statement filed April 13, 2023).
*10.20	2005 Amended and Restated Heritage Commerce Corp Supplemental Retirement Plan (incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed September 30, 2008).
*10.21	Form of Endorsement Method Split Dollar Plan Agreement for Executive Officers (incorporated herein by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K filed March 17, 2008).
*10.22	Form of Endorsement Method Split Dollar Plan Agreement for Directors (incorporated herein by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K filed March 17, 2008).
*10.23	First Amended and Restated Director Compensation Benefits Agreement dated December 29, 2008 between Jack Conner and the Company (incorporated herein by reference to Exhibit 10.8 to the Registrant's Current Report on Form 8-K filed January 2, 2009).
*10.24	Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed December 23, 2009).
*10.25	Presidio Bank Amended and Restated 2006 Stock Options Plan (incorporated by reference to Exhibit 99.1 to the Registrant's Statement on Form S-8 filed October 15, 2019).
*10.26	Presidio Bank 2016 Equity Incentive Plan (incorporated by reference to Exhibit 99.2 to the Registrant's Statement on Form S-8 filed October 15, 2019).
19.1	Heritage Commerce Corp Insider Trading Policy, filed herewith.
21.1	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 to the Registrant's Annual Report on Form 10-K, as filed March 3, 2017).
23.1	Consent of Crowe LLP, filed herewith.
31.1	Certification of Registrant's Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, filed herewith.

Exhibit Number	Description
31.2	Certification of Registrant's Interim Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, filed herewith.
**32.1	Certification of Registrant's Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
**32.2	Certification of Registrant's Interim Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.
97.1	Heritage Commerce Corp Incentive Compensation Recovery Policy (incorporated by reference to Exhibit 97.1 to the Registrant's Annual Report on Form 10-K filed March 11, 2024).
101.INS	Inline XBRL Instance Document, filed herewith.
101.SCH	Inline XBRL Taxonomy Extension Schema Document, filed herewith.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document, filed herewith.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document, filed herewith.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document, filed herewith.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document, filed herewith.
104	Cover Page Interactive Data (formatted as inline XBRL and contained in Exhibits 101).

* Management contract or compensatory plan or arrangement.

** Furnished and not filed.

† Certain identified information has been excluded from the exhibit pursuant to Regulation S-K Item 601(b)(10)(iv) because it is both (i) not material and (ii) is the type that the Company customarily treats as private or confidential.

ITEM 16. ***FORM 10-K SUMMARY***

None.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HERITAGE COMMERCE CORP

BY: /s/ ROBERTSON CLAY JONES
Robertson Clay Jones
Chief Executive Officer

DATE: March 7, 2025

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ JULIANNE M. BIAGINI-KOMAS Julianne M. Biagini-Komas	Director and Vice Chair of the Board	March 7, 2025
/s/ BRUCE H. CABRAL Bruce H. Cabral	Director	March 7, 2025
/s/ JACK W. CONNER Jack W. Conner	Director and Chairman of the Board	March 7, 2025
/s/ JASON DINAPOLI Jason DiNapoli	Director	March 7, 2025
/s/ STEPHEN G. HEITEL Stephen G. Heitel	Director	March 7, 2025
/s/ KAMRAN F. HUSAIN Kamran F. Husain	Director	March 7, 2025
/s/ ROBERTSON CLAY JONES Robertson Clay Jones	Director and Chief Executive Officer (Principal Executive Officer)	March 7, 2025
/s/ MARINA H. PARK SUTTON Marina H. Park Sutton	Director	March 7, 2025
/s/ LAURA RODEN Laura Roden	Director	March 7, 2025
/s/ THOMAS A. SA Thomas A. Sa	Executive Vice President and Chief Operating Officer and Interim Chief Financial Officer (Principal Financial and Accounting Officer)	March 7, 2025

HERITAGE COMMERCE CORP

INDEX TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors
of Heritage Commerce Corp
San Jose, California

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Heritage Commerce Corp (the "Company") as of December 31, 2024 and 2023, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2024, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2024, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2024 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2024, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

<u>Allowance for Credit Losses on Loans – Qualitative Factors</u>

As described in Notes 1 and 4 to the consolidated financial statements, the Allowance for Credit Losses on Loans ("ACLL") represents the Company's estimate of amounts that are not expected to be collected over the contractual life of the Company's held for investment loan portfolio. The estimate of the ACLL is based on historical experience, current conditions, and reasonable and supportable forecasts. As of December 31, 2024, the Company's ACLL was $48,953,000, and the provision for credit losses on loans was $2,139,000 for the year then ended.

The Company measures expected credit losses by using a discounted cash flow methodology that includes loan level cash flow estimates for each loan segment to estimate the quantitative component of the allowance for credit losses for loans. Management qualitatively adjusts the quantitative model results for risk factors that are not considered within the modeling process but are relevant in assessing the expected credit losses. These qualitative factors are based upon management judgment and current assessment as to the impact of risks related to collateral values, concentrations of credit risk, trends in delinquencies, the level of criticized loans and other internal and external factors.

We have identified auditing the qualitative factors as a critical audit matter as management's determination of the qualitative factors is subjective and involves significant management judgments; and our audit procedures related to certain of the qualitative factors involved a high degree of auditor judgment and required significant audit effort, including the need to involve more experienced audit personnel.

The primary audit procedures we performed to address this critical audit matter included the following:

- Tested the operating effectiveness of the Company's controls over the:
    - Review of the reasonableness of assumptions and judgments made for the qualitative factors.
    - Review over the appropriateness of the framework for the qualitative factors.
    - Completeness and accuracy of internal data used in the qualitative factors.
    - Review over the relevance and reliability of external data used in the qualitative factors.
    - Mathematical accuracy of the qualitative factors.
- Substantive tests included:
    - Testing the completeness and accuracy of internal data and relevance and reliability of external data used in the qualitative factors
    - Assessing the appropriateness and reasonableness of the framework developed for the qualitative factors including evaluating management's judgments as to which factors impacted the qualitative analysis for each loan segment.
    - Performing testing over the accuracy of inputs utilized in the calculation of qualitative factors for each loan segment.

- Testing the mathematical accuracy of the calculation of the qualitative factors.

/s/ CROWE LLP

Crowe LLP

We have served as the Company’s auditor since 2005.

Oakbrook Terrace, Illinois
March 7, 2025

HERITAGE COMMERCE CORP

CONSOLIDATED BALANCE SHEETS

	December 31, 2024	December 31, 2023
	(Dollars in thousands)	
Assets		
Cash and due from banks	$ 29,864	$ 41,592
Other investments and interest-bearing deposits in other financial institutions	938,259	366,537
Total cash and cash equivalents	968,123	408,129
Securities available-for-sale, at fair value	256,274	442,636
Securities held-to-maturity, at amortized cost, net of allowance for credit losses of $12, (fair value of $497,012 and $564,127, respectively)	590,016	650,565
Loans held-for-sale - SBA, at lower of cost or fair value, including deferred costs	2,375	2,205
Loans, net of deferred fees	3,491,937	3,350,378
Allowance for credit losses on loans	(48,953)	(47,958)
Loans, net	3,442,984	3,302,420
Federal Home Loan Bank ("FHLB"), Federal Reserve Bank ("FRB") stock and other investments, at cost	32,556	32,540
Company-owned life insurance	81,211	79,489
Premises and equipment, net	10,140	9,857
Goodwill	167,631	167,631
Other intangible assets	6,439	8,627
Accrued interest receivable and other assets	87,257	89,996
Total assets	$ 5,645,006	$ 5,194,095
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Demand, noninterest-bearing	$ 1,214,192	$ 1,292,486
Demand, interest-bearing	936,587	914,066
Savings and money market	1,325,923	1,087,518
Time deposits - under $250	38,988	38,055
Time deposits - $250 and over	206,755	192,228
Insured Cash Sweep ("ICS")/Certificates of Deposit Account Registry Service ("CDARS") - interest-bearing demand, money market and time deposits	1,097,586	854,105
Total deposits	4,820,031	4,378,458
Subordinated debt, net of issuance costs	39,653	39,502
Accrued interest payable and other liabilities	95,595	103,234
Total liabilities	4,955,279	4,521,194
Shareholders' equity:		
Preferred stock, no par value; 10,000,000 shares authorized; none issued and outstanding at December 31, 2024 and December 31, 2023	—	—
Common stock, no par value; 100,000,000 shares authorized; 61,348,095 and 61,146,835 shares issued and outstanding, respectively	510,070	506,539
Retained earnings	187,762	179,092
Accumulated other comprehensive loss	(8,105)	(12,730)
Total shareholders' equity	689,727	672,901
Total liabilities and shareholders' equity	$ 5,645,006	$ 5,194,095

See notes to consolidated financial statements

HERITAGE COMMERCE CORP

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2024	2023	2022
	(Dollars in thousands, except per share data)		
Interest income:			
Loans, including fees	$ 182,983	$ 177,628	$ 153,010
Securities, taxable	20,817	27,351	20,666
Securities, exempt from Federal tax	890	945	1,084
Other investments, interest-bearing deposits in other financial institutions and Federal funds sold	38,009	28,374	14,068
Total interest income	242,699	234,298	188,828
Interest expense:			
Deposits	76,899	47,557	6,770
Short-term borrowings	—	1,365	—
Subordinated debt	2,152	2,152	2,178
Total interest expense	79,051	51,074	8,948
Net interest income before provision for credit losses on loans	163,648	183,224	179,880
Provision for credit losses on loans	2,139	749	766
Net interest income after provision for credit losses on loans	161,509	182,475	179,114
Noninterest income:			
Service charges and fees on deposit accounts	3,561	4,341	4,640
Increase in cash surrender value of life insurance	2,097	2,031	1,925
Gain on sales of SBA loans	473	482	491
Servicing income	365	400	508
Gain on proceeds from company owned life insurance	219	125	27
Termination fees	177	154	61
Gain on warrants	—	—	669
Other	1,856	1,465	1,790
Total noninterest income	8,748	8,998	10,111
Noninterest expense:			
Salaries and employee benefits	63,952	56,862	55,331
Occupancy and equipment	10,226	9,490	9,639
Professional fees	5,416	4,350	5,015
Other	33,989	30,352	24,874
Total noninterest expense	113,583	101,054	94,859
Income before income taxes	56,674	90,419	94,366
Income tax expense	16,146	25,976	27,811
Net income	$ 40,528	$ 64,443	$ 66,555
Earnings per common share:			
Basic	$ 0.66	$ 1.06	$ 1.10
Diluted	$ 0.66	$ 1.05	$ 1.09

See notes to consolidated financial statements

HERITAGE COMMERCE CORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	December 31,		
	2024	2023	2022
	(Dollars in thousands)		
Net income	$ 40,528	$ 64,443	$ 66,555
Other comprehensive income (loss):			
Change in net unrealized holding gains (losses) on available-for-sale securities and I/O strips	4,839	6,148	(19,079)
Deferred income taxes	(1,403)	(1,783)	5,532
Change in unrealized gains (losses) on securities and I/O strips, net of net of deferred income taxes	3,436	4,365	(13,547)
Change in net pension and other benefit plan liability adjustment	1,491	(458)	9,909
Deferred income taxes	(302)	219	(2,222)
Change in pension and other benefit plan liability, net of deferred income taxes	1,189	(239)	7,687
Other comprehensive income (loss)	4,625	4,126	(5,860)
Total comprehensive income	$ 45,153	$ 68,569	$ 60,695

See notes to consolidated financial statements

HERITAGE COMMERCE CORP

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Years Ended December 31, 2024, 2023 and 2022				
	Common Stock		Retained	Accumulated Other Comprehensive Income	Total Shareholders'
	Shares	Amount	Earnings	(Loss)	Equity
	(Dollars in thousands, except per share data)				
Balance, January 1, 2022	60,339,837	$ 497,695	$ 111,329	$ (10,996)	$ 598,028
Net income	—	—	66,555	—	66,555
Other comprehensive loss, net of taxes	—	—	—	(5,860)	(5,860)
Issuance of restricted stock awards, net	207,006	—	—	—	—
Amortization of restricted stock awards, net of forfeitures and taxes	—	2,583	—	—	2,583
Cash dividend declared $0.52 per share	—	—	(31,495)	—	(31,495)
Stock option expense, net of forfeitures and taxes	—	595	—	—	595
Stock options exercised	305,880	2,050	—	—	2,050
Balance, December 31, 2022	60,852,723	502,923	146,389	(16,856)	632,456
Net income	—	—	64,443	—	64,443
Other comprehensive income, net of taxes	—	—	—	4,126	4,126
Issuance of restricted stock awards, net	73,446	—	—	—	—
Amortization of restricted stock awards, net of forfeitures and taxes	—	1,404	—	—	1,404
Cash dividend declared $0.52 per share	—	—	(31,740)	—	(31,740)
Restricted stock units ("RSUs") and performance-based restricted stock units ("PRSUs") expense, net of taxes	—	392	—	—	392
Stock option expense, net of forfeitures and taxes	—	600	—	—	600
Stock options exercised	220,666	1,220	—	—	1,220
Balance, December 31, 2023	61,146,835	506,539	179,092	(12,730)	672,901
Net income	—	—	40,528	—	40,528
Other comprehensive income, net of taxes	—	—	—	4,625	4,625
Issuance of restricted stock awards, net	25,908	—	—	—	—
Amortization of restricted stock awards, net of forfeitures and taxes	—	916	—	—	916
Cash dividend declared $0.52 per share	—	—	(31,858)	—	(31,858)
RSUs and PRSUs expense, net of taxes	—	1,409	—	—	1,409
RSUs vested	35,837	—	—	—	—
Stock option expense, net of forfeitures and taxes	—	516	—	—	516
Stock options exercised	139,515	690	—	—	690
Balance, December 31, 2024	61,348,095	$ 510,070	$ 187,762	$ (8,105)	$ 689,727

See notes to consolidated financial statements

HERITAGE COMMERCE CORP

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2024	2023	2022
	(Dollars in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 40,528	$ 64,443	$ 66,555
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of premiums and accretion of discounts on securities	(2,582)	(4,822)	(953)
Gain on sale of SBA loans	(473)	(482)	(491)
Proceeds from sale of SBA loans originated for sale	6,469	8,035	7,689
SBA loans originated for sale	(6,166)	(7,302)	(7,767)
Provision for credit losses on loans	2,139	749	766
Increase in cash surrender value of life insurance	(2,097)	(2,031)	(1,925)
Depreciation and amortization	1,341	1,115	1,121
Amortization of other intangible assets	2,188	2,406	2,635
Stock option expense, net	516	600	595
RSUs and PRSUs expense	1,409	392	—
Amortization of restricted stock awards, net	916	1,404	2,583
Amortization of subordinated debt issuance costs	151	152	172
Gain on proceeds from company-owned life insurance	(219)	(125)	(27)
Effect of changes in:			
Accrued interest receivable and other assets	4,044	2,411	978
Accrued interest payable and other liabilities	(9,193)	6,065	(2,078)
Net cash provided by operating activities	38,971	73,010	69,853
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of securities available-for-sale	(30,263)	—	(425,721)
Purchase of securities held-to-maturity	—	—	(146,548)
Maturities/paydowns/calls of securities available-for-sale	225,064	59,014	21,881
Maturities/paydowns/calls of securities held-to-maturity	59,566	63,376	88,394
Purchase of mortgage loans	—	—	(185,426)
Net change in loans	(142,703)	(52,131)	(21,862)
Changes in FHLB stock and other investments	(16)	(18)	(18)
Proceeds from redemption of company-owned life insurance	594	1,612	596
Purchase of premises and equipment	(1,624)	(1,671)	(783)
Net cash provided by (used in) investing activities	110,618	70,182	(669,487)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	441,573	(11,146)	(369,808)
Exercise of stock options	690	1,220	2,050
Payment of cash dividends	(31,858)	(31,740)	(31,495)
Redemption of subordinated debt	—	—	(40,000)
Issuance of subordinated debt, net of issuance costs	—	—	39,274
Net cash provided by (used in) financing activities	410,405	(41,666)	(399,979)
Net increase (decrease) in cash and cash equivalents	559,994	101,526	(999,613)
Cash and cash equivalents, beginning of period	408,129	306,603	1,306,216
Cash and cash equivalents, end of period	$ 968,123	$ 408,129	$ 306,603
Supplemental disclosures of cash flow information:			
Interest paid	$ 77,237	$ 46,834	$ 8,654
Income taxes paid, net	13,219	28,340	25,175
Supplemental schedule of non-cash activity:			
Recording of right of use assets in exchange for lease obligations	3,045	541	2,736
Transfer of loans held-for-sale to loan portfolio	—	—	480

See notes to consolidated financial statements

HERITAGE COMMERCE CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) Summary of Significant Accounting Policies

Description of Business and Basis of Presentation

Heritage Commerce Corp ("HCC") operates as a registered bank holding company for its wholly-owned subsidiary Heritage Bank of Commerce ("HBC" or the "Bank"), collectively referred to as the "Company". HBC was incorporated on November 23, 1993 and commenced operations on June 8, 1994. HBC is a California state chartered bank which offers a full range of commercial and personal banking services to residents and the business/professional community in Alameda, Contra Costa, Marin, San Benito, San Francisco, San Mateo, and Santa Clara counties of California.

CSNK Working Capital Finance Corp. a California corporation, dba Bay View Funding ("Bay View Funding") is a wholly owned subsidiary of HBC. Bay View Funding's primary business operation is purchasing and collecting factored receivables. Factored receivables are receivables that have been transferred by the originating organization and typically have not been subject to previous collection efforts. In a factoring transaction Bay View Funding directly purchases the receivables generated by its clients at a discount to their face value. The transactions are structured to provide the clients with immediate working capital when there is a mismatch between payments to the client for a good and service and the payment of operating costs incurred to provide such good or service.

The consolidated financial statements are prepared in accordance with accounting policies generally accepted in the United States of America and general practices in the banking industry. The financial statements include the accounts of the Company. All inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, amounts held at the Federal Reserve Bank, and Federal funds sold. Federal funds are generally sold and purchased for one-day periods.

Cash Flows

Net cash flows are reported for client loan and deposit transactions, notes payable, repurchase agreements and other short-term borrowings.

Securities

The Company classifies its securities as either available-for-sale or held-to-maturity at the time of purchase. Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of taxes.

Interest income includes amortization of purchase premiums or discounts. Premiums and discounts are amortized, or accreted, over the life of the related security, or the earliest call date for callable securities purchased at a premium, as an adjustment to income using a method that approximates the interest method. Realized gains and losses are recorded on the trade date and determined using the specific identification method for the cost of securities sold.

Allowance for Credit Losses – Available-for-sale Securities

For available-for-sale debt securities in an unrealized loss position, the Company assesses whether it intends to sell, or if it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding the intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by rating agency, and adverse conditions specifically related to the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as a provision (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Allowance for Credit Losses – Held-to-Maturity Securities

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type and bond rating. The estimate of expected credit losses considers historical loss information that is adjusted for current conditions and reasonable and supportable forecasts.

Management classifies the held-to-maturity portfolio in the following major security types: Agency mortgage-backed and municipal securities.

All the mortgage-backed securities held by the Company are issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses.

Other securities are comprised primarily of tax exempt municipal securities. At December 31, 2024, all of these securities are rated A-Aaa (defined as investment grade). The issuers in these securities are primarily municipal entities and school districts.

Loan Sales and Servicing

The Company holds for sale the conditionally guaranteed portion of certain loans guaranteed by the Small Business Administration or the U.S. Department of Agriculture (collectively referred to as "SBA loans"). These loans are carried at the lower of aggregate cost or fair value. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Gains or losses on SBA loans held-for-sale are recognized upon completion of the sale, based on the difference between the selling price and the carrying value of the related loan sold.

SBA loans are sold with servicing retained. Servicing assets recognized separately upon the sale of SBA loans consist of servicing rights and, for loans sold prior to 2009, interest-only strip receivables ("I/O strips"). The Company accounts for the sale and servicing of SBA loans based on the financial and servicing assets it controls and liabilities it has incurred, reversing recognition of financial assets when control has been surrendered, and reversing recognition of liabilities when extinguished. Servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sale of loans. Servicing rights are amortized in proportion to and over the period of net servicing income and are assessed for impairment on an ongoing basis. Impairment is determined by stratifying the servicing rights based on interest rates and terms. Any servicing assets in excess of the contractually specified servicing fees are reclassified at fair value as an I/O strip receivable and treated like an available for sale security. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance. The servicing rights, net of any required valuation allowance, and I/O strip receivable are included in other assets on the consolidated balance sheets.

Servicing income, net of amortization of servicing rights, is recognized as noninterest income. The initial fair value of I/O strip receivables is amortized against interest income on loans.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the principal amount outstanding, net of deferred loan origination fees and costs on originated loans, or unamortized premiums or discounts on purchased or acquired loans, and an allowance for credit losses on loans. Accrued interest receivable is excluded from the estimate of credit losses. Interest on loans is accrued on the unpaid principal balance and is credited to income using the effective yield interest method. Interest on purchased or acquired loans and the accretion (amortization) of the related purchase discount (premium) is also credited to income using the effective yield interest method.

A loan portfolio segment is defined as the level at which the Company uses a systematic methodology to determine the allowance for credit losses on loans. A loan portfolio class is defined as a group of loans having similar risk characteristics and methods for monitoring and assessing risk.

For all loan classes, when a loan is classified as nonaccrual, the accrual of interest is discontinued, any accrued and unpaid interest is reversed, and the amortization of deferred loan fees and costs is discontinued. For all loan classes, loans are classified as nonaccrual when the payment of principal or interest is 90 days past due, unless the loan is well secured and in the process of collection. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for credit loss and individually evaluated loans. In certain circumstances, loans that are under 90 days past due may also be classified as nonaccrual. Any interest or principal payments received on nonaccrual loans are applied toward reduction of principal. Nonaccrual loans generally are not returned to performing status until the obligation is brought current, the loan has performed in accordance with the contract terms for a reasonable period of time, and the ultimate collectability of the contractual principal and interest is no longer in doubt.

Non-refundable loan fees and direct origination costs are deferred and recognized over the expected lives of the related loans using the effective yield interest method.

Allowance for Credit Losses on Loans

Loans are charged-off against the allowance when management determines that a loan balance has become uncollectible. Subsequent recoveries, if any, are credited to the allowance for credit losses on loans.

Management's methodology for estimating the allowance balance consists of several key elements, which include pooling loans with similar characteristics into segments and using a discounted cash flow calculation to estimate losses. The discounted cash flow model inputs include loan level cash flow estimates for each loan segment based on peer and bank historic loss correlations with certain economic factors. Management uses a four quarter forecast of each economic factor that is used for each loan segment and the economic factors are assumed to revert to the historic mean over an eight quarter period after the forecast period. The economic factors management has selected include the California unemployment rate, California gross domestic product, California home price index, and a national CRE value index. These factors are evaluated and updated as economic conditions change. Additionally, management uses qualitative adjustments to the discounted cash flow quantitative loss estimates in certain cases when management has determined an adjustment is necessary. These qualitative adjustments are applied by pooled loan segment and have been added for increased risk due to loan quality trends, collateral risk, or other risks management determines are not adequately captured in the discounted cash flow loss estimation. Specific allowances on individually evaluated loans are combined to the allowance on pools of loans with similar risk characteristics to derive the total allowance for credit losses on loans.

Management has also considered other qualitative risks such as collateral values, concentrations of credit risk (geographic, large borrower, and industry), economic conditions, changes in underwriting standards, experience and depth of lending staff, trends in delinquencies, and the level of criticized loans to address asset-specific risks and current conditions that were not fully considered by the macroeconomic variables driving the quantitative estimate.

The allowance for credit losses on loans was calculated by pooling loans of similar credit risk characteristics and credit monitoring procedures. The loan portfolio is classified into eight segments of loans - commercial, commercial real estate – owner occupied, commercial real estate – non-owner occupied, land and construction, home equity, multifamily, residential mortgages and consumer and other."

The allowance for credit losses is an estimate of expected losses inherent with the Company's loans held-for-investment portfolio. In accordance with Accounting Standards Codification ("ASC") 326 the Company measures the allowance for credit losses on loans by segmenting these assets into pools with similar risk characteristics. The segmentation of these loans is generally based on various risk characteristics reflecting the level at which the Company monitors credit quality and portfolio trends.

In accordance with ASC 326, the Company elected to not measure an allowance for credit losses on accrued interest. As such accrued interest is written off in a timely manner when deemed uncollectible. Any such write-off of accrued interest will reverse previously recognized interest income. In addition, the Company elected to not include accrued interest within presentation and disclosures of the carrying amount of financial assets held at amortized cost. This election is applicable to the various disclosures included within the Company's financial statements. Accrued interest related to financial assets held at amortized cost is included within accrued interest receivable and other assets within the Company's Consolidated Balance Sheets and totaled $14,940,000 at December 31, 2024 and $14,959,000 at December 31, 2023.

The loan portfolio is classified into eight segments of loans – commercial, commercial real estate – owner occupied, commercial real estate – non-owner occupied, land and construction, home equity, multifamily, residential mortgages and consumer and other.

The risk characteristics of each loan portfolio segment are as follows:

Commercial

Commercial loans primarily rely on the identified cash flows of the borrower for repayment and secondarily on the underlying collateral provided by the borrower. However, the cash flows of the borrowers may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable, inventory or equipment and may incorporate a personal guarantee; however, some loans may be unsecured. Included in commercial loans are $68,897,000 of Bay View Funding factored receivables at December 31, 2024, compared to $57,458,000 at December 31, 2023.

Commercial Real Estate ("CRE")

CRE loans rely primarily on the cash flows of the properties securing the loan and secondarily on the value of the property that is securing the loan. CRE loans comprise two segments differentiated by owner occupied CRE and non-owner occupied CRE. Owner occupied CRE loans are secured by commercial properties that are at least 50% occupied by the borrower or borrower affiliate. Although CRE loans often incorporate a personal guarantee, the commercial property collateral is typically sufficient and reliance on personal guarantees is minimal. Non-owner occupied CRE loans are secured by commercial properties that are less than 50% occupied by the borrower or borrower affiliate. CRE loans may be adversely affected by conditions in the real estate markets or in the general economy.

Land and Construction

Land and construction loans are generally based on estimates of costs and value associated with the completed project. Construction loans usually involve the disbursement of funds with repayment substantially dependent on the success of the completion of the project. Sources of repayment for these loans may be permanent loans from HBC or other lenders, or proceeds from the sales of the completed project. These loans are monitored by on-site inspections and are considered to have higher risk than other real estate loans due to the final repayment dependent on numerous factors including general economic conditions.

Home Equity

Home equity loans are secured by 1-4 family residences that are generally owner occupied. Repayment of these loans depends primarily on the personal income of the borrower and secondarily on the value of the property securing the loan which can be impacted by changes in economic conditions such as the unemployment rate and property values. These loans are generally revolving lines of credit.

Multifamily

Multifamily loans are loans on residential properties with five or more units. These loans rely primarily on the cash flows of the properties securing the loan for repayment and secondarily on the value of the properties securing the loan. The cash flows of these borrowers can fluctuate along with the values of the underlying property depending on general economic conditions.

Residential Mortgages

Residential mortgage loans are secured by 1-4 family residences which are generally owner-occupied. Repayment of these loans depends primarily on the personal income of the borrower and secondarily on the value of the property securing the loan which can be impacted by changes in economic conditions such as the unemployment rate and property values. These are term loans and are acquired.

Consumer and Other

Consumer and other loans are secured by personal property or are unsecured and rely primarily on the income of the borrower for repayment and secondarily on the collateral value for secured loans. Borrower income and collateral values can vary depending on economic conditions.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet client financing needs. The face amount for these items represents the exposure to loss, before considering client collateral or ability to repay. Such financial instruments are recorded when they are funded. The notional amount of these commitments is not reflected in the consolidated financial statement until they are funded. The Company maintains an allowance for credit losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for credit losses for loans, modified to take into account the probability of a drawdown on the commitment. The allowance for credit losses on unfunded loan commitments is classified as a liability account on the balance sheet and is adjusted as a provision for credit loss expense included in other noninterest expense.

Federal Home Loan Bank and Federal Reserve Bank Stock

As a member of the Federal Home Loan Bank (“FHLB”) system, the Bank is required to own common stock in the FHLB based on the Bank’s level of borrowings and outstanding FHLB advances. FHLB stock is carried at cost and classified as a restricted security. Both cash and stock dividends from the FHLB are reported as income.

As a member of the Federal Reserve Bank (“FRB”) of San Francisco, the Bank is required to own stock in the FRB of San Francisco based on a specified ratio relative to our capital. FRB stock is carried at cost and may be sold back to the FRB at its carrying value. Cash dividends received from the FRB are reported as income.

Company-Owned Life Insurance and Split-Dollar Life Insurance Benefit Plan

The Company has purchased life insurance policies on certain directors and officers. Company-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for charges or other amounts due that are probable at settlement. The purchased insurance is subject to split-dollar insurance agreements with the insured participants, which continues after the participant’s employment and retirement.

Accounting guidance requires that a liability be recorded primarily over the participant's service period when a split-dollar life insurance agreement continues after a participant's employment or retirement. The required accrued liability is based on either the post-employment benefit cost for the continuing life insurance or the future death benefit depending on the contractual terms of the underlying agreement.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation and amortization are computed on the straight-line basis over the lesser of the respective lease terms or estimated useful lives. The Company owns one building which is being depreciated over 40 years. Furniture, equipment, and leasehold improvements are depreciated over estimated useful lives generally ranging from three to fifteen years. The Company evaluates the recoverability of long-lived assets on an ongoing basis.

Operating Lease Right of Use Assets and Liabilities

The Company determines if a lease is present at the inception of an agreement. Operating leases are capitalized at commencement and are discounted using the Company's FHLB borrowing rate for a similar term borrowing unless the lease defines an implicit rate within the contract.

The operating lease right of use assets represent the Company's right to use an underlying asset for the lease term, and the operating lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease right of use assets and operating lease liabilities are recognized on the lease commencement date based on the present value of lease payments over the lease term. No significant judgments or assumptions were involved in developing the estimated operating lease liabilities as the Company's operating lease liabilities largely represent future rental expenses associated with operating leases and the borrowing rates are based on publicly available interest rates.

Business Combinations

The Company accounts for acquisitions of businesses using the acquisition method of accounting. Under the acquisition method, assets acquired and liabilities assumed are recorded at their estimated fair values at the date of acquisition. Management utilizes various valuation techniques including discounted cash flow analyses to determine these fair values. Any excess of the purchase price over amounts allocated to the acquired assets, including identifiable intangible assets, and liabilities assumed is recorded as goodwill.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of a business acquisition over the fair value of net assets acquired. On a quarterly basis, management assesses whether it is necessary to perform a quantitative impairment test of goodwill. In accordance with accounting standards, goodwill is not amortized, but rather is tested for impairment on an annual basis or more frequently when events warrant, using a qualitative or quantitative approach.

Other intangible assets which have finite lives are amortized over their estimated useful lives and also are subject to impairment testing. Other intangible assets consist of a core deposit intangible, a below market lease, an above market lease liability, a customer relationship and brokered relationship intangible assets. The core deposits intangible assets from the acquisitions are being amortized on an accelerated method over ten years. The below market value lease intangible assets are being amortized on the straight line method over three years. The above market lease adjustment is being amortized on the straight line method over five years. The customer relationship and brokered relationship intangible assets are being amortized over ten years.

Foreclosed Assets

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through operations. Operating costs after acquisition are expensed. Gains and losses on disposition are included in noninterest expense. There were no foreclosed assets at December 31, 2024 and 2023.

Retirement Plans

Expenses for the Company's non-qualified, unfunded defined benefits plan consists of service and interest cost and amortization of gains and losses not immediately recognized. Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. The Company's accounting policy for legal costs related to loss contingencies is to accrue for the probable fees that can be reasonably estimated. The Company's accounting policy for uncertain recoveries is to recognize the anticipated recovery when realization is deemed probable.

Income Taxes

The Company files consolidated Federal and combined and separate state income tax returns. Income tax expense is the total of the current year income tax payable or refunded, the change in deferred tax assets and liabilities, and low income housing investment losses, net of tax benefits received. Some items of income and expense are recognized in different years for tax purposes when applying generally accepted accounting principles, leading to timing differences between the Company's actual tax liability and the amount accrued for this liability based on book income. These temporary differences comprise the "deferred" portion of the Company's tax expense or benefit, which is accumulated on the Company's books as a deferred tax asset or deferred tax liability until such time as they reverse.

Realization of the Company's deferred tax assets is primarily dependent upon the Company generating sufficient taxable income to obtain benefit from the reversal of net deductible temporary differences and utilization of tax credit carryforwards for Federal and California state income tax purposes. The amount of deferred tax assets considered realizable is subject to adjustment in future periods based on estimates of future taxable income. Under generally accepted accounting principles, a valuation allowance is required to be recognized if it is "more likely than not" that a deferred tax asset will not be realized. The determination of the realizability of the deferred tax assets is highly subjective and dependent upon judgment concerning management's evaluation of both positive and negative evidence, including forecasts of future income, cumulative losses, applicable tax planning strategies, and assessments of current and future economic and business conditions.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company recognizes interest and penalties related to uncertain tax positions as income tax expense.

Stock-Based Compensation

Compensation cost is recognized for stock options and restricted stock awards issued to team members and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards, RSUs and PRSUs. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. Compensation cost recognized reflects estimated forfeitures, adjusted as necessary for actual forfeitures.

Comprehensive Income (Loss)

Total comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) refers to gains and losses that are included in comprehensive income (loss) but are excluded from net income (loss) because they have been recorded directly in equity, net of tax, under the provisions of certain accounting guidance. The Company's sources of other comprehensive income (loss) are unrealized gains and losses on securities available-for-sale, and I/O strips, which are treated like available-for-sale securities, and the liabilities related to the Company's defined benefit pension plan and the split-dollar life insurance benefit plan. Reclassification adjustments result from gains or losses that were realized and included in net income (loss) of the current period that also had been included in other comprehensive income as unrealized holding gains and losses.

Segment Reporting

HBC is a commercial bank serving clients located in Alameda, Contra Costa, Marin, San Benito, San Francisco, San Mateo, and Santa Clara counties of California. Bay View Funding provides business essential working capital factoring financing to various industries throughout the United States. No client accounts for more than 10 percent of revenue for HBC or the Company. With the previous acquisition of Bay View Funding, the Company has two reportable segments consisting of Banking and Factoring.

Reclassifications

Certain items in the consolidated financial statements for the years ended December 31, 2023 and 2022 were reclassified to conform to the 2024 presentation. These reclassifications did not affect previously reported net income or shareholders' equity.

Adoption of New Accounting Standards

Accounting Standards Update ("ASU") No. 2023-07 "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures" ("ASU 2023-07") requires filers to disclose significant segment expenses, an amount and description for other segment items, the title and position of the entity's chief operating decision maker and an explanation of how the chief operating decision maker uses the reported measures of profit or loss to assess segment performance, and, on an interim basis, certain segment related disclosures that previously were required only on an annual basis. ASU 2023-07 is effective for the Company for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. The Company adopted this guidance and the updated disclosures are included in "*Note 20 – Business Segment Information*."

Issued But Not Yet Effective Accounting Standards

In October 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-06 - Disclosure Improvements - Codification Amendments in Response to the Securities and Exchange Commission's ("SEC") Disclosure Update and Simplification Initiative. ASU 2023-06 amends the disclosure or presentation requirements related to various subtopics in the FASB ASC. ASU 2023-06 was issued in response to the SEC's August 2018 final rule that updated and simplified disclosure requirements. In the final rule, the SEC identified 27 disclosure requirements that were incremental to those in the ASC and referred them to the FASB for potential incorporation into the generally accepted accounting principles. To avoid duplication, the SEC intended to eliminate those disclosure requirements from existing SEC regulations if the FASB incorporated them into the relevant ASC subtopics. The disclosure requirements are currently included in either SEC Regulation S-X or SEC Regulation S-K. ASU 2023-06 adds 14 of the 27 identified disclosure or presentation requirements to the ASC.

For entities like HCC that are subject to the SEC's existing disclosure requirements, the effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S- K becomes effective, with early adoption prohibited. The amendments are to be applied prospectively and, if by June 30, 2027 the SEC has not removed the applicable requirement from Regulation S-X or Regulation S-K, the pending content of the related amendment will be removed from the ASC and will not become effective for any entity. Management intends to adopt the provisions of ASU 2023-06 on their respective effective dates. The adoption of the provisions of ASU 2023-06 is not expected to have a material impact on HCC's consolidated financial statements.

In December 2023, FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. The updated accounting guidance requires expanded income tax disclosures, including the disaggregation of existing disclosures related to the tax rate reconciliation and income taxes paid. The guidance is effective for annual periods beginning after December 15, 2024. Prospective application is required, with retrospective application permitted. The

Company will update the related disclosures upon adoption.

In November 2024, FASB issued ASU 2024-03 Income Statement - Reporting Comprehensive Income - Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*.* ASU 2024-03 was issued in order to improve the disclosures about a public business entity's expenses and address requests from investors for more detailed information about the types of expenses in commonly presented expense captions. The amendments in ASU 2024-03 require disclosure, in the notes to the financial statements, of specified information about certain costs and expenses in interim and year-end reporting periods. The amendments in this ASU apply to all public business entities and are effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. Early adoption is permitted. The amendments are to be applied either (1) prospectively to financial statements issued for reporting periods after the effective date or (2) retrospectively to any or all prior periods presented in the financial statements. The Company will update the related disclosures upon adoption.

2) Accumulated Other Comprehensive Income ("AOCI")

The following table reflects the changes in AOCI by component for the periods indicated:

	Year Ended December 31, 2024 and 2023		
	Unrealized Gains/(Losses) on Available-for-Sale Securities and I/O Strips	Defined Benefit Pension Plan Items [1]	Total
	(Dollars in thousands)		
Beginning balance January 1, 2024, net of taxes	$ (7,029)	$ (5,701)	$ (12,730)
Other comprehensive income before reclassification, net of taxes	3,436	1,263	4,699
Amounts reclassified from other comprehensive loss, net of taxes	—	(74)	(74)
Net current period other comprehensive income, net of taxes	3,436	1,189	4,625
Ending balance December 31, 2024, net of taxes	$ (3,593)	$ (4,512)	$ (8,105)
Beginning balance January 1, 2023, net of taxes	$ (11,394)	$ (5,462)	$ (16,856)
Other comprehensive income (loss) before reclassification, net of taxes	4,365	(141)	4,224
Amounts reclassified from other comprehensive loss, net of taxes	—	(98)	(98)
Net current period other comprehensive income (loss), net of taxes	4,365	(239)	4,126
Ending balance December 31, 2023, net of taxes	$ (7,029)	$ (5,701)	$ (12,730)

(1) This AOCI component is included in the computation of net periodic benefit cost (see Note 13—Benefit Plans) and includes split-dollar life insurance benefit plan.

Details About AOCI Components	Amounts Reclassified from AOCI Year Ended December 31, 2024	2023	2022	Affected Line Item Where Net Income is Presented
	(Dollars in thousands)			
Amortization of defined benefit pension plan items [1]				
Prior transition obligation and actuarial losses [2]	$ 209	$ 191	$ 41	
Prior service cost and actuarial losses [3]	(104)	(53)	(455)	
	105	138	(414)	Other noninterest expense
	(31)	(40)	122	Income tax (expense) benefit
	74	98	(292)	Net of tax
Total reclassification from AOCI for the period	$ 74	$ 98	$ (292)	

(1) This AOCI component is included in the computation of net periodic benefit cost (see Note 13 — *Benefit Plans*).
(2) This is related to the split dollar life insurance benefit plan.
(3) This is related to the supplemental executive retirement plan.

3) Securities

The amortized cost and estimated fair value of securities at year-end were as follows:

December 31, 2024	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Allowance for Credit Losses	Estimated Fair Value
			(Dollars in thousands)		
Securities available-for-sale:					
U.S. Treasury	$ 187,095	$ —	$ (912)	$ —	$ 186,183
Agency mortgage-backed securities	74,239	—	(4,148)	—	70,091
Total	$ 261,334	$ —	$ (5,060)	$ —	$ 256,274

December 31, 2024	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized (Losses)	Estimated Fair Value	Allowance for Credit Losses
			(Dollars in thousands)		
Securities held-to-maturity:					
Agency mortgage-backed securities	$ 559,548	$ —	$ (91,585)	$ 467,963	$ —
Municipals - exempt from Federal tax	30,480	—	(1,431)	29,049	(12)
Total	$ 590,028	$ —	$ (93,016)	$ 497,012	$ (12)

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Allowance for Credit Losses	Estimated Fair Value
			(Dollars in thousands)		
Securities available-for-sale:					
U.S. Treasury	$ 387,990	$ —	$ (5,621)	$ —	$ 382,369
Agency mortgage-backed securities	64,580	—	(4,313)	—	60,267
Total	$ 452,570	$ —	$ (9,934)	$ —	$ 442,636

December 31, 2023	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized (Losses)	Estimated Fair Value	Allowance for Credit Losses
			(Dollars in thousands)		
Securities held-to-maturity:					
Agency mortgage-backed securities	$ 618,374	$ 282	$ (86,011)	$ 532,645	$ —
Municipals - exempt from Federal tax	32,203	3	(724)	31,482	(12)
Total	$ 650,577	$ 285	$ (86,735)	$ 564,127	$ (12)

Securities with unrealized losses at year end, for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time that individual securities have been in an unrealized loss position are as follows:

December 31, 2024	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized (Losses)	12 Months or More Fair Value	12 Months or More Unrealized (Losses)	Total Fair Value	Total Unrealized (Losses)
			(Dollars in thousands)			
Securities available-for-sale:						
U.S. Treasury	$ 9,778	$ (4)	$ 176,405	$ (908)	$ 186,183	$ (912)
Agency mortgage-backed securities	20,383	(100)	49,708	(4,048)	70,091	(4,148)
Total	$ 30,161	$ (104)	$ 226,113	$ (4,956)	$ 256,274	$ (5,060)
Securities held-to-maturity:						
Agency mortgage-backed securities	$ 10,280	$ (53)	$ 456,906	$ (91,532)	$ 467,186	$ (91,585)
Municipals — exempt from Federal tax	4,076	(65)	23,733	(1,366)	27,809	(1,431)
Total	$ 14,356	$ (118)	$ 480,639	$ (92,898)	$ 494,995	$ (93,016)

December 31, 2023	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized (Losses)	12 Months or More Fair Value	12 Months or More Unrealized (Losses)	Total Fair Value	Total Unrealized (Losses)
			(Dollars in thousands)			
Securities available-for-sale:						
U.S. Treasury	$ 4,926	$ (40)	$ 377,443	$ (5,581)	$ 382,369	$ (5,621)
Agency mortgage-backed securities	—	—	60,267	(4,313)	60,267	(4,313)
Total	$ 4,926	$ (40)	$ 437,710	$ (9,894)	$ 442,636	$ (9,934)
Securities held-to-maturity:						
Agency mortgage-backed securities	$ —	$ —	$ 520,615	$ (86,011)	$ 520,615	$ (86,011)
Municipals — exempt from Federal tax	9,790	(176)	13,151	(548)	22,941	(724)
Total	$ 9,790	$ (176)	$ 533,766	$ (86,559)	$ 543,556	$ (86,735)

There were no holdings of securities of any one issuer, other than the U.S. Government and its sponsored entities, in an amount greater than 10% of shareholders' equity. At December 31, 2024, the Company held 393 securities (129 available-for-sale and 264 held-to-maturity), of which 387 had fair values below amortized cost. The unrealized losses were due to higher interest rates at period end compared to when the securities were purchased. The issuers are of high credit quality and all principal amounts are expected to be paid when securities mature. The fair value is expected to recover as the securities approach their maturity date and/or market rates decline. The Company does not believe that it is more likely than not that the Company will be required to sell a security in an unrealized loss position prior to recovery in value.

The amortized cost and fair value of debt securities as of December 31, 2024, by contractual maturity, are shown below. The expected maturities will differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Available-for-sale	
	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
Due three months or less	$ 34,927	$ 34,808
Due after three months through one year	142,385	141,597
Due after one through five years	9,783	9,778
Agency mortgage-backed securities	74,239	70,091
Total	$ 261,334	$ 256,274

	Held-to-maturity	
	Amortized Cost [(1)]	Estimated Fair Value
	(Dollars in thousands)	
Due after three months through one year	$ 2,365	$ 2,356
Due after one through five years	7,611	7,328
Due after five through ten years	20,504	19,365
Agency mortgage-backed securities	559,548	467,963
Total	$ 590,028	$ 497,012

(1) Gross of the allowance for credit losses of ($12,000) at December 31, 2024.

Securities with amortized cost of $753,369,000 and $1,041,608,000 as of December 31, 2024 and 2023, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law or contract.

The allowance for credit losses on the Company's held-to-maturity debt securities is presented as a reduction to the amortized cost basis of held-to-maturity securities on the Company's Consolidated Balance Sheet. The table below presents a roll-forward by major security type for the year ended December 31, 2024 of the allowance for credit losses on debt securities held-to-maturity held at period end:

	Municipals
	(Dollars in thousands)
Beginning balance January 1, 2024	$ 12
Provision for credit losses	—
Ending balance December 31, 2024	$ 12

There was an immaterial change in the allowance for credit losses on the Company's held-to-maturity debt securities due to stable balances and bond ratings for the Company's municipal investment securities at December 31, 2024 compared to December 31, 2023.

4) Loans and Allowance for Credit Losses on Loans

The allowance for credit losses on loans was calculated by pooling loans of similar credit risk characteristics and credit monitoring procedures. The loan portfolio is classified into eight segments of loans - commercial, commercial real estate – owner occupied, commercial real estate – non-owner occupied, land and construction, home equity, multifamily, residential mortgage and consumer and other. See *Note 1 – Summary of Significant Accounting Polices - Allowance for Credit Losses on Loans* for the summary of risk characteristics of each loan segment.

Loan Distribution

Loans by portfolio segment and the allowance for credit losses on loans were as follows at the dates indicated:

	December 31, 2024	December 31, 2023
	(Dollars in thousands)	
Loans held-for-investment:		
Commercial	$ 531,350	$ 463,778
Real estate:		
CRE - owner occupied	601,636	583,253
CRE - non-owner occupied	1,341,266	1,256,590
Land and construction	127,848	140,513
Home equity	127,963	119,125
Multifamily	275,490	269,734
Residential mortgages	471,730	496,961
Consumer and other	14,837	20,919
Loans	3,492,120	3,350,873
Deferred loan fees, net	(183)	(495)
Loans, net of deferred fees	3,491,937	3,350,378
Allowance for credit losses on loans	(48,953)	(47,958)
Loans, net	$ 3,442,984	$ 3,302,420

Changes in the allowance for credit losses on loans were as follows for the periods indicated:

	Year Ended December 31, 2024								
	Commercial	CRE Owner Occupied	CRE Non-owner Occupied	Land & Construction	Home Equity	Multi-Family	Residential Mortgages	Consumer and Other	Total
	(Dollars in thousands)								
Beginning of period balance	$ 5,853	$ 5,121	$ 25,323	$ 2,352	$ 644	$ 5,053	$ 3,425	$ 187	$ 47,958
Charge-offs	(1,305)	—	—	—		—	—	(299)	(1,604)
Recoveries	336	27	—	—	97	—	—	—	460
Net (charge-offs) recoveries	(969)	27	—	—	97	—	—	(299)	(1,144)
Provision for (recapture of) credit losses on loans	1,176	77	1,456	(952)	57	(318)	193	450	2,139
End of period balance	$ 6,060	$ 5,225	$ 26,779	$ 1,400	$ 798	$ 4,735	$ 3,618	$ 338	$ 48,953

	Year Ended December 31, 2023								
	Commercial	CRE Owner Occupied	CRE Non-owner Occupied	Land & Construction	Home Equity	Multi-Family	Residential Mortgages	Consumer and Other	Total
	(Dollars in thousands)								
Beginning of period balance	$ 6,617	$ 5,751	$ 22,135	$ 2,941	$ 666	$ 3,366	$ 5,907	$ 129	$ 47,512
Charge-offs	(750)	—	—	—	(246)	—	—	(15)	(1,011)
Recoveries	346	11	—	—	351	—	—	—	708
Net (charge-offs) recoveries	(404)	11	—	—	105	—	—	(15)	(303)
Provision for (recapture of) credit losses on loans	(360)	(641)	3,188	(589)	(127)	1,687	(2,482)	73	749
End of period balance	$ 5,853	$ 5,121	$ 25,323	$ 2,352	$ 644	$ 5,053	$ 3,425	$ 187	$ 47,958

	Year Ended December 31, 2022								
	Commercial	CRE Owner Occupied	CRE Non-owner Occupied	Land & Construction	Home Equity	Multi-Family	Residential Mortgages	Consumer and Other	Total
	(Dollars in thousands)								
Beginning of period balance	$ 8,414	$ 7,954	$ 17,125	$ 1,831	$ 864	$ 2,796	$ 4,132	$ 174	$ 43,290
Charge-offs	(434)	—	—	—	—	—	—	—	(434)
Recoveries	427	15	—	—	105	—	—	3,343	3,890
Net (charge-offs) recoveries	(7)	15	—	—	105	—	—	3,343	3,456
Provision for (recapture of) credit losses on loans	(1,790)	(2,218)	5,010	1,110	(303)	570	1,775	(3,388)	766
End of period balance	$ 6,617	$ 5,751	$ 22,135	$ 2,941	$ 666	$ 3,366	$ 5,907	$ 129	$ 47,512

The following table presents the amortized cost basis of nonaccrual loans and loans past due over 90 days and still accruing at the dates indicated:

	December 31, 2024			
	Nonaccrual with no Specific Allowance for Credit Losses	Nonaccrual with Specific Allowance for Credit Losses	Loans over 90 Days Past Due and Still Accruing	Total
	(Dollars in thousands)			
Commercial	$ 313	$ 701	$ 489	$ 1,503
Real estate:				
CRE - Owner Occupied	—	—	—	—
CRE - Non-Owner Occupied	—	—	—	—
Land and construction	5,874	—	—	5,874
Home equity	77	—	—	77
Consumer and other	—	213	—	213
Total	$ 6,264	$ 914	$ 489	$ 7,667

	December 31, 2023			
	Nonaccrual with no Specific Allowance for Credit Losses	Nonaccrual with Specific Allowance for Credit Losses	Loans over 90 Days Past Due and Still Accruing	Total
	(Dollars in thousands)			
Commercial	$ 946	$ 290	$ 889	$ 2,125
Real estate:				
CRE - Owner Occupied	—	—	—	—
CRE - Non-Owner Occupied	—	—	—	—
Land and construction	4,661	—	—	4,661
Home equity	142	—	—	142
Residential mortgages	779	—	—	779
Total	$ 6,528	$ 290	$ 889	$ 7,707

The following tables presents the aging of past due loans by class at the dates indicated:

	December 31, 2024					
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total
	(Dollars in thousands)					
Commercial	$ 7,364	$ 2,295	$ 1,393	$ 11,052	$ 520,298	$ 531,350
Real estate:						
CRE - Owner Occupied	1,879	—	—	1,879	599,757	601,636
CRE - Non-Owner Occupied	4,479	—	—	4,479	1,336,787	1,341,266
Land and construction	4,290	2,323	5,874	12,487	115,361	127,848
Home equity	78	750	—	828	127,135	127,963
Multifamily	—	—	—	—	275,490	275,490
Residential mortgages	850	—	—	850	470,880	471,730
Consumer and other	—	117	213	330	14,507	14,837
Total	$ 18,940	$ 5,485	$ 7,480	$ 31,905	$ 3,460,215	$ 3,492,120

	December 31, 2023					
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total
	(Dollars in thousands)					
Commercial	$ 6,688	$ 2,030	$ 1,264	$ 9,982	$ 453,796	$ 463,778
Real estate:						
CRE - Owner Occupied	—	—	—	—	583,253	583,253
CRE - Non-Owner Occupied	1,289	—	—	1,289	1,255,301	1,256,590
Land and construction	955	—	3,706	4,661	135,852	140,513
Home equity	—	—	142	142	118,983	119,125
Multifamily	—	—	—	—	269,734	269,734
Residential mortgages	3,794	510	779	5,083	491,878	496,961
Consumer and other	—	—	—	—	20,919	20,919
Total	$ 12,726	$ 2,540	$ 5,891	$ 21,157	$ 3,329,716	$ 3,350,873

The following table presents the past due loans on nonaccrual and current loans on nonaccrual at the dates indicated:

	December 31, 2024	December 31, 2023
	(Dollars in thousands)	
Past due nonaccrual loans	$ 7,068	$ 6,100
Current nonaccrual loans	110	718
Total nonaccrual loans	$ 7,178	$ 6,818

Management's classification of a loan as "nonaccrual" is an indication that there is reasonable doubt as to the full recovery of principal or interest on the loan. At that point, the Company stops accruing interest income, and reverses any uncollected interest that had been accrued as income. The Company resumes recognizing interest income only as cash interest payments are received and it has been determined the collection of all outstanding principal is not in doubt.

Credit Quality Indicators

Concentrations of credit risk arise when a number of clients are engaged in similar business activities, or activities in the same geographic region, or have similar features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. The Company's loan portfolio is concentrated in commercial (primarily manufacturing, wholesale, and service) and real estate lending, with the remaining balance in consumer loans. While no specific industry concentration is considered significant, the Company's lending operations are located in the Company's market areas that are dependent on the technology and real estate industries and their supporting companies. Thus, the Company's borrowers and their guarantors could be adversely impacted by a downturn in these sectors of the economy which could reduce the demand for loans and adversely impact the borrowers' ability to repay their loans.

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, and other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis. Nonclassified loans generally include those loans that are expected to be repaid in accordance with their contractual loan terms. Loans categorized as special mention have potential weaknesses that may, if not checked or corrected, weaken the credit or inadequately protect the Company's position at some future date. These loans pose elevated risk, but their weaknesses do not yet justify a substandard classification. Classified loans are those loans that are assigned a substandard, substandard-nonaccrual, or doubtful risk rating using the following definitions:

Special Mention. A Special Mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in a deterioration of the repayment prospects for the asset or in the credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that will jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Substandard-Nonaccrual. Loans classified as substandard-nonaccrual are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any, and it is probable that the Company will not receive payment of the full contractual principal and interest. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. In addition, the Company no longer accrues interest on the loan because of the underlying weaknesses.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss. Loans classified as loss are considered uncollectable or of so little value that their continuance as assets is not warranted. This classification does not necessarily mean that a loan has no recovery or salvage value; but rather, there is much doubt about whether, how much, or when the recovery would occur. Loans classified as loss are immediately charged off against the allowance for credit losses on loans. Therefore, there is no balance to report as of December 31, 2024 and December 31, 2023.

Loans may be reviewed at any time throughout a loan's duration. If new information is provided, a new risk assessment may be performed if warranted.

The following tables present term loans amortized cost by vintage and loan grade classification, and revolving loans amortized cost by loan grade classification at December 31, 2024 and December 31, 2023. The loan grade classifications are based on the Bank's internal loan grading methodology. Loan grade categories for doubtful and loss rated loans are not included on the tables below as there are no loans with those grades at December 31, 2024 and December 31, 2023. The vintage year represents the period the loan was originated or in the case of renewed loans, the period last renewed. The amortized balance is the loan balance less any purchase discounts, plus any loan purchase premiums. The loan categories are based on the loan segmentation in the Company's CECL reserve methodology based on loan purpose and type.

	Term Loans Amortized Cost Basis by Originated Period as of December 31, 2024						Revolving Loans Amortized Cost Basis	Total
	2024	2023	2022	2021	2020	Prior Periods		
				(Dollars in thousands)				
Commercial:								
Pass	$ 133,643	$ 27,101	$ 17,114	$ 16,312	$ 10,444	$ 28,671	$ 289,147	$ 522,432
Special Mention	1,927	—	327	86	—	358	423	3,121
Substandard	—	146	—	32	—	4,405	200	4,783
Substandard-Nonaccrual	—	—	591	209	—	214	—	1,014
Total	135,570	27,247	18,032	16,639	10,444	33,648	289,770	531,350
CRE - Owner Occupied:								
Pass	57,988	31,688	81,133	95,939	65,152	244,430	6,899	583,229
Special Mention	—	—	—	7,132	443	1,342	—	8,917
Substandard	—	—	—	6,333	3,157	—	—	9,490
Substandard-Nonaccrual	—	—	—	—	—	—	—	—
Total	57,988	31,688	81,133	109,404	68,752	245,772	6,899	601,636
CRE - Non-Owner Occupied:								
Pass	137,935	222,142	229,993	250,266	27,031	442,105	5,356	1,314,828
Special Mention	—	—	4,810	4,890	—	—	—	9,700
Substandard	—	—	—	4,480	—	11,658	600	16,738
Substandard-Nonaccrual	—	—	—	—	—	—	—	—
Total	137,935	222,142	234,803	259,636	27,031	453,763	5,956	1,341,266
Land and construction:								
Pass	32,691	45,250	31,599	9,899	212	—	—	119,651
Special Mention	—	—	—	—	—	2,323	—	2,323
Substandard	—	—	—	—	—	—	—	—
Substandard-Nonaccrual	—	—	—	3,815	978	1,081	—	5,874
Total	32,691	45,250	31,599	13,714	1,190	3,404	—	127,848
Home equity:								
Pass	—	—	—	—	—	2,378	122,207	124,585
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	750	—	2,551	3,301
Substandard-Nonaccrual	—	—	—	—	—	77	—	77
Total	—	—	—	—	750	2,455	124,758	127,963
Multifamily:								
Pass	20,218	46,304	39,609	53,488	5,249	109,930	692	275,490
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Substandard-Nonaccrual	—	—	—	—	—	—	—	—
Total	20,218	46,304	39,609	53,488	5,249	109,930	692	275,490
Residential mortgage:								
Pass	3,757	1,659	180,979	251,167	1,006	32,384	—	470,952
Special Mention	—	—	—	607	—	—	—	607
Substandard	—	—	—	—	—	171	—	171
Substandard-Nonaccrual	—	—	—	—	—	—	—	—
Total	3,757	1,659	180,979	251,774	1,006	32,555	—	471,730
Consumer and other:								
Pass	405	237	1,338	43	—	2,027	10,574	14,624
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Substandard-Nonaccrual	—	—	—	—	—	—	213	213
Total	405	237	1,338	43	—	2,027	10,787	14,837
Total loans	$ 388,564	$ 374,527	$ 587,493	$ 704,698	$ 114,422	$ 883,554	$ 438,862	$ 3,492,120
Risk Grades:								
Pass	$ 386,637	$ 374,381	$ 581,765	$ 677,114	$ 109,094	$ 861,925	$ 434,875	$ 3,425,791
Special Mention	1,927	—	5,137	12,715	443	4,023	423	24,668
Substandard	—	146	—	10,845	3,907	16,234	3,351	34,483
Substandard-Nonaccrual	—	—	591	4,024	978	1,372	213	7,178
Grand Total	$ 388,564	$ 374,527	$ 587,493	$ 704,698	$ 114,422	$ 883,554	$ 438,862	$ 3,492,120

	Term Loans Amortized Cost Basis by Originated Period as of December 31, 2023						Revolving Loans Amortized Cost Basis	Total
	2023	2022	2021	2020	2019	Prior Periods		
	(Dollars in thousands)							
Commercial:								
Pass	$ 99,387	$ 25,250	$ 19,732	$ 14,929	$ 11,893	$ 22,134	$ 258,461	$ 451,786
Special Mention	2,107	1,092	41	—	133	1,134	467	4,974
Substandard	4	1,516	—	100	185	3,835	142	5,782
Substandard-Nonaccrual	—	—	349	—	116	771	—	1,236
Total	101,498	27,858	20,122	15,029	12,327	27,874	259,070	463,778
CRE - Owner Occupied:								
Pass	32,993	86,688	110,613	68,184	52,885	214,729	10,302	576,394
Special Mention	—	250	3,241	462	—	1,802	—	5,755
Substandard	—	—	—	—	1,100	4	—	1,104
Substandard-Nonaccrual	—	—	—	—	—	—	—	—
Total	32,993	86,938	113,854	68,646	53,985	216,535	10,302	583,253
CRE - Non-Owner Occupied:								
Pass	225,505	243,080	267,870	28,315	92,648	370,552	3,199	1,231,169
Special Mention	—	—	—	—	7,493	10,040	—	17,533
Substandard	—	—	—	—	—	7,614	274	7,888
Substandard-Nonaccrual	—	—	—	—	—	—	—	—
Total	225,505	243,080	267,870	28,315	100,141	388,206	3,473	1,256,590
Land and construction:								
Pass	40,142	52,862	27,419	9,273	1,864	—	—	131,560
Special Mention	2,163	—	—	—	—	—	—	2,163
Substandard	2,129	—	—	—	—	—	—	2,129
Substandard-Nonaccrual	—	—	3,706	955	—	—	—	4,661
Total	44,434	52,862	31,125	10,228	1,864	—	—	140,513
Home equity:								
Pass	—	—	—	—	—	1,463	111,250	112,713
Special Mention	—	—	—	—	—	—	2,110	2,110
Substandard	—	—	—	—	—	—	4,160	4,160
Substandard-Nonaccrual	—	—	—	—	—	—	142	142
Total	—	—	—	—	—	1,463	117,662	119,125
Multifamily:								
Pass	47,089	41,112	55,557	5,394	42,129	75,890	355	267,526
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	2,208	—	2,208
Substandard-Nonaccrual	—	—	—	—	—	—	—	—
Total	47,089	41,112	55,557	5,394	42,129	78,098	355	269,734
Residential mortgage:								
Pass	1,684	187,417	268,617	1,037	6,861	28,892	—	494,508
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	973	—	—	—	701	—	1,674
Substandard-Nonaccrual	—	779	—	—	—	—	—	779
Total	1,684	189,169	268,617	1,037	6,861	29,593	—	496,961
Consumer and other:								
Pass	2,332	1,376	3	—	—	2,089	14,961	20,761
Special Mention	—	—	62	—	—	96	—	158
Substandard	—	—	—	—	—	—	—	—
Substandard-Nonaccrual	—	—	—	—	—	—	—	—
Total	2,332	1,376	65	—	—	2,185	14,961	20,919
Total loans	$ 455,535	$ 642,395	$ 757,210	$ 128,649	$ 217,307	$ 743,954	$ 405,823	$ 3,350,873
Risk Grades:								
Pass	$ 449,132	$ 637,785	$ 749,811	$ 127,132	$ 208,280	$ 715,749	$ 398,528	$ 3,286,417
Special Mention	4,270	1,342	3,344	462	7,626	13,072	2,577	32,693
Substandard	2,133	2,489	—	100	1,285	14,362	4,576	24,945
Substandard-Nonaccrual	—	779	4,055	955	116	771	142	6,818
Grand Total	$ 455,535	$ 642,395	$ 757,210	$ 128,649	$ 217,307	$ 743,954	$ 405,823	$ 3,350,873

The following table presents the gross charge-offs by class of loans and year of origination for the year ended December 31, 2024:

	Gross Charge-offs by Originated Period for the Year Ended December 31, 2024						Revolving	
	2024	2023	2022	2021	2020	Prior Periods	Loans	Total
	(Dollars in thousands)							
Commercial	$ 57	$ 424	$ —	$ —	$	$ 675	$ 149	$ 1,305
Real estate:								
CRE - Owner Occupied	—	—	—	—	—	—	—	—
CRE - Non-Owner Occupied	—	—	—	—	—	—	—	—
Land and construction	—	—	—	—	—	—	—	—
Home equity	—	—	—	—	—	—		—
Multifamily	—	—	—	—	—	—	—	—
Residential mortgages	—	—	—	—	—	—	—	—
Consumer and other	—	—	—	—		—	299	299
Total	$ 57	$ 424	$ —	$ —	$ —	$ 675	$ 448	$ 1,604

	Gross Charge-offs by Originated Period for the Year Ended December 31, 2023						Revolving	
	2023	2022	2021	2020	2019	Prior Periods	Loans	Total
	(Dollars in thousands)							
Commercial	$ 35	$ 95	$ —	$ —	$ 339	$ 281	$ —	$ 750
Real estate:								
CRE - Owner Occupied	—	—	—	—	—	—	—	—
CRE - Non-Owner Occupied	—	—	—	—	—	—	—	—
Land and construction	—	—	—	—	—	—	—	—
Home equity	—	—	—	—	—	—	246	246
Multifamily	—	—	—	—	—	—	—	—
Residential mortgages	—	—	—	—	—	—	—	—
Consumer and other	—	—	—	—	15	—	—	15
Total	$ 35	$ 95	$ —	$ —	$ 354	$ 281	$ 246	$ 1,011

The amortized cost basis of collateral-dependent loans at December 31, 2024 and December 31, 2023 was $701,000 and $290,000, respectively, and were secured by business assets.

When management determines that foreclosures are probable, expected credit losses for collateral-dependent loans are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. For loans which foreclosure is not probable, but for which repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty, management has elected the practical expedient under ASC 326 to estimate expected credit losses based on the fair value of collateral, adjusted for selling costs as appropriate. The class of loan represents the primary collateral type associated with the loan. Significant quarter over quarter changes are reflective of changes in nonaccrual status and not necessarily associated with credit quality indicators like appraisal value.

Loan Modifications

Occasionally, the Company modifies loans to borrowers experiencing financial difficulty by providing principal forgiveness, term extension, payment delay, or interest reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

During the year ended December 31, 2024, there were commercial loan modifications with a term extension totaling $12,000, representing 0.00% of the total class of financing receivables, and included a weighted average term extension of 12 months. During the year ended December 31, 2023, there were commercial loan modifications with a payment delay totaling $63,000, a combination term extension and interest rate reduction totaling $3,000, representing 0.01% of the total class of financing receivables, and included principal forgiveness totaling $7,000, a weighted average interest rate reduction of 0.25%, and a weighted average term extension of 14 months.

The Company has not committed to lend any additional amounts to these borrowers. There were no payment defaults for loans modified for the years ended December 31, 2024 and December 31, 2023.

5) Loan Servicing

At December 31, 2024, 2023, and 2022, the Company serviced SBA loans sold to the secondary market of approximately $48,286,000, $55,845,000, and $64,819,000, respectively.

Servicing assets represent the servicing spread generated from the sold guaranteed portions of SBA loans. The weighted average servicing rate for all loans serviced was 1.08%, 1.09%, and 1.10% at December 31, 2024, 2023, and 2022, respectively.

Servicing rights are included in "accrued interest receivable and other assets" on the consolidated balance sheets. Activity for loan servicing rights follows:

	2024	2023	2022
	(Dollars in thousands)		
Beginning of year balance	$ 415	$ 549	$ 655
Additions	110	126	124
Amortization	(181)	(260)	(230)
End of year balance	$ 344	$ 415	$ 549

There was no valuation allowance for servicing rights at December 31, 2024, 2023, and 2022, because the estimated fair value of the servicing rights was greater than the carrying value. The estimated fair value of loan servicing rights was $612,000, $710,000, and $813,000, at December 31, 2024, 2023 and 2022, respectively. The fair value of servicing rights at December 31, 2024, was estimated using a weighted average constant prepayment rate ("CPR") assumption of 19.09%, and a weighted average discount rate assumption of 14.75%. The fair value of servicing rights at December 31, 2023, was estimated using a weighted average CPR assumption of 17.18%, and a weighted average discount rate assumption of 16.59%. The fair value of servicing rights at December 31, 2022, was estimated using a weighted average CPR assumption of 15.12%, and a weighted average discount rate assumption of 20.75%.

The weighted average discount rate and CPR assumptions used to estimate the fair value of the I/O strip receivables are the same as for the servicing rights. Management reviews the key economic assumptions used to estimate the fair value of I/O strip receivables on a quarterly basis. The fair value of the I/O strip can be adversely impacted by a significant increase in either the prepayment speed of the portfolio or the discount rate.

I/O strip receivables are included in "accrued interest receivable and other assets" on the consolidated balance sheets. Activity for I/O strip receivables follows:

	2024	2023	2022
	(Dollars in thousands)		
Beginning of year balance	$ 117	$ 152	$ 221
Unrealized loss	(35)	(35)	(69)
End of year balance	$ 82	$ 117	$ 152

6) Premises and Equipment

Premises and equipment at year-end were as follows:

	2024	2023
	(Dollars in thousands)	
Building	$ 3,638	$ 3,637
Land	2,900	2,900
Furniture and equipment	15,768	14,347
Leasehold improvements	7,142	6,767
	29,448	27,651
Accumulated depreciation and amortization	(19,308)	(17,794)
Premises and equipment, net	$ 10,140	$ 9,857

Depreciation and amortization expense was $1,341,000, $1,115,000, and $1,121,000, in 2024, 2023, and 2022, respectively.

7) Leases

The Company recognizes the following for all leases, at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use ("ROU") asset, which is an asset that represents the lessee's right to use, or control the use, of a specified asset for the lease term. The Company is impacted as a lessee of the offices and real estate used for operations. The Company's lease agreements include options to renew at the Company's option. No lease extensions are reasonably certain to be exercised, therefore it was not considered in the calculation of the ROU asset and lease liability. As of December 31, 2024 and December 31, 2023, operating lease ROU assets, included in other assets and lease liabilities, included in other liabilities, totaled $30,566,000 and $31,674,000, respectively.

The following table presents the quantitative information for the Company's leases:

	Year Ended December 31,	
	2024	2023
Operating Lease Cost (Cost resulting from lease payments)	$ 6,853	$ 6,763
Operating Lease - Operating Cash Flows (Fixed Payments)	$ 6,943	$ 6,701
Operating Lease - ROU assets	$ 30,566	$ 31,674
Operating Lease - Liabilities	$ 30,566	$ 31,674
Weighted Average Lease Term - Operating Leases	5.08 years	5.88 years
Weighted Average Discount Rate - Operating Leases	5.57%	4.98%

The following maturity analysis shows the undiscounted cash flows due on the Company's operating lease liabilities as of December 31, 2024:

	(Dollars in thousands)
2025	$ 7,145
2026	6,603
2027	6,380
2028	5,779
2029	5,503
Thereafter	3,954
Total undiscounted cash flows	35,364
Discount on cash flows	(4,798)
Total lease liability	$ 30,566

8) Goodwill and Other Intangible Assets

Goodwill

At December 31, 2024, the carrying value of goodwill was $167,631,000, which included $13,044,000 of goodwill related to its acquisition of Bay View Funding, $32,619,000 from its acquisition of Focus Business Bank, $13,819,000 from its acquisition of Tri-Valley Bank, $24,271,000 from its acquisition of United American Bank and $83,878,000 from its acquisition of Presidio Bank.

ASC 350-20 outlines the methodology used to determine if goodwill has been impaired and to measure any loss resulting from an impairment. The Company assesses goodwill for impairment annually as of November 30 or more frequently if events or changes in circumstances indicate that impairment may exist, in accordance with ASC 350-20. The Company first performs a qualitative assessment ("Step Zero") to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If the qualitative assessment indicates it is more likely than not that the fair value of equity of a reporting unit is less than book value, then a quantitative impairment test is required. The quantitative assessment identifies if a reporting unit's fair value is less than its carrying value. If it is, then the Company will recognize goodwill impairment equal to the difference between the carrying amount of the reporting unit and its fair value, not to exceed the carrying amount of goodwill.

On a quarterly basis, management assesses whether it is necessary to perform a quantitative impairment test of goodwill. In addition, the Company hires a third party vendor to perform a qualitative assessment annually as of November 30, or on an interim basis if an event triggering impairment assessment may have occurred. Potential impairment indicators considered include the condition of the economy and banking industry; government intervention and regulatory updates; the impact of recent events to financial performance and cost factors of the reporting units; performance of the Company's stock and other relevant events. The Company completed its annual goodwill impairment assessment as of November 30, 2024 with the assistance of a third party vendor. The goodwill related to the acquisition of Bay View Funding was evaluated separately for impairment under this analysis. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting units exceeded the carrying value. No events or circumstances since the November 30, 2024 annual impairment test were noted that would indicate it was more likely than not a goodwill impairment exists.

The following table summarizes the carrying amount of goodwill by segment for the periods indicated:

	December 31, 2024	December 31, 2023
	(Dollars in thousands)	
Banking	$ 154,587	$ 154,587
Factoring	13,044	13,044
Total Goodwill	$ 167,631	$ 167,631

Other Intangible Assets

The Company's intangible assets are summarized as follows for the periods indicated:

	December 31, 2024		
	Gross Carrying Amount	Accumulated Amortization	Total
	(Dollars in thousands)		
Core deposit intangibles	$ 25,023	(18,670)	$ 6,353
Customer relationship and brokered relationship intangibles	1,900	(1,900)	—
Below market leases	110	(24)	86
Total	$ 27,033	$ (20,594)	$ 6,439

	December 31, 2023		
	Gross Carrying Amount	Accumulated Amortization	Total
	(Dollars in thousands)		
Core deposit intangibles	$ 25,023	(16,646)	$ 8,377
Customer relationship and brokered relationship intangibles	1,900	(1,741)	159
Below market leases	110	(19)	91
Total	$ 27,033	$ (18,406)	$ 8,627

As of December 31, 2024, the estimated amortization expense for future periods is as follows:

Year	Core Deposit Intangible	Below/ (Above) Market Lease	Total Amortization Expense
		(Dollars in thousands)	
2025	$ 1,795	18	1,813
2026	1,512	18	1,530
2027	1,438	18	1,456
2028	999	18	1,017
2029	609	14	623
	$ 6,353	$ 86	$ 6,439

Impairment testing of the intangible assets is performed at the individual asset level. Impairment exists if the carrying amount of the asset is not recoverable and exceeds its fair value at the date of the impairment test. For intangible assets, estimates of expected future cash flows (cash inflows less cash outflows) that are directly associated with an intangible asset are used to determine the fair value of that asset. Management makes certain estimates and assumptions in determining the expected future cash flows from core deposit and customer relationship intangibles including account attrition, expected lives, discount rates, interest rates, servicing costs and other factors. Significant changes in these estimates and assumptions could adversely impact the valuation of these intangible assets. If an impairment loss exists, the carrying amount of the intangible asset is adjusted to a new cost basis. The new cost basis is then amortized over the remaining useful life of the asset. Based on its assessment, management concluded that there was no impairment of intangible assets at December 31, 2024 and December 31, 2023.

9) Deposits

The following table presents the scheduled maturities of all time deposits for the periods indicated:

	(Dollars in thousands)
2025	$ 507,263
2026	38,868
2027	18,013
2028	—
2029	22
2030	282
Total	$ 564,447

Time deposits of $250,000 and over were $206,755,000 and $192,228,000 at December 31, 2024 and 2023, respectively. ICS/CDARS time deposits totaled $318,704,000 and $239,189,000 at December 31, 2024 and 2023, respectively, and are included in the table above. ICS/CDARS interest-bearing demand deposits and money market deposits have no scheduled maturity date, and therefore, are excluded from the table above. ICS/CDARS were comprised of the following at the dates indicated:

	December 31, 2024	December 31, 2023
	(Dollars in thousands)	
Interest-bearing demand deposits	$ 433,355	$ 424,991
Money market deposits	345,527	189,925
Time deposits	318,704	239,189
Total ICS/CDARS	$ 1,097,586	$ 854,105

The ICS/CDARS program allows clients with deposits in excess of FDIC-insured limits to obtain full coverage on time deposits through a network of banks within the ICS/CDARS program. Deposits gathered through these programs are not considered brokered deposits under current regulatory reporting guidelines.

The Bank's uninsured deposits were approximately $2.2 billion, or 45% of total deposits, at December 31, 2024, compared to $2.01 billion, or 46% of total deposits, at December 31, 2023. There were no brokered deposits at both December 31, 2024 and 2023. Deposits from executive officers, directors, and their affiliates were $833,000 and $468,000 at December 31, 2024 and 2023, respectively.

10) Borrowing Arrangements

Federal Home Loan Bank Borrowings, Federal Reserve Bank Borrowings, and Available Lines of Credit

HBC has off-balance sheet liquidity in the form of Federal funds purchase arrangements with correspondent banks, and lines of credit from the FHLB and FRB. HBC maintains a collateralized line of credit with the FHLB of San Francisco. Under this line, HBC can borrow from the FHLB on a short-term (typically overnight) or long-term (over one year) basis. HBC can also borrow from the FRB discount window. In addition, the Company has a line of credit with a correspondent bank. The following table shows the collateral value of loans and securities pledged for the lines of credit (if collateralized), total available lines of credit, the amounts outstanding, and the remaining available at the dates indicated:

	December 31, 2024			
	Collateral Value	Total Available	Outstanding	Remaining Available
	(Dollars in thousands)			
FHLB collateralized borrowing capacity	$ 1,233,768	$ 815,760	$ —	$ 815,760
FRB discount window collateralized line of credit	1,755,347	1,383,149	—	1,383,149
Federal funds purchase arrangements	N/A	90,000	—	90,000
Holding company line of credit	N/A	25,000	—	25,000
	$ 2,989,115	$ 2,313,909	$ —	$ 2,313,909

	December 31, 2023			
	Collateral Value	Total Available	Outstanding	Remaining Available
	(Dollars in thousands)			
FHLB collateralized borrowing capacity	$ 1,600,371	$ 1,100,931	$ —	$ 1,100,931
FRB discount window collateralized line of credit	1,658,642	1,235,573	—	1,235,573
Federal funds purchase arrangements	N/A	90,000	—	90,000
Holding company line of credit	N/A	20,000	—	20,000
Total	$ 3,259,013	$ 2,446,504	$ —	$ 2,446,504

HBC may also utilize securities sold under repurchase agreements to manage our liquidity position. There were no securities sold under agreements to repurchase at December 31, 2024, and 2023.

Subordinated Debt

On May 11, 2022, the Company completed a private placement offering of $40,000,000 aggregate principal amount of its 5.00% fixed-to-floating rate subordinated notes due May 15, 2032 (“Sub Debt due 2032”). The Company used the net proceeds of the Sub Debt due 2032 for general corporate purposes, including the repayment on June 1, 2022 of the Company’s $40,000,000 aggregate principal amount of 5.25% fixed-to-floating rate subordinated notes due June 1, 2027. The Sub Debt due 2032, net of unamortized issuance costs of $347,000, totaled $39,653,000 at December 31, 2024, and qualifies as Tier 2 capital for the Company under the guidelines established by the Federal Reserve Bank. The debt issuance costs are amortized on a straight line basis through the maturity date of the subordinated notes.

11) Income Taxes

Income tax expense consisted of the following for the year ended December 31, as follows:

	2024	2023	2022
	(Dollars in thousands)		
Currently payable tax:			
Federal	$ 9,639	$ 15,888	$ 18,994
State	6,029	9,241	8,798
Total currently payable	15,668	25,129	27,792
Deferred tax expense (benefit):			
Federal	582	616	(1,237)
State	(104)	231	1,256
Total deferred tax	478	847	19
Income tax expense	$ 16,146	$ 25,976	$ 27,811

The effective tax rate differs from the Federal statutory rate for the years ended December 31, as follows:

	2024	2023	2022
Statutory Federal income tax rate	21.0 %	21.0 %	21.0 %
State income taxes, net of federal tax benefit	8.3 %	8.3 %	8.4 %
Stock option/restricted stock windfall tax benefit	(0.2)%	0.1 %	(0.1)%
Increase in cash surrender value of life insurance	(0.8)%	(0.5)%	(0.4)%
Non-taxable interest income	(0.3)%	(0.2)%	(0.2)%
Low income housing credits, net of investment losses	(0.2)%	(0.2)%	(0.2)%
Other, net	0.7 %	0.2 %	1.0 %
Effective tax rate	28.5 %	28.7 %	29.5 %

Deferred tax assets and liabilities that result from the tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes at December 31, are as follows:

	2024	2023
	(Dollars in thousands)	
Deferred tax assets:		
Allowance for credit losses on loans	$ 14,380	$ 14,087
Lease accounting	8,979	9,304
Defined postretirement benefit obligation	7,451	7,778
Accrued expenses	3,241	3,150
Stock compensation	1,647	1,501
Securities available-for-sale	1,483	2,897
Premises and equipment	1,267	1,375
State income taxes	1,266	1,874
Federal net operating loss carryforwards	1,148	1,403
California net operating loss carryforwards	986	986
Nonaccrual interest	97	135
Split-dollar life insurance benefit plan	75	71
Other	296	323
Total deferred tax assets	42,316	44,884
Deferred tax liabilities:		
Lease accounting	(8,979)	(9,304)
Loan fees	(2,265)	(2,315)
Prepaid expenses	(1,531)	(1,473)
Intangible liabilities	(1,337)	(1,639)
FHLB stock	(156)	(156)
I/O strips	(19)	(30)
Other	(212)	(202)
Total deferred tax liabilities	(14,499)	(15,119)
Net deferred tax assets	$ 27,817	$ 29,765

At December 31, 2024, the Company's federal net operating loss ("NOL") carryforwards were $5,469,000 and the Company's California net operating loss carryforwards were $11,498,000. These amounts are attributable to the prior merger transactions. The realization of these NOL carryforwards for Federal and State tax purposes are limited on the amount of net operating losses that can be utilized annually under the current tax law. The above NOL carryforwards are presented net of the losses that will expire unutilized under current tax law. Since the NOL carryforwards are already presented net of the amounts that will expire by operation of current tax law, there is no need for a valuation allowance as the Company fully expects to utilize the amounts disclosed.

Under generally accepted accounting principles, a valuation allowance is required if it is "more likely than not" that a deferred tax asset will not be realized. The determination of the realizability of the deferred tax assets is highly subjective and dependent upon judgment concerning management's evaluation of both positive and negative evidence, including forecasts of future income, cumulative losses, applicable tax planning strategies, and assessments of current and future economic and business conditions. At December 31, 2024 and 2023 the Company's recorded amount of uncertain tax positions was not considered significant for financial reporting and the Company does not expect this amount to significantly increase or decrease in the next twelve months.

At December 31, 2024 and December 31, 2023 the Company had net deferred tax assets of $27,817,000 and $29,765,000, respectively. At December 31, 2024 and December 31, 2023, management determined that a valuation allowance for deferred tax assets was not necessary.

The Company and its subsidiaries are subject to U.S. Federal income tax as well as income tax of the State of California. The Company is no longer subject to examination by Federal and state taxing authorities for years before 2021, and by the State of California taxing authority for years before 2020.

The following table reflects the carrying amounts of the low income housing investments included in accrued interest receivable and other assets, and the future commitments included in accrued interest payable and other liabilities for the periods indicated:

	December 31, 2024	December 31, 2023
	(Dollars in thousands)	
Low income housing investments	$ 2,201	$ 2,794
Future commitments	$ 475	$ 494

The Company expects $4,000 of the future commitments to be paid in 2025, and $471,000 in 2026 through 2027.

For tax purposes, the Company recognized low income housing tax credits of $563,000 and $720,000 for the years ended December 31, 2024 and December 31, 2023, respectively, and low income housing investment expense of $594,000 and $743,000, respectively. The Company recognizes low income housing investment expenses as a component of income tax expense.

12) Equity Plan

The Company maintained an Amended and Restated 2004 Equity Plan (the "2004 Plan") for directors, officers, and key team members. The 2004 Plan was terminated on May 23, 2013. On May 23, 2013, the Company's shareholders approved the 2013 Equity Incentive Plan (the "2013 Plan"). On May 21, 2020, the shareholders approved an amendment to the 2013 Equity Incentive Plan to increase the number of shares available from 3,000,000 to 5,000,000 shares. The 2013 Plan was terminated on May 25, 2023. The shareholders approved the 2023 Equity Incentive Plan (the "2023 Plan") on May 25, 2023, which reserved for issuance 600,000 shares, plus the number of shares available for issuance under the 2013 Plan that had not been made subject to outstanding awards as of the effective date of the 2023 Plan. These plans are collectively referred to as "Equity Plans." The Equity Plans provide for the grant of incentive and nonqualified stock options, restricted stock, RSUs and PRSUs. The Equity Plans provide that the option price for both incentive and nonqualified stock options will be determined by the Board of Directors at no less than the fair value at the date of grant. Each RSU granted to non-executive team members generally vests ratably over three years. For the year ended December 31, 2024, the Company granted 314,730 RSUs. Options granted vest on a schedule determined by the Board of Directors at the time of grant. Generally, options vest over four years. All options expire no later than ten years from the date of grant. There were 900,292 shares available for the issuance of equity awards under the 2023 Plan as of December 31, 2024.

The executive officers that participate in the Company's Long Term Incentive Equity Program receive 50% of their award value in RSUs and 50% of their award value in PRSUs contingent on return on average tangible common equity ("ROATCE") performance compared to a peer group at the end of a three year performance period. PRSUs are subject to cliff vesting after a three year performance period commencing in the initial year of grant. The earned PRSUs, if any, shall vest on the date on which the Board of Directors certifies whether and to what extent the performance goal has been achieved following the end of the performance period. For the year ended December 31, 2024, the Company granted 149,923 shares of PRSUs.

Restricted stock is subject to time vesting. Restricted stock granted to the Board of Directors generally vests in one year. For the year ended December 31, 2024, the Company granted 57,213 shares of restricted stock.

Stock option activity under the equity plans is as follows:

Total Stock Options	**Number of Shares**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (Years)**	**Aggregate Intrinsic Value**
Outstanding at January 1, 2024	2,637,356	$ 10.40		
Exercised	(139,515)	$ 4.95		
Forfeited or expired	(275,345)	$ 10.50		
Outstanding at December 31, 2024	2,222,496	$ 10.73	5.02	$ 1,333,193
Vested or expected to vest	2,089,146		5.02	$ 1,253,201
Exercisable at December 31, 2024	1,859,168		4.45	$ 917,207

Information related to the equity plans for each of the last three years:

	December 31,		
	2024	**2023**	**2022**
Intrinsic value of options exercised	$ 647,984	$ 805,334	$ 1,674,072
Cash received from option exercise	$ 690,679	$ 1,219,286	$ 2,049,587
Tax (expense) benefit realized from option exercises	$ (14,828)	$ 20,527	$ 180,414
Weighted average fair value of options granted	$ N/A	$ 1.34	$ 2.22

As of December 31, 2024, there was $600,227 of total unrecognized compensation cost related to nonvested stock options granted under the equity plans. That cost is expected to be recognized over a weighted-average period of approximately 1.78 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the following table, including the weighted average assumptions for the option grants in each year.

	December 31,		
	2024	**2023**	**2022**
Expected life in months (1)	N/A	72	72
Volatility (1)	N/A	35 %	31 %
Weighted average risk-free interest rate (2)	N/A	3.52 %	2.89 %
Expected dividends (3)	N/A	6.98 %	4.68 %

(1) The expected life of employee stock options represents the weighted average period the stock options are expected to remain outstanding based on historical experience. Volatility is based on the historical volatility of the stock price over the same period of the expected life of the option.
(2) Based on the U.S. Treasury constant maturity interest rate with a term consistent with the expected life of the option granted.
(3) Each grant's dividend yield is calculated by annualizing the most recent quarterly cash dividend and dividing that amount by the market price of the Company's common stock as of the grant date

The Company estimates the impact of forfeitures based on historical experience. Should the Company's current estimate change, additional expense could be recognized or reversed in future periods. The Company issues authorized shares of common stock to satisfy stock option exercises.

Restricted stock activity under the equity plans is as follows:

Total Restricted Stock Award	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares at January 1, 2024	185,413	$ 9.86
Granted	57,123	$ 8.49
Vested	(123,260)	$ 9.12
Forfeited or expired	(31,215)	$ 11.43
Nonvested shares at December 31, 2024	88,061	$ 9.45

As of December 31, 2024, there was $281,000 of total unrecognized compensation cost related to nonvested restricted stock awards granted under the 2013 Plan and 2023 Plan. The cost is expected to be recognized over a weighted-average period of approximately 0.58 years.

Total compensation cost for the 2004 Plan, 2013 Plan and 2023 Plan charged against income was $2,841,000, $2,396,000, $3,178,000, for 2024, 2023, and 2022, respectively. The total income tax (benefit) expense was $280,000, $54,000, and ($94,000) for the years ended December 31, 2024, 2023, and 2022, respectively.

RSU activity under the Equity Plans is as follows:

Total RSUs	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares at January 1, 2024	119,362	$ 7.41
Granted	314,730	$ 8.75
Vested	(35,837)	$ 7.46
Forfeited or expired	(40,589)	$ 7.84
Nonvested shares at December 31, 2024	357,666	$ 8.53

As of December 31, 2024, there were $2,314,000 of total unrecognized compensation cost related to unvested RSUs granted under the Equity Plans. The cost is expected to be recognized over a weighted average period of 2.22 years.

PRSU activity under the Equity Plans is as follows:

Total PRSUs	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares at January 1, 2024	119,358	$ 7.41
Granted	149,923	$ 8.49
Forfeited or expired	(39,862)	$ 7.75
Nonvested shares at December 31, 2024	229,419	$ 8.06

As of December 31, 2024, there were $1,151,000 of total unrecognized compensation cost related to unvested PRSUs granted under the Equity Plans. The cost is expected to be recognized over a weighted average period of 1.96 years.

13) Benefit Plans

401(k) Savings Plan

The Company offers a 401(k) savings plan that allows team members to contribute up to a maximum percentage of their compensation, as established by the Internal Revenue Code. The Company made a discretionary matching contribution of up to $3,000 for each team member's contributions in 2024 and 2023. Contribution expense was $965,000, $949,000, and $942,000 in 2024, 2023 and 2022, respectively.

Employee Stock Ownership Plan

The Company sponsors a non-contributory employee stock ownership plan ("ESOP"). To participate in this plan, a team member must have worked at least 1,000 hours during the year and must be employed by the Company at year-end. Employer contributions to the ESOP are discretionary. Contributions to the ESOP have been suspended since 2010 and ESOP was "frozen" as of January 1, 2019. At December 31, 2024, the ESOP owned 83,319 shares of the Company's common stock.

Deferred Compensation Plan

The Company has a nonqualified deferred compensation plan for some of its team members. Under the deferred compensation plan, a team member may defer up to 100% of their bonus and 50% of their regular salary into a deferred account. Amounts deferred are invested in a portfolio of approved investment choices as directed by the team member. Amounts deferred by team members to the deferred compensation plan will be distributed at a future date that they have selected or upon termination of employment. There were seven and eight team members who elected to participate in the deferred compensation plan during 2024 and 2023, respectively.

Nonqualified Defined Benefit Pension Plan

The Company has a supplemental retirement plan ("SERP") covering some current and some former key executives and directors. While the SERP remains active for those participants, the Company has not approved any new participation in the SERP since 2011. The SERP is a nonqualified defined benefit plan. Benefits are unsecured as there are no SERP assets. The SERP is an unfunded, nonqualified defined benefit plan. The combined number of active and retired/terminated participants in the SERP was 49 at December 31, 2024. The defined benefit represents a stated amount for key executives and directors that generally vests over nine years and is reduced for early retirement. The projected benefit obligation is included in "Accrued interest payable and other liabilities" on the consolidated balance sheets. The measurement date of the SERP is December 31.

The following table sets forth the SERP's status at December 31:

	2024	2023
	(Dollars in thousands)	
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 26,452	$ 25,800
Service cost	205	192
Actuarial loss (gain)	(917)	793
Interest cost	1,272	1,296
Benefits paid	(1,701)	(1,629)
Projected benefit obligation at end of year	$ 25,311	$ 26,452
Amounts recognized in accumulated other comprehensive loss:		
Net actuarial loss	$ 2,173	$ 2,892

Weighted-average assumptions used to determine the benefit obligation at year-end:

	2024	2023
Discount rate	5.50 %	4.95 %
Rate of compensation increase	N/A	N/A

Estimated benefit payments over the next ten years, which reflect anticipated future events, service and other assumptions, are as follows:

Year	Estimated Benefit Payments
	(Dollars in thousands)
2025	$ 1,880
2026	2,211
2027	2,336
2028	2,396
2029	2,422
2030 to 2034	12,549

The following table presents the amount of periodic cost recognized for the periods indicated:

	Year Ended December 31, 2024	Year Ended December 31, 2023
	(Dollars in thousands)	
Components of net periodic benefit cost:		
Service cost	$ 205	$ 192
Interest cost	1,272	1,296
Amortization of net actuarial loss	104	52
Net periodic benefit cost	$ 1,581	$ 1,540
Amount recognized in other comprehensive income (loss)	$ 719	$ (521)

The components of net periodic benefit cost other than the service cost component are included in the line item "other noninterest expense" in the Consolidated Statements of Income. The estimated net actuarial loss and prior service cost for the SERP that will be amortized from Accumulated Other Comprehensive Loss into net periodic benefit cost over the next fiscal year are $48,000 as of December 31, 2024.

Net periodic benefit cost for the years ended December 31, 2024 and 2023 were determined using the following assumption:

	2024	2023
Discount rate	4.95 %	5.17 %
Rate of compensation increase	N/A	N/A

Split-Dollar Life Insurance Benefit Plan

The Company maintains life insurance policies for some current and some former directors and officers that are subject to split-dollar life insurance agreements, some of which continues after the participant's employment and retirement. The policies acquired from Focus and Presidio do not include a post-retirement benefit. All participants are fully vested in their split-dollar life insurance benefits. The accrued benefit liability for the split-dollar insurance agreements represents either the present value of the future death benefits payable to the participants' beneficiaries or the present value of the estimated cost to maintain term life insurance, depending on the contractual terms of the participant's underlying agreement.

The split-dollar life insurance projected benefit obligation is included in "Accrued interest payable and other liabilities" on the consolidated balance sheets. The measurement date of the split-dollar life insurance benefit plan is December 31.

The following table sets forth the funded status of the split-dollar life insurance benefits for the periods indicated:

	December 31, 2024	December 31, 2023
	(Dollars in thousands)	
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 6,951	$ 7,060
Interest cost	344	365
Actuarial loss	(679)	(474)
Projected benefit obligation at end of period	$ 6,616	$ 6,951

Amounts recognized in accumulated other comprehensive loss at periods indicated consist of:

	December 31, 2024	December 31, 2023
	(Dollars in thousands)	
Net actuarial loss	$ 1,728	$ 2,108
Prior transition obligation	611	701
Accumulated other comprehensive loss	$ 2,339	$ 2,809

Weighted-average assumption used to determine the benefit obligation at year-end follow:

	2024	2023
Discount rate	5.50 %	4.95 %

Components of net periodic benefit cost during the periods indicated are:

	Year Ended December 31, 2024	Year Ended December 31, 2023
	(Dollars in thousands)	
Amortization of prior transition obligation and actuarial losses	$ (209)	$ (191)
Interest cost	344	365
Net periodic benefit cost	$ 135	$ 174
Amount recognized in other comprehensive income	$ 470	$ 283

The estimated net actuarial loss and prior transition obligation for the split-dollar life insurance benefit plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are ($258,000) and ($209,000) as of December 31, 2024 and 2023, respectively.

Weighted-average assumption used to determine the net periodic benefit cost:

	2024	2023
Discount rate	4.95 %	5.17 %

14) Fair Value

Accounting guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data (for example, interest rates and yield curves observable at commonly quoted intervals, prepayment speeds, credit risks, and default rates).

Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Financial Assets and Liabilities Measured on a Recurring Basis

The fair values of securities available-for-sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities’ relationship to other benchmark quoted securities (Level 2 inputs). The Company uses matrix pricing (Level 2 inputs) to establish the fair value of its securities available-for-sale.

The fair value of interest-only (“I/O”) strip receivable assets is based on a valuation model used by a third party. The Company is able to compare the valuation model inputs and results to widely available published industry data for reasonableness (Level 2 inputs).

		Fair Value Measurements Using		
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Assets at December 31, 2024				
Available-for-sale securities:				
U.S. Treasury	$ 186,183	$ 186,183	$ —	$ —
Agency mortgage-backed securities	70,091	—	70,091	—
I/O strip receivables	82	—	82	—
Assets at December 31, 2023				
Available-for-sale securities:				
U.S. Treasury	$ 382,369	$ 382,369	$ —	$ —
Agency mortgage-backed securities	60,267	—	60,267	—
I/O strip receivables	117	—	117	—

Assets and Liabilities Measured on a Non-Recurring Basis

The fair value of collateral dependent loans individually evaluated with specific allocations of the allowance for credit losses on loans is generally based on recent real estate appraisals. The appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Collateral dependent loans carried at fair value on a non-recurring basis are immaterial.

Foreclosed assets are valued at the time the loan is foreclosed upon and the asset is transferred to foreclosed assets. The fair value is based primarily on third party appraisals, less costs to sell. The appraisals may utilize a single valuation approach or a combination of approaches including the comparable sales and income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. At December 31, 2024 and December 31, 2023, there were no foreclosed assets on the balance sheet.

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments at December 31, 2024 are as follows:

		Estimated Fair Value			
	Carrying Amounts	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		(Dollars in thousands)			
Assets:					
Cash and cash equivalents	$ 968,123	$ 968,123	$ —	$ —	$ 968,123
Securities available-for-sale	256,274	186,183	70,091	—	256,274
Securities held-to-maturity	590,016	—	497,012	—	497,012
Loans (including loans held-for-sale)	3,494,312 [1]	—	2,375	3,304,196	3,306,571
FHLB stock, FRB stock, and other investments	32,556	—	—	—	N/A
Accrued interest receivable	14,940	506	2,141	12,293	14,940
I/O strips receivables	82	—	82	—	82
Liabilities:					
Time deposits	$ 564,447	$ —	$ 566,695	$ —	$ 566,695
Other deposits	4,255,584	—	4,255,584	—	4,255,584
Subordinated debt	39,653	—	34,853	—	34,853
Accrued interest payable	6,350	—	6,350	—	6,350

[1] Before allowance for credit losses on loans of $48,953,000.

The carrying amounts and estimated fair values of financial instruments at December 31, 2023 are as follows:

		Estimated Fair Value			
	Carrying Amounts	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		(Dollars in thousands)			
Assets:					
Cash and cash equivalents	$ 408,129	$ 408,129	$ —	$ —	$ 408,129
Securities available-for-sale	442,636	382,369	60,267	—	442,636
Securities held-to-maturity	650,565	—	564,127	—	564,127
Loans (including loans held-for-sale)	3,352,583 (1)	—	2,205	3,172,512	3,174,717
FHLB stock, FRB stock, and other investments	32,540	—	—	—	N/A
Accrued interest receivable	14,959	1,255	1,764	11,940	14,959
I/O strips receivables	117	—	117	—	117
Liabilities:					
Time deposits	$ 469,472	$ —	$ 471,693	$ —	$ 471,693
Other deposits	3,908,986	—	3,908,986	—	3,908,986
Subordinated debt	39,502	—	31,902	—	31,902
Accrued interest payable	4,688	—	4,688	—	4,688

(1) Before allowance for credit losses on loans of $47,958,000.

15) Commitments and Contingencies

Loss Contingencies

Within the ordinary course of our business, we are from time to time subject to private lawsuits, government audits and examinations, administrative proceedings and other claims. Under certain circumstances, we also may be subjected to increased risk associated with the acts or omissions of our clients (such as clients who, unbeknownst to the Bank or the Company, may engage in or become associated with fraudulent or unlawful transactions, Ponzi schemes, money laundering, and similar unlawful acts). A number of these claims may exist at any given time, and some of the claims may be pled as class actions. We could be affected by adverse publicity and litigation costs resulting from such allegations, regardless of whether they are valid or whether we are ultimately determined to be liable.

At December 31, 2024, the Company was a defendant in a lawsuit pending in Alameda County Superior Court that alleges that the Company and the Bank violated certain wage-and-hour and related laws and regulations during the period between November 2020 and October 2021. The claim seeks recovery on behalf of a representative plaintiff and other employees and seeks unspecified damages, penalties and attorney fees under the California Labor Code, the California Business and Professions Code, and the California Private Attorneys General Act (“PAGA”). The Company contends that the claims are without merit and intends to defend them vigorously.

The Company makes a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel and other information and events pertaining to a particular matter. The outcomes of legal proceedings and other contingencies are, however, inherently unpredictable and subject to significant uncertainties. As a result, the Company cannot always reasonably estimate the amount or range of possible losses, including losses that could arise as a result of application of non-monetary remedies, with respect to the contingencies it faces, and the Company’s estimates, once made, may prove inaccurate.

At this time, we believe that the amount of reasonably possible losses resulting from final disposition of pending or threatened lawsuits, audits, proceedings and claims will not have a material adverse effect individually or in the aggregate on our financial position, results of operations or liquidity. It is possible, however, that our future results of operations for a particular quarter or fiscal year could be impacted by changes in circumstances relating to lawsuits, proceedings or claims, and that, associated with the defense of such claims, we may incur elevated levels of attorney fees and other litigation costs. Likewise, factors that affect the insurance coverage for these matters may affect our estimates of the relevant contingent liabilities, and we generally adjust our estimates based on known factors that affect that coverage as those factors come to light. Legal costs related to such claims are expensed as incurred.

Off-Balance Sheet Arrangements

In the normal course of business the Company makes commitments to extend credit to its clients as long as there are no violations of any conditions established in the contractual arrangements. These commitments are obligations that represent a potential credit risk to the Company, but are not reflected on the Company's consolidated balance sheets. Total unused commitments to extend credit were $1,033,982,000 at December 31, 2024, compared to $1,149,056,000 at December 31, 2023. Unused commitments represented 30% outstanding gross loans at December 31, 2024 and 34% at December 31, 2023.

The effect on the Company's revenues, expenses, cash flows and liquidity from the unused portion of the commitments to provide credit cannot be reasonably predicted because there is no certainty that lines of credit and letters of credit will ever be fully utilized. The following table presents the Company's commitments to extend credit for the periods indicated:

	December 31, 2024			December 31, 2023		
	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
			(Dollars in thousands)			
Unused lines of credit and commitments to make loans	$ 78,818	$ 939,992	$ 1,018,810	$ 96,166	$ 1,041,608	$ 1,137,774
Standby letters of credit	5,136	10,036	15,172	4,283	6,999	11,282
	$ 83,954	$ 950,028	$ 1,033,982	$ 100,449	$ 1,048,607	$ 1,149,056

For the year ended December 31, 2024, there was a decrease of ($107,000) to the allowance for credit losses on loans for the Company's off-balance sheet credit exposures, compared to the year ended December 31, 2023. The decrease in the allowance for credit losses for off-balance sheet credit exposures for the year ended December 31, 2024 was driven by lower loss factors for off-balance sheet exposures. The allowance for losses for the Company's off-balance sheet credit exposures was $660,000 and $767,000 at December 31, 2024 and December 31, 2023 respectively.

16) Shareholders' Equity and Earnings Per Share

Share Repurchase Program – On July 25, 2024, the Company announced that its Board of Directors adopted a share repurchase program (the "Repurchase Program") under which the Company is authorized to repurchase up to $15,000,000 of the Company's shares of its issued and outstanding common stock. Unless otherwise suspended or terminated, the Repurchase Program expires on July 31, 2025. The Company did not repurchase any of its common stock during the year ended December 31, 2024.

Basic earnings per common share is computed by dividing net income, less dividends and discount accretion on preferred stock, by the weighted average common shares outstanding. Diluted earnings per share reflect potential dilution from outstanding stock options using the treasury stock method. There were 1,571,756 weighted average stock options for the year ended December 31, 2024, considered to be antidilutive and excluded from the computation of diluted earnings per share. There were 5,823 weighted average RSUs outstanding for the year ended December 31, 2024 considered to be antidilutive and excluded from the computation of diluted earnings per shares. There were 1,655,654 weighted average stock options for the year ended December 31, 2023, considered to be antidilutive and excluded from the computation of diluted earnings per share. There were 79,793 weighted average RSUs outstanding for the year ended December 31, 2023, considered to be antidilutive and excluded from the computation of diluted earnings per share. There were 1,230,319 weighted average stock options for the year ended December 31, 2022, considered to be antidilutive and excluded from the computation of diluted earnings per share. A reconciliation of these factors used in computing basic and diluted earnings per common share is as follows:

	Year Ended December 31,		
	2024	2023	2022
	(Dollars in thousands, except per share amounts)		
Net income	$ 40,528	$ 64,443	$ 66,555
Weighted average common shares outstanding for basic earnings per common share	61,270,730	61,038,857	60,602,962
Dilutive potential common shares	256,642	272,461	487,328
Shares used in computing diluted earnings per common share	61,527,372	61,311,318	61,090,290
Basic earnings per share	$ 0.66	$ 1.06	$ 1.10
Diluted earnings per share	$ 0.66	$ 1.05	$ 1.09

17) Capital Requirements

The Company and its subsidiary bank are subject to various regulatory capital requirements administered by the banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements and operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and HBC must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Company's consolidated capital ratios and the HBC's capital ratios exceeded the regulatory guidelines for a well-capitalized financial institution under the Basel III regulatory requirements at December 31, 2024. There are no conditions or events since December 31, 2024, that management believes have changed the categorization of the Company or HBC as "well-capitalized."

Quantitative measures established by regulation to help ensure capital adequacy require the Company and HBC to maintain minimum amounts and ratios (set forth in the tables below) of total, Tier 1 capital, and common equity Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes that, as of December 31, 2024 and December 31, 2023, the Company and HBC met all capital adequacy guidelines to which they were subject.

The Company's consolidated capital amounts and ratios are presented in the following table, together with capital adequacy requirements, under the Basel III regulatory requirements as of December 31, 2024, and December 31, 2023.

	Actual		Required For Capital Adequacy Purposes Under Basel III	
	Amount	Ratio	Amount	Ratio [1]
	(Dollars in thousands)			
As of December 31, 2024				
Total Capital (to risk-weighted assets)	$ 610,643	15.6 %	$ 411,383	10.5 %
Tier 1 Capital (to risk-weighted assets)	$ 524,204	13.4 %	$ 333,024	8.5 %
Common Equity Tier 1 Capital (to risk-weighted assets)	$ 524,204	13.4 %	$ 274,255	7.0 %
Tier 1 Capital (to average assets)	$ 524,204	9.6 %	$ 217,451	4.0 %

[1] Includes 2.5% capital conservation buffer, except the Tier 1 Capital to average assets ratio.

	Actual		Required For Capital Adequacy Purposes Under Basel III	
	Amount	Ratio	Amount	Ratio [1]
	(Dollars in thousands)			
As of December 31, 2023				
Total Capital (to risk-weighted assets)	$ 594,371	15.5 %	$ 403,060	10.5 %
Tier 1 Capital (to risk-weighted assets)	$ 511,799	13.3 %	$ 326,287	8.5 %
Common Equity Tier 1 Capital (to risk-weighted assets)	$ 511,799	13.3 %	$ 268,707	7.0 %
Tier 1 Capital (to average assets)	$ 511,799	10.0 %	$ 204,024	4.0 %

[1] Includes 2.5% capital conservation buffer, except the Tier 1 Capital to average assets ratio.

HBC's actual capital amounts and ratios are presented in the following table, together with capital adequacy requirements, under the Basel III regulatory requirements as of December 31, 2024, and December 31, 2023.

	Actual		To Be Well-Capitalized Under Basel III PCA Regulatory Requirements		Required For Capital Adequacy Purposes Under Basel III	
	Amount	Ratio	Amount	Ratio	Amount	Ratio [(1)]
			(Dollars in thousands)			
As of December 31, 2024						
Total Capital (to risk-weighted assets)	$ 590,658	15.1 %	$ 391,459	10.0 %	$ 411,038	10.5 %
Tier 1 Capital (to risk-weighted assets)	$ 543,872	13.9 %	$ 313,167	8.0 %	$ 332,745	8.5 %
Common Equity Tier 1 Capital (to risk-weighted assets)	$ 543,872	13.9 %	$ 254,448	6.5 %	$ 274,025	7.0 %
Tier 1 Capital (to average assets)	$ 543,872	10.0 %	$ 271,640	5.0 %	$ 217,312	4.0 %

(1) Includes 2.5% capital conservation buffer, except the Tier 1 Capital to average assets ratio.

	Actual		To Be Well-Capitalized Under Basel III PCA Regulatory Requirements		Required For Capital Adequacy Purposes Under Basel III	
	Amount	Ratio	Amount	Ratio	Amount	Ratio [(1)]
			(Dollars in thousands)			
As of December 31, 2023						
Total Capital (to risk-weighted assets)	$ 572,907	14.9 %	$ 383,542	10.0 %	$ 402,719	10.5 %
Tier 1 Capital (to risk-weighted assets)	$ 529,836	13.8 %	$ 306,834	8.0 %	$ 326,011	8.5 %
Common Equity Tier 1 Capital (to risk-weighted assets)	$ 529,836	13.8 %	$ 249,302	6.5 %	$ 268,479	7.0 %
Tier 1 Capital (to average assets)	$ 529,836	10.4 %	$ 254,869	5.0 %	$ 203,895	4.0 %

(1) Includes 2.5% capital conservation buffer, except the Tier 1 Capital to average assets.

The Subordinated Debt, net of unamortized issuance costs, totaled $39,653,000 at December 31, 2024, and qualifies as Tier 2 capital for the Company under the guidelines established by the Federal Reserve Bank.

Under California General Corporation Law, the holders of common stock are entitled to receive dividends when and as declared by the Board of Directors, out of funds legally available. The California Financial Code provides that a state licensed bank may not make a cash distribution to its shareholders in excess of the lesser of the following: (i) the bank's retained earnings; or (ii) the bank's net income for its last three fiscal years, less the amount of any distributions made by the bank to its shareholders during such period. However, a bank, with the prior approval of the Commissioner of the California Department of Financial Protection and Innovation ("DFPI") may make a distribution to its shareholders of an amount not to exceed the greater of (i) a bank's retained earnings; (ii) its net income for its last fiscal year; or (iii) its net income for the current fiscal year. Also with the prior approval of the Commissioner of the DFPI and the shareholders of the bank, the bank may make a distribution to its shareholders, as a reduction in capital of the bank. In the event that the Commissioner determines that the shareholders' equity of a bank is inadequate or that the making of a distribution by a bank would be unsafe or unsound, the Commissioner may order a bank to refrain from making such a proposed distribution. As of December 31, 2024, HBC would not be required to obtain regulatory approval, and the amount available for cash dividends is $63,477,000. Similar restrictions applied to the amount and sum of loan advances and other transfers of funds from HBC to the parent company. HBC distributed to HCC dividends of $32,000,000 for both years ended December 31, 2024 and 2023.

18) Revenue Recognition

The majority of our revenue-generating transactions are not subject to ASC 606 "Revenue from Contracts with Customers", including revenue generated from financial instruments, including revenue from loans and securities, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, gain on sale of securities, bank-owned life insurance, gain on sales of SBA loans, and certain credit card fees, as these activities are subject to other GAAP discussed elsewhere within our disclosures. Substantially all of the Company's revenue is generated from contracts with clients. Descriptions of our revenue-generating activities that are within the scope of ASC 606, which are presented in our income statements as components of noninterest income are as follows:

Service charges and fees on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, check orders, and other deposit account related fees. We sometimes charge clients fees that are not specifically related to the client accessing its funds, such as account maintenance or dormancy fees. The amount of deposit fees assessed varies based on a number of factors, such as the type of client and account, the quantity of transactions, and the size of the deposit balance. We charge, and in some circumstances do not charge, fees to earn additional revenue and influence certain client behavior. An example would be where we do not charge a monthly service fee, or do not charge for certain transactions, for clients that have a high deposit balance. Deposit fees are considered either transactional in nature (such as wire transfers, nonsufficient fund fees, and stop payment orders) or non-transactional (such as account maintenance and dormancy fees). These fees are recognized as earned or as transactions occur and services are provided. Check orders and other deposit account related fees are largely transactional based and, therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to clients' accounts.

The Company currently accounts for sales of foreclosed assets in accordance with Topic 360-20. In most cases the Company will seek to engage a real estate agent for the sale of foreclosed assets immediately upon foreclosure. However, in some cases, where there is clear demand for the property in question, the Company may elect to allow for a marketing period on no more than six months to attempt a direct sale of the property. We generally recognize the sale, and any associated gain or loss, of a real estate property when control of the property transfers. Any gains or losses from the sale are recorded to noninterest income/expense.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the periods indicated:

	Year Ended December 31,		
	2024	2023	2022
	(Dollars in thousands)		
Noninterest Income In-scope of Topic 606:			
Service charges and fees on deposit accounts	$ 3,561	$ 4,341	$ 4,640
Total noninterest income in-scope of Topic 606	3,561	4,341	4,640
Noninterest Income Out-of-scope of Topic 606	5,187	4,657	5,471
Total noninterest income	$ 8,748	$ 8,998	$ 10,111

19) Noninterest Expense

The following table indicates the various components of the Company's noninterest expense in each category for the periods indicated:

	Year Ended December 31,		
	2024	2023	2022
	(Dollars in thousands)		
Salaries and employee benefits	$ 63,952	$ 56,862	$ 55,331
Occupancy and equipment	10,226	9,490	9,639
Insurance expense	6,724	6,264	4,958
Professional fees	5,416	4,350	5,015
Client services	3,920	2,512	1,851
Data processing	3,183	3,429	2,482
Software subscriptions	3,046	2,599	1,958
Other	17,116	15,548	13,625
Total noninterest expense	$ 113,583	$ 101,054	$ 94,859

20) Business Segment Information

The Company's reportable segments are determined by the Chief Executive Officer, who is the designated chief operating decision maker, based upon information provided about the Company's products and services offered, primarily distinguished between Banking and Factoring. They are also distinguished by the level of information provided to the chief operating decision maker, who uses such information to review performance of various components of the business, which are then aggregated if operating performance, products and services, and clients are similar. The chief operating decision maker analyzes the financial performance of the Company's segments, allocates resources and assesses compensation of certain employees by evaluating revenue streams, significant expenses and budget to actual results. The performance of the Banking segment is assessed by monitoring the margin between interest income and interest expense related to loans, investments, deposits and other borrowings. Pretax profit and loss is used to assess the performance of the Factoring segment. Interest expense, provisions for credit losses and Salaries and employee benefits provide significant expenses in the Banking segment, while Salaries and employee benefits provide the significant expenses in the Factoring segment.

The Banking segment provides a diversified mix of business loans encompassing the following loan products: commercial and industrial loans; commercial real estate loans; construction loans; and SBA loans. From time to time the Banking segment has purchased single family residential mortgage loans. The Banking segment also offers home equity lines of credit, to accommodate the needs of business owners and individual clients, as well as consumer loans (both secured and unsecured). The Banking segment focuses deposit generation on relationship accounts, encompassing non-interest bearing demand, interest bearing demand, and money market accounts. In order to facilitate the generation of non-interest bearing demand deposits, the Banking segment requires, depending on the circumstances and the type of relationship, its borrowers to maintain deposit balances with it as a typical condition of granting loans. The Banking segment also offers certificates of deposit and savings accounts.

The Factoring segment consists of the factored receivables portfolio originated by Bay View Funding. Factored receivables are receivables that have been acquired from the originating company and typically have not been subject to previous collection efforts. These receivables are acquired from a variety of companies, including but not limited to service providers, transportation companies, manufacturers, distributors, wholesalers, apparel companies, advertisers, and temporary staffing companies. The average life of the factored receivables was 34 days for the year ended December 31, 2024.

Reported segments and the financial information of the reported segments are not necessarily comparable with similar information reported by other financial institutions. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. Changes in management structure or allocation methodologies and procedures may result in future changes to previously reported segment financial data. The accounting policies of the segments are substantially the same as those described in *"Note 1 – Summary of Significant Accounting Policies."*

Transactions between segments consist primarily of borrowed funds. Intersegment interest expense is allocated to the Factoring segment based on the Banking segment's prime rate and funding costs. The provision for credit losses on loans is allocated based on the segment's allowance for credit losses on loans determination which considers the effects of charge-offs. Noninterest income and expense directly attributable to a segment are assigned to it. Taxes are paid on a consolidated basis and allocated for segment purposes.

The following tables present the Company's operating segments for the periods indicated:

	Year Ended December 31, 2024		
	Banking [1]	Factoring	Consolidated
	(Dollars in thousands)		
Interest income	$ 231,719	$ 10,980	$ 242,699
Intersegment interest allocations	1,827	(1,827)	—
Total interest expense	79,051	—	79,051
Net interest income	154,495	9,153	163,648
Provision for (recapture of) credit losses on loans	1,679	460	2,139
Net interest income after provision	152,816	8,693	161,509
Noninterest income	8,026	722	8,748
Salaries and employee benefits	58,922	5,030	63,952
Other segment items [2]	48,055	1,576	49,631
Intersegment expense allocations	520	(520)	—
Income before income taxes	54,385	2,289	56,674
Income tax expense	15,469	677	16,146
Net income	$ 38,916	$ 1,612	$ 40,528
Total assets	$ 5,558,556	$ 86,450	$ 5,645,006
Loans, net of deferred fees	$ 3,423,040	$ 68,897	$ 3,491,937
Goodwill	$ 154,587	$ 13,044	$ 167,631

(1) Includes the holding company's results of operations.

(2) Other segment items for the Banking segment includes expenses for occupancy and equipment, professional fees, insurance, information technology, client services, marketing and other miscellaneous expenses. Other segment items for the Factoring segment includes expenses for occupancy and equipment, professional fees, information technology, marketing, credit reports, broker fees, and other miscellaneous expenses.

	Year Ended December 31, 2023		
	Banking [(1)]	Factoring	Consolidated
	(Dollars in thousands)		
Interest income	$ 220,871	$ 13,427	$ 234,298
Intersegment interest allocations	2,038	(2,038)	—
Total interest expense	51,074	—	51,074
Net interest income	171,835	11,389	183,224
Provision (recapture) for credit losses on loans	1,005	(256)	749
Net interest income after provision	170,830	11,645	182,475
Noninterest income	8,582	416	8,998
Salaries and employee benefits	52,236	4,626	56,862
Other segment items [(2)]	42,215	1,977	44,192
Intersegment expense allocations	547	(547)	—
Income before income taxes	85,508	4,911	90,419
Income tax expense	24,524	1,452	25,976
Net income	$ 60,984	$ 3,459	$ 64,443
Total assets	$ 5,111,367	$ 82,728	$ 5,194,095
Loans, net of deferred fees	$ 3,292,920	$ 57,458	$ 3,350,378
Goodwill	$ 154,587	$ 13,044	$ 167,631

(1) Includes the holding company's results of operations.

(2) Other segment items for the Banking segment includes expenses for occupancy and equipment, professional fees, insurance, information technology, client services, marketing and other miscellaneous expenses. Other segment items for the Factoring segment includes expenses for occupancy and equipment, professional fees, information technology, marketing, credit reports, broker fees, and other miscellaneous expenses.

	Year Ended December 31, 2022		
	Banking [(1)]	Factoring	Consolidated
	(Dollars in thousands)		
Interest income	$ 176,010	$ 12,818	$ 188,828
Intersegment interest allocations	1,441	(1,441)	—
Total interest expense	8,948	—	8,948
Net interest income	168,503	11,377	179,880
Provision for credit losses on loans	526	240	766
Net interest income after provision	167,977	11,137	179,114
Noninterest income	9,722	389	10,111
Salaries and employee benefits	50,919	4,412	55,331
Other segment items [(2)]	37,612	1,916	39,528
Intersegment expense allocations	524	(524)	—
Income before income taxes	89,692	4,674	94,366
Income tax expense	26,429	1,382	27,811
Net income	$ 63,263	$ 3,292	$ 66,555
Total assets	$ 5,062,943	$ 94,637	$ 5,157,580
Loans, net of deferred fees	$ 3,219,287	$ 79,263	$ 3,298,550
Goodwill	$ 154,587	$ 13,044	$ 167,631

(1) Includes the holding company's results of operations.

(2) Other segment items for the Banking segment includes expenses for occupancy and equipment, professional fees, insurance, information technology, client services, marketing and other miscellaneous expenses. Other segment items for the Factoring segment includes expenses for occupancy and equipment, professional fees, information technology, marketing, credit reports, broker fees, and other miscellaneous expenses.

21) Parent Company only Condensed Financial Information

The condensed financial statements of Heritage Commerce Corp (parent company only) are as follows:

Condensed Balance Sheets

	December 31, 2024	December 31, 2023
	(Dollars in thousands)	
Assets		
Cash and cash equivalents	$ 16,903	$ 18,479
Investment in subsidiary bank	709,379	690,918
Other assets	3,360	3,266
Total assets	$ 729,642	$ 712,663
Liabilities and Shareholders' Equity		
Subordinated debt, net of issuance costs	$ 39,653	$ 39,502
Other liabilities	262	260
Shareholders' equity	689,727	672,901
Total liabilities and shareholders' equity	$ 729,642	$ 712,663

Condensed Statements of Income

	Year Ended December 31, 2024	2023	2022
	(Dollars in thousands)		
Dividend from subsidiary bank	$ 32,000	$ 32,000	$ 32,000
Interest expense	(2,152)	(2,152)	(2,179)
Other expenses	(4,608)	(3,771)	(3,675)
Income before income taxes and equity in net income of subsidiary bank	25,240	26,077	26,146
Equity in undistributed net income of subsidiary bank	13,320	36,648	38,702
Income tax benefit	1,968	1,718	1,707
Net income	$ 40,528	$ 64,443	$ 66,555

Condensed Statements of Cash Flows

	Year Ended December 31, 2024	2023	2022
	(Dollars in thousands)		
Cash flows from operating activities:			
Net Income	$ 40,528	$ 64,443	$ 66,555
Adjustments to reconcile net income to net cash provided by operations:			
Amortization of restricted stock awards, net	916	1,404	2,583
Equity in undistributed net income of subsidiary bank	(13,320)	(36,648)	(38,702)
Net change in other assets and liabilities	1,468	(1,174)	1,222
Net cash provided by operating activities	29,592	28,025	31,658
Cash flows from financing activities:			
Repayment of subordinated debt	—	—	(40,000)
Net change in purchased funds and other short-term borrowings	—	—	39,274
Payment of cash dividends	(31,858)	(31,740)	(31,495)
Proceeds from exercise of stock options	690	1,220	2,050
Net cash used in financing activities	(31,168)	(30,520)	(30,171)
Net increase (decrease) in cash and cash equivalents	(1,576)	(2,495)	1,487
Cash and cash equivalents, beginning of year	18,479	20,974	19,487
Cash and cash equivalents, end of year	$ 16,903	$ 18,479	$ 20,974

22) Subsequent Events

On January 23, 2025, the Company announced that the Board of Directors declared a $0.13 per share quarterly cash dividend to holders of common stock. The dividend was payable on February 20, 2025 to shareholders of record on February 6, 2025.

Exhibit 31.1

CERTIFICATIONS UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
REGARDING THE ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2024

I, Robertson Clay Jones, certify that:

1. I have reviewed this Annual Report on Form 10-K for the Year Ended December 31, 2024 of Heritage Commerce Corp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ ROBERTSON CLAY JONES
Robertson Clay Jones
President and Chief Executive Officer
Heritage Commerce Corp

Date: March 7, 2025

**CERTIFICATIONS UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
REGARDING THE ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2024**

I, Thomas A. Sa, certify that:

1. I have reviewed this Annual Report on Form 10-K for the Year Ended December 31, 2024 of Heritage Commerce Corp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/S/ THOMAS A. SA

Thomas A. Sa
Executive Vice President and Chief Operating Officer and Interim Chief Financial Officer
Heritage Commerce Corp

Date: March 7, 2025

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
REGARDING THE ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2024**

In connection with the Annual Report of Heritage Commerce Corp (the "Company") on Form 10-K for the year ended December 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robertson Clay Jones, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ROBERTSON CLAY JONES

Robertson Clay Jones
President and Chief Executive Officer
Heritage Commerce Corp

March 7, 2025

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
REGARDING THE ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2024**

In connection with the Annual Report of Heritage Commerce Corp (the "Company") on Form 10-K for the year ended December 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas A. Sa, Interim Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ THOMAS A. SA

Thomas A. Sa
Executive Vice President and Chief Operating Officer and Interim Chief Financial Officer
Heritage Commerce Corp

March 7, 2025

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Corporate Information

Board of Directors

Jack W. Conner, Chair
Julianne M. Biagini-Komas, Vice Chair
Bruce H. Cabral
Jason DiNapoli
Stephen G. Heitel
Kamran F. Husain
Robertson Clay Jones
Marina H. Park Sutton
Laura Roden*

Executive Leadership

Robertson Clay Jones
President and Chief Executive Officer

Thomas A. Sa
Executive Vice President
Chief Operating Officer and
Interim Chief Financial Officer

Christopher Edmonds-Waters
Executive Vice President
Chief People and Culture Officer

Susan S. Just
Executive Vice President
Chief Credit Officer

Deborah K. Reuter
Executive Vice President
Chief Risk Officer and
Corporate Secretary

Janisha Sabnani
Executive Vice President
General Counsel

Glen E. Shu
Executive Vice President
President of Specialty Finance Group

Sachin M. Vaidya
Executive Vice President
Chief Information Officer

Dustin M. Warford
Executive Vice President
Chief Banking Officer

Karol Watson
Executive Vice President
Operations Executive

May K. Y. Wong
Executive Vice President
Controller

*Not standing for election at the Annual Meeting of Shareholders.

To get further information on Heritage Commerce Corp, or to receive regular financial updates, please visit our website at **HeritageCommerceCorp.com** and click on *"Information Request."*

Member FDIC

Subsidiary Bank Offices
Heritage Bank of Commerce

San Jose Main
224 Airport Parkway, Suite 100
San Jose, CA 95110
408.947.6900

Danville
387 Diablo Road
Danville, CA 94526
925.314.2851

Fremont
3137 Stevenson Boulevard
Fremont, CA 94538
510.445.0400

Gilroy
7598 Monterey Street, Suite 110
Gilroy, CA 95020
408.842.8310

Hollister
351 Tres Pinos Road, Suite 102A
Hollister, CA 95023
831.637.2152

Livermore
1987 First Street
Livermore, CA 94550
925.791.4360

Los Altos
419 S. San Antonio Road
Los Altos, CA 94022
650.941.9300

Los Gatos
15575 Los Gatos Boulevard,
Suite B
Los Gatos, CA 95032
408.356.6190

Morgan Hill
18625 Sutter Boulevard, Suite 100
Morgan Hill, CA 95037
408.778.2320

Oakland
1111 Broadway, Suite 1650
Oakland, CA 94607
510.869.7000

Palo Alto
325 Lytton Avenue, Suite 100
Palo Alto, CA 94301
650.321.0500

Pleasanton
300 Main Street
Pleasanton, CA 94566
925.314.2876

Redwood City
2400 Broadway, Suite 100
Redwood City, CA 94063
650.298.7000

San Francisco
120 Kearny Street, Suite 2300
San Francisco, CA 94108
415.229.8400

San Mateo
400 S. El Camino Real, Suite 150
San Mateo, CA 94402
650.645.6480

San Rafael
999 Fifth Avenue, Suite 100
San Rafael, CA 94901
415.456.6000

Walnut Creek
1990 N. California Boulevard
Suite 100
Walnut Creek, CA 94596
925.287.4818

Bay View Funding

Administrative Office
224 Airport Parkway, Suite 200
San Jose, CA 95110
650.294.6600

Heritage Commerce Corp Investor Relations Contact

Deborah K. Reuter
Executive Vice President
Chief Risk Officer &
Corporate Secretary
408.947.6900

Transfer Agent

Equiniti Trust Company, LLC
EQ Shareowner Services
1110 Centre Pointe Curve,
Suite 101
Mendota Heights, MN 55120
800.468.9716

Independent Auditors

Crowe LLP
One Mid America Plaza, Suite 600
Oakbrook Terrace, IL 60181
630.574.7878

Corporate Counsel

Buchalter
A Professional Corporation
1000 Wilshire Boulevard,
Suite 1500
Los Angeles, CA 90017
213.891.0700

HeritageCommerceCorp.com

224 Airport Parkway, San Jose, CA 95110

408.947.6900

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