INSTRUCTIONS TO BRANCH EMPLOYEES:

This "digital" CRA Public File replaces any hardcopy files previously maintained at the branch. Each branch (other than WR) must still have the CRA Notice shown on the next page posted in the lobby.

Anyone who requests to see our Community Reinvestment Act (CRA) Public File must be provided:
1. A printout of this packet WITHOUT the first two pages
2. A current Internal Fee Schedule printed from Deposit Forms Library (SSS staff can print one)
3. Checking and Savings brochures from Deposit Forms Library upon request

If questions arise, or the person wants to make a comment about our CRA performance, please contact Sara Arnett at 308-583-2262 x 1102. Thank you.

Heritage Bank

BRANCH NOTICE
COMMUNITY REINVESTMENT ACT NOTICE

Under the Federal Community Reinvestment Act (CRA), the Federal Deposit Insurance Corporation (FDIC) evaluates our record of helping to meet the credit needs of this community consistent with safe and sound operations. The FDIC also takes this record into account when deciding on certain applications submitted by us.

Your involvement is encouraged.

You are entitled to certain information about our operations and our performance under the CRA. You may review today the public section of our most recent CRA Performance Evaluation, prepared by the FDIC, and a list of services provided at this branch. You may also have access to the following additional information, which we will make available to you at this branch within five calendar days after you make a request to us: (1) a map showing the assessment area containing this branch, which is the area in which the FDIC evaluates our CRA performance in this community; (2) information about our branches in this assessment area; (3) a list of services we provide at those locations; (4) data on our lending performance in this assessment area; and (5) copies of all written comments received by us that specifically relate to our CRA performance in this assessment area, and any responses we have made to those comments. If we are operating under an approved strategic plan, you may also have access to a copy of the plan.

At least 30 days before the beginning of each quarter, the FDIC publishes a nationwide list of the banks that are scheduled for CRA examination in that quarter. This list is available from the Regional Director, Division of Compliance and Consumer Affairs, FDIC, 1100 Walnut St, Box #11, Kansas City, MO 64106. You may send written comments about our performance in helping to meet community credit needs to Sara Arnett, Heritage Bank CRA Officer, P.O. Box 487, Wood River, NE 68883 and the FDIC Regional Director. You may also submit comments electronically through the FDIC's web site at www.fdic.gov/regulations/cra. Your letter, together with any response by us, will be considered by the FDIC in evaluating our CRA performance and may be made public.

You may ask to look at any comments received by the FDIC Regional Director. You may also request from the FDIC Regional Director an announcement of our applications covered by the CRA filed with the FDIC. We are an affiliate of Heritage Group, Inc., a bank holding company. You may request from the Officer in Charge of Supervision of the Federal Reserve Bank of Kansas City, P.O. Box 446, Kansas City, MO 64141, an announcement of applications covered by the CRA filed by bank holding companies.

Heritage Bank

CRA PUBLIC FILE

Heritage Bank operates banking offices in many Nebraska markets, and is proud of its heritage in each of the communities we serve. We encourage you to stop into our offices in Aurora, Broken Bow, Grand Island, Hastings, Kearney, Loup City, Neligh, Orleans, Red Cloud, St. Paul, Stromsburg and Wood River to learn more about our financial services.

ASSESSMENT AREA:

The map attached reflects Heritage Bank's assessment area defined for CRA purposes. The assessment area includes the following counties and census tracts:

COUNTY	CENSUS TRACTS
Hall County	0001 through 0014
Hamilton County	9691, 9692, 9693
Adams County	9654 through 9662
Polk County	9600, 9601
Buffalo County	9689 through 9697
Antelope County	9796, 9797, 9798
Clay County	9921, 9922
Howard County	9705, 9706
Sherman County	9701
Valley County	9713, 9714
Custer County	9717, 9718, 9719, 9720
York County	9696, 9697, 9698, 9699
Phelps County	9670, 9671, 9672
Webster County	9650, 9651
Harlan County	9642
Franklin County	9646, 9647
Kearney County	9666, 9667
Madison County	9606 through 9613

HERITAGE BANK PRODUCTS AND SERVICES:

Heritage Bank offers a full array of financial services at all of nearly all of our banking offices in each of the communities we serve. In addition, Heritage Bank offers free Internet Banking, Mobile Banking and Telephone Banking services available 24 hours a day / 7 days a week. Complimentary bank-by-mail envelopes are available for your convenience.

- Consumer loans
- Home mortgage loans
- Small business loans
- Agricultural loans
- Credit cards
- Debit Cards
- Commercial Remote Deposit Capture
- Farm & Business Accounting
- Trust Services, Asset Management & Retirement Plans
- Telephone, Internet & Mobile Banking, including Bill Pay, Mobile Deposit Capture, External Account Linking
- Checking accounts
- Savings accounts
- Certificates of Deposit
- Individual Retirement Accounts
- Health Savings Account
- Email or CD-ROM Statements
- Safe deposit boxes

For detailed information about our products and services, please visit www.bankonheritage.com or ask us for a Checking or Savings product brochure. A complete fee schedule relative to our depository accounts and ancillary services is attached.

LOAN-TO-DEPOSIT RATIOS:

Heritage Bank's loan-to-deposit ratios are disclosed below in accordance with CRA regulations.

1st Quarter 2025	53%	3rd Quarter 2025	63%
2nd Quarter 2025	57%	4th Quarter 2025	67%

LIST OF HERITAGE BANK OFFICES, ADDRESSES, GEOGRAPHIES, AND HOURS OF OPERATION:

Our banking office locations and normal banking hours are described below. However, our banking professionals are willing to assist customers outside of normal business hours if a need to do so arises. Any offices opened, acquired or closed during the past two years are identified with an asterisk (*).

Heritage Bank - Aurora 1101 12th Street Aurora NE 68818 (402) 694-3136	The Aurora office is located in Hamilton County, Nebraska, census tract 9893. The Main Bank is open to the public 9-3 Monday-Friday. The drive-in across the street at 1110 L Street is open 7:45-5:00 Monday-Friday, 8:30-11 Saturday. The Aurora Mall Branch at 1320 16th Street closed 8/26/11.
Heritage Bank – Doniphan* 605 6th Street Doniphan NE 68832 (402) 845-4596	The Doniphan office was located in Hall County, Nebraska, census tract 0013. This facility was closed effective 10/25/19.
Heritage Bank - Grand Island 1333 N. Webb Road Grand Island NE 68803 (308) 398-4000	The Grand Island office is located in Hall County, Nebraska, census tract 0004. The lobby is open 9-3 Monday-Friday. The drive-in lanes are open 8-5:30 Monday-Friday and 9-12 Saturday.
Heritage Bank – Hastings Main: 800 W. 3rd Street Hastings NE 68901 (402) 463-6611	The Hastings office is located in Adams County, Nebraska, census tract 9657. The lobby is open 9-4:30 Monday-Friday. The drive-up is open 7:30-6 Monday-Friday, 7:30-12 Saturday. The Main walk-up is open 7:30-9 and 4:30-6 Monday-Friday, 7:30-12 Saturday. The Hastings branch was formerly known as City National Bank & Trust, and was merged into Heritage Bank in May 2003. The West branch closed on 2/1/14.
Heritage Bank – Kearney* 103 W. 25th Street Kearney NE 68847 (308) 237-5990	The downtown Kearney office was located in Buffalo County, Nebraska, census tract 9695. This branch was opened in October 2002 and closed 10/12/20.

Heritage Bank – Kearney 315 W 60th Street, Suite 100 Kearney NE 68845 (308) 698-5000	The north Kearney office is located in Buffalo County, Nebraska, census tract 9692.01. The lobby is open 9-3 Monday-Friday. The drive-in is open 8-5 Monday-Friday. This branch was opened in December 2004.
Heritage Bank - Neligh 305 Main Street Neligh NE 68756 (402) 887-4140	The Neligh office is located in Antelope County, Nebraska, census tract 9797. The lobby is open 9-3:30 Monday-Friday. The drive-up lane is open 8:30-4:30 Monday-Friday.
Heritage Bank - Stromsburg 200 East Third Street Stromsburg NE 68666 (402) 764-4341	The Stromsburg office is located in Polk County, Nebraska, census tract 9872. The lobby is open 9-3:30 Monday-Friday. The drive-up lane is open 8-5 Monday-Friday.
Heritage Bank - Wood River 110 E. 9th Street Wood River NE 68883 (308) 583-2262	The Wood River office is located in Hall County, Nebraska, census tract 0014. The lobby is open to the public 9-3 Monday-Friday. The Collins Point drive-in branch is open 3pm-5pm Monday-Friday (no longer open Saturday mornings eff. 11/8/24).
Heritage Bank Mobile Branch	Beginning in April 2004, Heritage Bank began operating a mobile branch bank in Hall, Adams, and Buffalo Counties in Nebraska during normal banking hours. The Mobile Branch services are inactive at this time.
Heritage Bank – Loup City 734 'O' Street PO Box 543 Loup City NE 68853 (308) 745-1500	Heritage Bank assumed the deposits of the former Sherman County Bank in February 2009. The Loup City office is located in Sherman County, Nebraska, census tract 9701. The lobby is open to the public 9-4 Monday-Friday. The drive-in is open 8-5 pm Monday-Friday and 9-11:30 am Saturday.
Heritage Bank – St. Paul 821 2nd Street / Hwy 281 PO Box 84 St. Paul NE 68873 (308) 754-5400	Heritage Bank assumed the deposits of the former Sherman County Bank in February 2009. The St. Paul office is located in Howard County, Nebraska, census tract 9706. The lobby is open to the public 9-4 Monday-Friday. The drive-in is open 8-5 Monday-Friday.
Heritage Bank – Broken Bow 2525 Heritage Drive Broken Bow, NE 68822 308-872-6688	Heritage Bank opened a Loan Production Office at 946 South D Street, Broken Bow on 4/12/10. State approval to operate as a full-service branch was received in June 2010. This location was closed 3/9/12 and the new office opened at 2525 Heritage Drive 3/12/12. The branch office is located in Custer County, census tract 9719. The lobby is now open Monday-Friday 8:30-4:30 and drive-up 8-5 Monday-Friday.

Heritage Bank – Red Cloud 126 W 4th Avenue Red Cloud, NE 68970 402-746-2251	Heritage Bank acquired Peoples-Webster County Bank effective 12/1/13. This office is located in Webster County, census tract 9651. The lobby is open 9-3 Monday-Friday. The drive up is open 8-4 Monday-Friday.
Heritage Bank – Orleans 402 S Orleans Orleans NE 68966 308-473-3294	Heritage Bank acquired Peoples-Webster County Bank effective 12/1/13. This office is located in Harlan County, census tract 9642. The lobby is open 9-3 Monday-Friday. The drive up is open 8-4 Monday-Friday.
Heritage Bank – Norfolk* 2108 Taylor Ave., Suite 850 Norfolk NE 68701 402-860-7408	Heritage Bank opened a Loan Production Office in Norfolk NE on or about 7/24/23. It became a full service branch 10/23/23. The office is located in Madison County, census tract 9608.01. Lobby hours are 8:30-4:00 Monday-Friday.

FREE HERITAGE BANK ATM LOCATIONS:

In addition to our full-service banking facilities, we currently have many free ATM locations for our customers' use. Please see a current listing on our website at http://www.bankonheritage.com/atm-locations/ or ask for a current listing at any of our branch offices.

HMDA DATA:

Heritage Bank became subject to HMDA recordkeeping rules beginning with HMDA year 2014, was exempt 2020-22, and then subject again 2023 forward. We are happy to provide you with a printed copy of our HMDA Disclosure Statements upon request. Alternatively, you may access them via a link on our website at http://www.bankonheritage.com/hmda-disclosure-statements/.

PUBLIC COMMENTS:

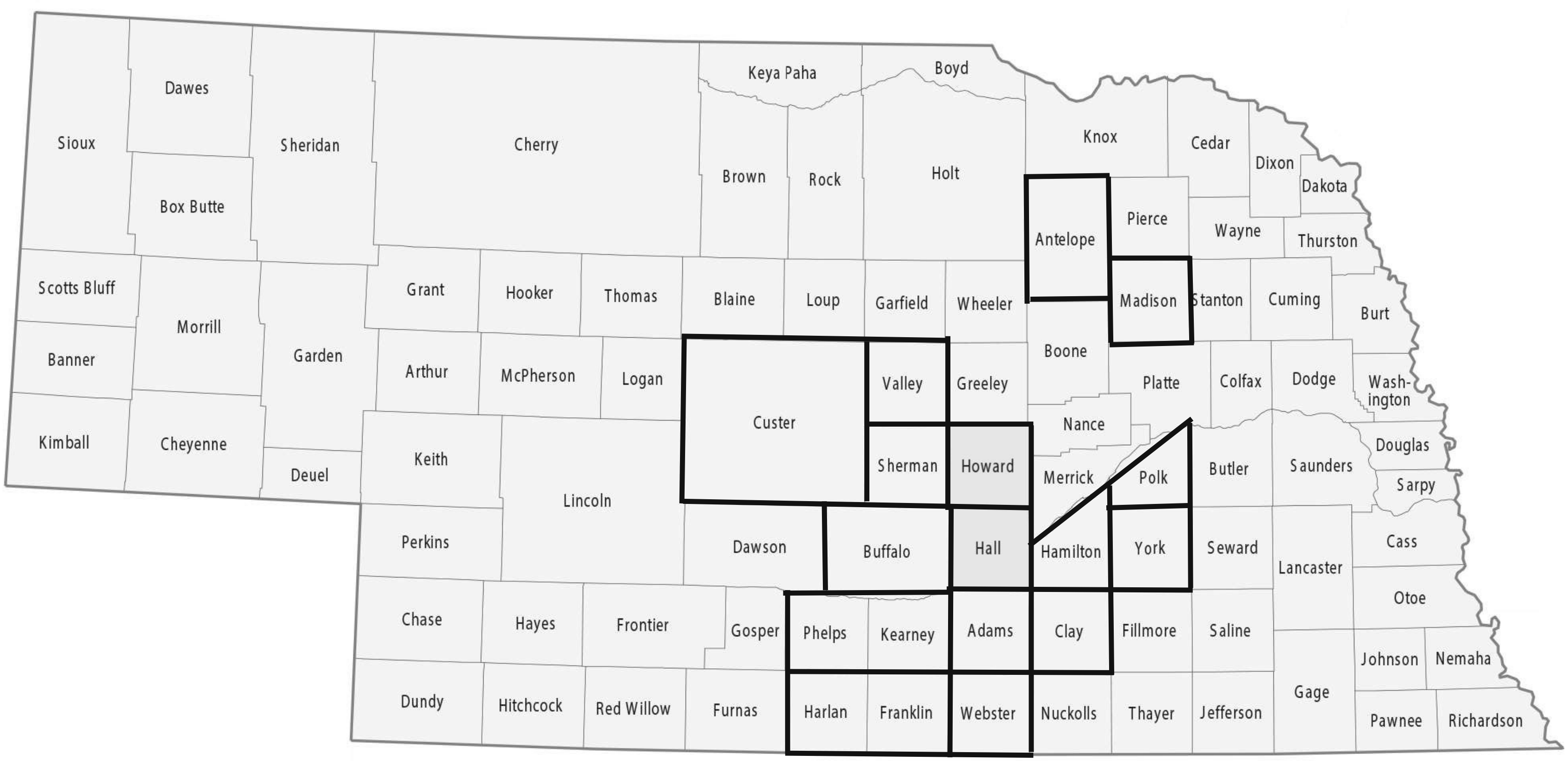
Unless included with this packet, Heritage Bank has not received any public comments about its CRA performance in the current year or prior two calendar years.

FOR ADDITIONAL INFORMATION:

We take pride in our many years of local ownership and management of banks throughout Nebraska. We have a strong record of commitment to the communities we serve. If you have comments or questions in regard to the information presented herein, please send them to Heritage Bank, Attention: Sara Arnett / CRA Officer, P.O. Box 487, Wood River, NE 68883. Thank you for your interest.

Heritage Bank CRA Assessment Area Map 7/13/23

Counties outlined are included in the bank's CRA Assessment Area.
Counties highlighted yellow represent the Grand Island MSA.



PUBLIC DISCLOSURE

September 14, 2023

COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION

Heritage Bank
Certificate Number: 17145

110 E 9th Street
Wood River, Nebraska 68883

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Kansas City Regional Office

1100 Walnut Street, Suite 21
Kansas City, Missouri 64106

This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory.**

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The Lending Test is rated Satisfactory.

- The loan-to-deposit ratio is less than reasonable given the bank's size, financial condition, and assessment areas' credit needs.
- Overall, the majority of small farm, small business, and home mortgage loans reviewed were located within the assessment areas.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes and individuals of different income levels.
- The institution did not receive any Community Reinvestment Act (CRA) complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

The Community Development Test is rated Satisfactory.

- The institution demonstrates adequate responsiveness to the community development needs in its assessment areas through community development loans, qualified investments, and community development services, as appropriate. Examiners considered the institution's capacity and the need and availability of such opportunities for community development in the assessment areas.

DESCRIPTION OF INSTITUTION

Heritage Bank is headquartered in Wood River, Nebraska, and continues to be wholly owned by Heritage Group, Inc., a one-bank holding company located in Aurora, Nebraska. The bank received a CRA Rating of "Satisfactory" at the previous FDIC Performance Evaluation dated November 2, 2020, which followed Interagency Intermediate Small Bank Examination Procedures.

In addition to the main office, Heritage Bank operates 13 full service branch offices in Nebraska. The bank offers traditional loan products including construction and land development, commercial, agricultural, home mortgage, and consumer loans. The bank also originates and sells home mortgage loans to the secondary market and participates in various government-sponsored loan programs. The institution offers a full line of traditional deposit services such as checking, savings, and certificate of deposit accounts. Alternative banking services include internet banking, mobile banking, remote check deposit, and ATM service for its customers throughout the assessment areas.

The bank's June 30, 2023, Consolidated Reports of Condition and Income (Call Report) reflected total assets of $601,666,000, total deposits of $443,158,000, and total loans of $147,555,000. The table below reflects the bank's loan portfolio composition.

Loan Portfolio Distribution as of 6/30/2023		
Loan Category	**$(000s)**	**%**
Construction, Land Development, and Other Land Loans	4,372	3.0
Secured by Farmland	55,846	37.8
Secured by 1-4 Family Residential Properties	16,447	11.1
Secured by Multifamily (5 or more) Residential Properties	116	0.1
Secured by Nonfarm Nonresidential Properties	16,012	10.8
Total Real Estate Loans	**92,793**	**62.8**
Commercial and Industrial Loans	11,730	8.0
Agricultural Production and Other Loans to Farmers	39,077	26.5
Consumer Loans	3,117	2.1
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	838	0.6
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	**147,555**	**100.0**
Source: Reports of Condition and Income		

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet its assessment areas' credit needs.

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires each financial institution to define one or more assessment areas within which its performance will be evaluated. Heritage Bank designated two assessment areas located within Nebraska. The assessment areas are referred in this evaluation as the Nonmetropolitan Nebraska Assessment Area and the Grand Island Metropolitan Assessment Area.

The bank added Madison County to the Nonmetropolitan Nebraska Assessment Area since the previous evaluation. There have been no other changes to the assessment areas since the previous evaluation. Refer to each assessment area section of this evaluation for further details.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation, dated November 2, 2020, to the current evaluation, dated September 18, 2023. Examiners used Interagency Intermediate Small Bank Examination Procedures to conduct the evaluation, which includes a Lending Test and a Community Development Test. Refer to the Appendices for a description of each test.

Examiners used full-scope examination procedures to evaluate Heritage Bank's performance in both assessment areas. The bank's performance in the Nonmetropolitan Nebraska Assessment Area received more weight than its performance in the Grand Island Metropolitan Assessment Area because the majority of the bank's loans, deposits, and offices are located in the Nonmetropolitan Nebraska Assessment Area.

Activities Reviewed

Agricultural loans are the bank's primary business focus followed by commercial loans and home mortgage loans. Therefore, examiners selected small farm, small business, and home mortgage loans to evaluate the bank's performance. Other loan products, such as consumer loans, do not represent major product lines. Examiners did not review any other products, as they would not provide material support for conclusions or the rating.

Examiners selected the calendar year 2022 as the review period for small farm, small business, and home mortgage loans. D&B data for 2022 provided a standard of comparison for small farm and small business lending performance. The 2020 U.S. Census data provided a standard of comparison for home mortgage lending performance.

For the Assessment Area Concentration analysis, examiners reviewed all small farm, small business, and home mortgage loans originated and purchased during the review period. For the Geographic Distribution analysis, examiners reviewed only those small farm, small business, and home mortgage loans originated in one of the bank's assessment areas. For the Borrower Profile analysis, examiners reviewed all home mortgage loans and a sample of small farm and small business loans located inside each assessment area. See the following table for details on the loan universe and samples reviewed.

Loan Products Reviewed						
Loan Category	Assessment Area Concentration		Geographic Distribution		Borrower Profile	
	#	$(000s)	#	$(000s)	#	$(000s)
Home Mortgage	43	6,462	40	5,690	40	5,69
Small Farm	73	9,751	71	9,582	44	5,83
Small Business	48	6,818	42	4,376	42	4,376
Source: Bank Data						

Small farm lending received more weight than small business and home mortgage lending when drawing conclusions under the Lending Test. This was due to agricultural loans being the bank's primary product and representing the majority of the bank's loan portfolio composition. Further, while examiners reviewed both the number and dollar volume of loans and both figures are presented throughout the evaluation, they emphasized performance by number of loans when conducting the Geographic Distribution and Borrower Profile analyses. This is because the number of loans is a better indicator of the number of farms, businesses, and individuals served.

For the Community Development Test, bank management provided examiners with data on community development loans, qualified investments, and community development services since the prior CRA evaluation dated November 2, 2020.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Heritage Bank demonstrated Satisfactory performance under the Lending Test. The bank's excellent Geographic Distribution and Assessment Area Concentration, as well as the reasonable Borrower Profile performance support this conclusion. While the Loan-to-Deposit performance is less than reasonable, this performance did not result in an adverse rating due to the bank's performance in the remaining criteria as well as the mitigating factors discussed below.

Loan-to-Deposit Ratio

Heritage Bank's loan-to-deposit ratio is less than reasonable given the institution's size, financial condition, and the assessment areas' credit needs. The bank's net loan-to-deposit ratio, calculated from Call Report data, averaged 35.2 percent over the past 11 quarters from December 31, 2020, to June 30, 2023. Examiners compared Heritage Bank's average net loan-to-deposit ratio to four other similarly-situated institutions. The institutions were selected based on their size, lending focus, and geographic location. As shown in the following table, Heritage Bank's average net loan-to-deposit ratio is below three of the four similarly-situated institutions. The loan-to-deposit ratio is low in general and is a significant decrease from the bank's performance at the previous evaluation, reflecting less than reasonable performance. At the previous evaluation, Heritage Bank had an average net loan-to-deposit ratio of 51.7 percent, reflecting a 16.5 percent drop between evaluations.

Loan-to-Deposit (LTD) Ratio Comparison		
Bank	**Total Assets as of 6/30/2023 ($000s)**	**Average Net LTD Ratio (%)**
Heritage Bank, Wood River, Nebraska	**601,666**	**35.2**
Farmers and Merchants Bank, Milford, Nebraska	877,996	34.0
Heartland Bank, Geneva, Nebraska	774,712	67.6
Bruning Bank, Bruning, Nebraska	567,837	69.4
Homestead Bank, Cozad, Nebraska	511,612	72.8
Source: Reports of Condition and Income 12/31/2020 - 6/30/2023		

The bank sold 56 secondary market loans totaling approximately $5 million since the previous evaluation that were not accounted for in the average net loan-to-deposit ratio. However, the bank's total loans decreased by approximately $48 million from June 30, 2020, to June 30, 2023. In addition, a $24 million decrease occurred between December 31, 2021, and March 31, 2022. Management attributes the decline in total loan volume to the loss of key customer relationships, large farmer retirements, and the loss of a well-established loan officer. In addition, a community contact for the Nonmetropolitan Nebraska Assessment Area noted that agricultural credit demand experienced a downward trend during the review period.

The bank continues to rely on personal calls by loan officers to potential borrowers and does not actively market in its assessment areas at this time. However, three less experienced loan officers have been hired since the previous evaluation in an attempt to increase overall loan volume.

The bank originated 473 loans totaling approximately $10.5 million under the Small Business Administration's (SBA) Paycheck Protection Program (PPP) since the previous evaluation. These loans assisted small farms and small businesses struggling with the impact of the Coronavirus pandemic.

<u>Assessment Area Concentration</u>

A substantial majority of loans reviewed, by number and dollar volume, were located inside of the bank's assessment areas. The following table provides details.

Lending Inside and Outside of the Assessment Areas										
Loan Category	**Number of Loans**				**Total**	**Dollar Amount of Loans $(000s)**				**Total**
	Inside		**Outside**			**Inside**		**Outside**		
	#	**%**	**#**	**%**	**#**	**$**	**%**	**$**	**%**	**$(000s)**
Small Farm	71	97.3	2	2.7	73	9,582	98.3	169	17	9,751
Small Business	42	87.5	6	12.5	48	4,376	64.2	2,442	35.8	6,818
Home Mortgage	40	93.0	3	7.0	43	5,690	88.1	772	11.9	6,462
Total	**153**	**93.3**	**11**	**6.7**	**164**	**19,648**	**85.3**	**3,383**	**14.7**	**23,031**
Source: Bank Data *Due to rounding, totals may not equal 100.0%*										

<u>Geographic Distribution</u>

The geographic distribution of loans reflects excellent dispersion throughout the assessment areas. Examiners focused on the percentage of loans in the assessment areas' low- and moderate-income census tracts, as applicable. Excellent performance in the Nonmetropolitan Nebraska Assessment Area, which received more weight in arriving at overall conclusions, supports this conclusion. Reasonable performance was noted in the less heavily weighted Grand Island Metropolitan Assessment Area. Detailed discussion of the bank's performance is included in the individual assessment area sections of this evaluation.

<u>Borrower Profile</u>

The distribution of borrowers reflects reasonable penetration among businesses and farms of different sizes and individuals of different income levels. The bank had reasonable performance in this criterion in both assessment areas.

Examiners focused on the percentage of small business and small farm loans to businesses and farms with gross annual revenues of $1 million or less, and the percentage of home mortgage loans to low- and moderate-income borrowers. Detailed discussion of the bank's performance is included in the individual assessment area sections of this evaluation.

Response to Complaints

The institution has not received any complaints regarding its CRA performance since the previous evaluation. As a result, this criterion did not affect the Lending Test rating.

COMMUNITY DEVELOPMENT TEST

Heritage Bank demonstrated adequate responsiveness to the community development needs of its assessment areas through community development loans, qualified investments, and community development services. Examiners considered the bank's capacity and the need and availability of such activities. Since the bank was responsive to the community development needs of its assessment areas, community development activities benefitting broader statewide and regional areas were also included in the analysis.

Community Development Loans

Heritage Bank originated 524 community development loans, totaling approximately $19.3 million, during the evaluation period. This activity includes 473 SBA PPP loans totaling approximately $10.5 million. These loans helped to promote economic development by financing small businesses as they struggled with the impact of the Coronavirus pandemic. In addition, the above figures include PPP loans extended outside the assessment areas, but in a broader statewide or regional area. The loans are included in the analysis since they meet the purpose of community development and the bank has appropriately addressed the community development needs within its assessment areas.

The volume of community development loans represented 3.21 percent of Heritage Bank's total assets and 13.26 percent of net loans as of June 30, 2023. Examiners compared the bank's level of community development lending to four comparable institutions. Heritage Bank's community development lending performance is comparable to the four comparable institutions' performance, which ranged from 2.2 percent to 7.8 percent of total assets and from 6.8 percent to 11.8 percent of net loans. Each of the comparable institutions and Heritage Bank had similar levels of PPP loans that were considered for their respective CRA evaluations.

Heritage Bank originated 27 community development loans benefitting the broader statewide or regional area outside of the bank's assessment areas, which included 25 PPP loans for approximately $422,000.

The following tables illustrate the community development loans by purpose, year, and area.

Community Development Lending by Year										
Activity Year	**Affordable Housing**		**Community Services**		**Economic Development**		**Revitalize or Stabilize**		**Totals**	
	#	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(00 s)**
2020 (Partial)	-	-	-	-	-	-	2	11	**2**	**117**
2021	4	2,015	1	320	483	11,360	7	861	**495**	**14,556**
2022	5	226	2	75	7	3,023	6		**20**	**4,011**
YTD 2023	-	-	-	-	3	255	4	360	**7**	**615**
Total	**9**	**2,241**	**3**	**395**	**493**	**14,638**	**19**	**2**		
Source: Bank Data										

Community Development Lending by Assessment Area										
Assessment Area	**Affordable Housing**		**Community Services**		**Economic Development**		**Revitalize or Stabilize**		**Totals**	
	#	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**
Nonmetropolitan Nebraska Assessment Area	1	25	2	75	358	11,840	16	1	**377**	**13,725**
Grand Island Metropolitan Assessment Area	7	2,181	1	320	110	2,376	2	96	**120**	**4,973**
Regional Area	1	35	-	-	25	422	1	144	**27**	**601**
Total	**9**	**2,241**	**3**	**395**	**493**	**14,638**	**19**	**2,025**	**524**	**19,299**
Source: Bank Data										

Qualified Investments

Heritage Bank made 175 qualified investments totaling approximately $731,000. The dollar amount of qualified investments represented 0.12 percent of total assets and 0.23 percent of total securities as of June 30, 2023. Examiners compared the bank's level of qualified investments to four comparable banks. The comparable banks' qualified investments ranged from 0.14 percent to 1.54 percent of total assets and from 0.61 percent to 5.42 percent of total securities. The bank's level of performance is below that of the comparable banks; however, the bank has increased the number and dollar amount of qualified investments since the previous evaluation.

The bank made six qualified investments totaling approximately $501,000 benefitting the broader statewide or regional area outside the bank's assessment areas.

The following table illustrates the bank's qualified investments by purpose and year.

Qualified Investments by Year										
Activity Year	**Affordable Housing**		**Community Services**		**Economic Development**		**Revitalize or Stabilize**		**Totals**	
	#	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**
Prior Period	-	-	-	-	-	-	-	-	**-**	**-**
2020 (Partial)	-	-	-	-	-	-	-	-	**-**	**-**
2021	-	-	-	-	-	-	1	100	**1**	**100**
2022	-	-	-	-	-	-	1	500	**1**	**500**
YTD 2023	-	-	-	-	-	-	-	-	**-**	**-**
Subtotal	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**600**	**2**	**600**
Qualified Grants & Donations	2	15	101	88	39	19	31	9	**173**	**131**
Total	**2**	**15**	**101**	**88**	**39**	**19**	**33**	**609**	**175**	**731**
Source: Bank Data										

Community Development Services

Heritage Bank personnel provided 74 instances of financial expertise or technical assistance to community development organizations during the evaluation period. Examiners compared the bank's performance to four comparable institutions. Heritage Bank's performance exceeded the comparable banks' performances by being the second highest in count of services completed, which had a range of 37 to 87 community development services. The bank had several qualified community development services number of hours committed and the services meeting the community development needs of the bank's assessment areas.

The following table illustrates the bank's community development services by purpose and year.

Community Development Services					
Activity Year	**Affordable Housing**	**Community Services**	**Economic Development**	**Revitalize or Stabilize**	**Totals**
	#	**#**	**#**	**#**	**#**
2020 (Partial)	-	3	-	1	4
2021	3	17	5	-	25
2022	1	16	2	-	
2023 (YTD)	2	19	5	-	26
Total	**6**	**55**	**12**	**1**	**74**
Source: Bank Data					

Below are notable examples of the bank's community development services.

- Bank personnel worked on an application for an affordable housing grant.
- A bank employee serves as a member of an economic development organization that operates in an underserved census tract.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

NONMETROPOLITAN NEBRASKA ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE NONMETROPOLITAN NEBRASKA ASSESSMENT AREA

The Nonmetropolitan Nebraska Assessment Area consists of Hamilton, Adams, Polk, Buffalo, Antelope, Clay, Sherman, Valley, Custer, York, Phelps, Webster, Harlan, Franklin, Kearney, and Madison counties in Nebraska. Heritage Bank operates eleven full-service offices in this assessment area. Of the counties within the assessment area, eight were designated distressed and/or underserved areas throughout portions of the evaluation period.

<u>Economic and Demographic Data</u>

The following table provides select demographic data for the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	**#**	**Low % of #**	**Moderate % of #**	**Middle % of #**	**Upper % of #**	**NA* % of #**
Geographies (Census Tracts)	60	3.3	11.7	68.3	16.7	0.0
Population by Geography	200,617	3.6	9.4	62.7	24.3	0.0
Housing Units by Geography	92,665	3.2	10.0	64.8	22.0	0.0
Owner-Occupied Units by Geography	57,919	1.7	8.0	66.1	24.2	0.0
Occupied Rental Units by Geography	23,769	7.2	14.1	57.9	20.8	0.0
Vacant Units by Geography	10,977	2.7	11.4	72.6	13.3	0.0
Businesses by Geography	20,321	1.7	9.5	67.1	21.7	0.0
Farms by Geography	3,972	0.4	4.3	84.7	10.7	0.0
Family Distribution by Income Level	52,016	17.4	17.5	22.9	42.2	0.0
Household Distribution by Income Level	81,688	22.5	16.1	18.6	42.8	0.0
Median Family Income Non-MSAs - NE		$71,424	Median Housing Value			$141,876
			Median Gross Rent			$711
			Families Below Poverty Level			7.0%

Source: 2020 U.S. Census and 2022 D&B Data
Due to rounding, totals may not equal 100.0%
(*) The NA category consists of geographies that have not been assigned an income classification.

According to the 2020 U.S. Census and 2022 D&B data, the assessment area has experienced growth since the previous evaluation with a total population increase of 35,965 residents and housing increase of 17,328 units. Kearney and Hastings continue to be the largest communities in the assessment area, with estimated populations of 33,790 and 25,152 based on the 2020 U.S. Census. Additionally, the Nonmetropolitan Nebraska Assessment Area was expanded since the previous evaluation and now includes the community of Norfolk, which has a population of 24,955 based on the 2020 U.S. Census. Additionally, the number of farms and businesses operating in the assessment area increased by 942 farms and 7,202 businesses, respectively.

The assessment area contains a mixture of rural and urban areas. The three largest business segments are services, agricultural, and retail trade, which represents 29.7, 16.4, and 10 percent of the businesses in the assessment area.

Examiners used information from the FFIEC to analyze home mortgage loans under the Borrower Profile analysis. The following table reflects the FFIEC-estimated 2022 median family income for the Nonmetropolitan Nebraska Assessment Area.

Median Family Income Ranges				
Median Family Incomes	**Low <50%**	**Moderate 50% to <80%**	**Middle 80% to <120%**	**Upper ≥120%**
2022 ($80,900)	<$40,450	$40,450 to <$64,720	$64,720 to <$97,080	≥$97,080
Source: FFIEC				

Competition

The Nonmetropolitan Nebraska Assessment Area has a high level of banking competition. Per the June 30, 2022 FDIC Summary of Deposits, there are 59 financial institutions operating 153 offices within the Nonmetropolitan Nebraska Assessment Area. Heritage Bank ranks seventh with a deposit market share of 3.66 percent. Agricultural financing competition also comes from non-bank entities with options for operating, machinery, and land loans.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the area's credit needs. This information helps determine whether local financial institutions are responsive to those needs. It also shows what credit and community development opportunities are available.

Examiners contacted a representative of an agricultural services organization within the assessment area. The representative stated that the agricultural economy was overall stable; however, the representative noted a downward trend of credit demand for agricultural loans with some farms having financial problems from 2022 onwards. The representative expects that loan demand will be in an upward trajectory in 2024. The representative stated that they have not heard of any negative experience customers have had with Heritage Bank or other institutions in the assessment area.

Credit and Community Development Needs and Opportunities

Considering information from bank management, demographic and economic data, and the community contact, examiners determined that agricultural, business, and home mortgage loans are all primary credit needs in the assessment area.

The assessment area also has community development needs and opportunities for affordable housing, economic development, and revitalization and stabilization.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE NONMETROPOLITAN NEBRASKA ASSESSMENT AREA

LENDING TEST

Heritage Bank demonstrated reasonable performance under the Lending Test in the Nonmetropolitan Nebraska Assessment Area. Excellent performance under the Geographic Distribution test and reasonable performance under the Borrower Profile criteria support this conclusion.

Geographic Distribution

The geographic distribution of loans in the Nonmetropolitan Nebraska Assessment Area is excellent. Excellent small farm and home mortgage lending performance and reasonable small business lending performance support this conclusion.

Small Farm Loans

The geographic distribution of small farm loans reflects excellent dispersion throughout the Nonmetropolitan Nebraska Assessment Area. The bank's lending to farms in low- and moderate-income census tracts significantly exceeded the percentage of farms located in these census tracts. The following table provides details.

Geographic Distribution of Small Farm Loans					
Tract Income Level	**% of Farms**	**#**	**%**	**$(000s)**	**%**
Low	0.4	1	1.8	20	
Moderate	4.3	8	14.3	1,024	13.7
Middle	84.7	39	69.6	4,470	59.9
Upper	10.7	8	14.3	1,955	26.2
Totals	**100.0**	**56**	**100.0**	**7,469**	**100.0**
Source: 2022 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%					

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the Nonmetropolitan Nebraska Assessment Area. The bank's lending to businesses located in moderate-income census tracts exceeds the percentage of businesses located within these census tracts. The bank did not originate any business loans in low-income census tracts; however, the bank had excellent dispersion in moderate-income census tracts and the percentage of businesses in low-income census tracts is very low.

Geographic Distribution of Small Business Loans					
Tract Income Level	**% of Businesses**	**#**	**%**	**$(000s)**	**%**
Low	1.7	0	0.0	0	0.0
Moderate	9.5	5	16.7	388	11.7
Middle	67.1	17	56.7	1,865	56.2
Upper	21.7	8	26.7	1,064	32.1
Totals	**100.0**	**30**	**100.0**	**3,317**	**100.0**
Source: 2022 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%					

Home Mortgage Loans
The geographic distribution of home mortgage loans reflects excellent dispersion throughout the Nonmetropolitan Nebraska Assessment Area. The bank's lending in low- and moderate-income census tracts significantly exceeded the percentage of owner-occupied housing units located in these census tracts. The following table provides details.

Geographic Distribution of Home Mortgage Loans					
Tract Income Level	**% of Owner-Occupied Housing Units**	**#**	**%**	**$(000s)**	**%**
Low	1.7	1	3.6	96	2
Moderate	8.0	6	21.4	363	8.6
Middle	66.1	13	46.4	2,507	59.5
Upper	24.2	8	28.6	1,247	29.6
Total	**100.0**	**28**	**100.0**	**4,213**	**100.0**
Source: 2020 U.S. Census, Bank Data					

Borrower Profile
The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes and individuals of different income levels. Excellent small business lending performance and reasonable small farm and home mortgage lending performance supports this conclusion.

Small Farm Loans
The distribution of borrowers reflects reasonable penetration among farms of different sizes. The bank's lending activity to farms with gross annual revenues of $1 million or less is reasonably comparable to the percentage of farms reporting revenue in this category. The following table provides details.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	**% of Farms**	**#**	**%**	**$(000s)**	**%**
<=$1,000,000	97.8	28	93.3	3,566	93.9
>$1,000,000	1.5	2	6.7	230	6.1
Revenue Not Available	0.7	0	0.0	0	0.0
Total	**100.0**	**30**	**100.0**	**3,796**	**100.0**
Source: 2022 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%					

Small Business Loans
The distribution of borrowers reflects excellent penetration among businesses of different sizes. The bank's lending distribution is significantly above the percentages of businesses with gross annual revenues of $1 million or less. The following table provides details.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	**% of Businesses**	**#**	**%**	**$(000s)**	**%**
<=$1,000,000	82.1	28	93.3	2,453	74.0
>$1,000,000	4.7	2	6.7	864	26.0
Revenue Not Available	13.2	0	0.0	0	0.0
Total	**100.0**	**30**	**100.0**	**3,317**	**100.0**
Source: 2022 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%					

Home Mortgage Loans
The distribution of home mortgage loans reflects reasonable penetration among individuals of different income levels, including low- and moderate-income borrowers. The bank's lending to low- and moderate-income borrowers is below demographics. However, the bank's performance is reasonable when considering the poverty level for the assessment area, the price of homes within the assessment, and the interest rate environment. These factors all contribute to low- and moderate-income borrowers having a more difficult time qualifying for a home loan or even finding a home in their price range. The following table provides details.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	**% of Families**	**#**	**%**	**$(000s)**	**%**
Low	17.4	2	7.1	75	1.8
Moderate	17.5	4	14.3	150	3.6
Middle	22.9	7	25.0	933	22.1
Upper	42.2	11	39.3	2,856	67.8
Not Available	0.0	4	14.3	199	4.7
Total	**100.0**	**28**	**100.0**	**4,213**	**100.0**
Source: 2020 U.S.Census; Bank Data; Due to rounding, totals may not equal 100.0%					

COMMUNITY DEVELOPMENT TEST

Heritage Bank's demonstrated adequate responsiveness to the community development needs in the Nonmetropolitan Nebraska Assessment Area. The quantity and responsiveness of community development loans, qualified investments, and services supports this conclusion.

Community Development Loans
The bank originated 377 community development loans totaling approximately 13.7 million in the Nonmetropolitan Nebraska Assessment Area. The loans were particularly responsive to the assessment area's economic development needs. The community development activities included 341 PPP loans totaling approximately $8.2 million. The PPP loans helped farms and businesses impacted by the COVID-19 pandemic.

Community Development Lending										
Activity Year	**Affordable Housing**		**Community Services**		**Economic Development**		**Revitalize or Stabilize**		**Totals**	
	#	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**
2020	-	-	-	-	-	-	2	117	**2**	**117**
2021	-	-	-	-	348	8,562	6	800	**354**	**9,362**
2022	1	25	2	75	7	3,023	4	508	**14**	**3,631**
YTD 2023	-	-	-	-	3	255	4	360	**7**	**615**
Total	**1**	**25**	**2**	**75**	**358**	**11,840**	**16**	**1,785**	**377**	**13,725**
Source: Bank Data										

Below are notable examples of the bank's community development loans in the Nonmetropolitan Nebraska Assessment Area.

- The bank made a $2.5 million loan to revitalize and stabilize a small rural town by funding the renovation of a downtown building within an underserved county.

- The bank made a $225,000 loan to fund the creation of a small business that created two jobs for low- to moderate-income individuals.

<u>Qualified Investments</u>
Heritage Bank made 139 qualified investments totaling $216,000 in the Nonmetropolitan Nebraska assessment area. The bank had one qualified investment totaling $100,000 to assist with revitalization and stabilization totaling. The remaining investments consisted of donations and grants that provided assistance for affordable housing, community services, economic development, and revitalization and stabilization.

Qualified Investments										
	Affordable Housing		**Community Services**		**Economic Development**		**Revitalize or Stabilize**		**Totals**	
	#	**$ s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**
Qualified Grants & Donations	2	15	75	79	30	13	32	109	**139**	**216**
Source: Bank Data										

Below are notable examples of the bank's qualified investments in the Nonmetropolitan Nebraska Assessment Area.

- The bank purchased one county bond to improve the electrical infrastructure of a distressed and underserved area.

<u>Community Development Services</u>
Heritage Bank personnel provided 30 instances of financial expertise or technical assistance to community development organizations in the Nonmetropolitan Nebraska Assessment Area. The community development services were responsive to the assessment area's community service and economic development needs.

The following table illustrates the bank's community development services by year and purpose.

Community Development Services					
Activity Year	**Affordable Housing**	**Community Services**	**Economic Development**	**Revitalize or Stabilize**	**Totals**
	#	**#**	**#**	**#**	**#**
2020 (Partial)	-	2	-	-	**2**
2021	-	7	2	-	**9**
2022	-	8	2	-	**10**
YTD 2023	-	7	2	-	**9**
Total	**-**	**24**	**6**	**-**	**30**
Source: Bank Data					

GRAND ISLAND METROPOLITAN ASSESSMENT AREA – Full-Scope Review

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE GRAND ISLAND METROPOLITAN ASSESSMENT AREA

The Grand Island Metropolitan Assessment Area consists of Hall and Howard counties in Nebraska. The assessment area is located in the Grand Island, Nebraska Metropolitan Statistical Area. The bank operates three full-service offices in this assessment area.

Economic and Demographic Data

The following table provides select demographic data for the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	**#**	**Low % of #**	**Moderate % of #**	**Middle % of #**	**Upper % of #**	**NA* % of #**
Geographies (Census Tracts)	16	0.0	18.8	62.5	18.8	0.0
Population by Geography	69,370	0.0	21.7	59.3	19.1	0.0
Housing Units by Geography	28,131	0.0	21.4	59.9	18.7	0.0
Owner-Occupied Units by Geography	16,592	0.0	17.0	62.6	20.4	0.0
Occupied Rental Units by Geography	9,636	0.0	29.8	53.1	17.2	0.0
Vacant Units by Geography	1,903	0.0	17.0	71.2	11.8	0.0
Businesses by Geography	5,578	0.0	18.7	58.7	22.6	0.0
Farms by Geography	580	0.0	6.0	82.9	11.0	0.0
Family Distribution by Income Level	17,857	18.7	19.5	23.2	38.6	0.0
Household Distribution by Income Level	26,228	21.7	17.7	19.5	41.0	0.0
Median Family Income Grand Island MSA		$70,828	Median Housing Value			$157,058
			Median Gross Rent			$746
			Families Below Poverty Level			8.1%

Source: 2020 U.S. Census and 2022 D&B Data
Due to rounding, totals may not equal 100.0%
(*) The NA category consists of geographies that have not been assigned an income classification.

According to the 2020 U.S. Census and 2022 D&B data, the assessment area has experienced slight growth since the previous evaluation with a total population increase of 2,231 residents and housing increase of 1,155 units. Grand Island continues to be the largest community in the Grand Island Metropolitan Assessment Area with estimated populations of 53,131 based on the 2020 U.S. Census. Additionally, the number of farms and businesses operating in the assessment area increased by 125 farms and 1,086 businesses, respectively.

The assessment area contains a mixture of rural and urban areas. The three largest business segments are services, retail trade, and agricultural, which represent 32.5, 13.1 and 9.4 percent of businesses in the assessment area.

Examiners used information from the FFIEC to analyze home mortgage loans under the Borrower Profile analysis. The following table reflects the FFIEC-estimated 2022 median family income for the Grand Island Metropolitan Assessment Area.

Median Family Income Ranges				
Median Family Incomes	**Low <50%**	**Moderate 50% to <80%**	**Middle 80% to <120%**	**Upper ≥120%**
2022 ($72,200)	<$36,100	$36,100 to <$57,760	$57,760 to <$86,640	≥$86,640

Source: FFIEC

Competition
The Grand Island MSA Assessment Area has a high level of banking competition. According to the June 30, 2022 FDIC Summary of Deposits, there are 21 financial institutions operating 36 offices within the assessment area. Heritage Bank ranks ninth with a deposit market share of 3.1 percent. Agricultural financing competition also comes from non-bank entities with options for operating, machinery, and land loans.

Credit and Community Development Needs and Opportunities
Considering information from bank management, demographic and economic data, and the community contact, examiners determined that agricultural, business, and home mortgage loans are all primary credit needs in the assessment area. The assessment area also has community development needs and opportunities for affordable housing, economic development, and revitalization and stabilization.

CONCLUSIONS ON PERFORMANCE CRITERIA IN THE GRAND ISLAND METROPOLITAN ASSESSMENT AREA

LENDING TEST

Heritage Bank's lending activities in the Grand Island Metropolitan Assessment Area reflect reasonable performance under the Lending Test. The bank's Geographic Distribution and Borrower Profile performance supports this conclusion.

Geographic Distribution
The geographic distribution of loans in the Grand Island Metropolitan Assessment Area is reasonable. Reasonable small farm and small business lending performance supports this conclusion. While home mortgage performance was less than reasonable, this product received the least amount of weight when drawing conclusions. There are no low-income census tracts located within the Grand Island Metropolitan Assessment Area.

Small Farm Loans
The geographic distribution of small farm loans reflects reasonable dispersion throughout the Grand Island Metropolitan Assessment Area. The bank lacked lending in the moderate-income census tracts. However, only 3 of the 16 census tracts within the assessment area are moderate income, all of which are located within or near the city of Grand Island and present limited farming opportunities. In addition, there is significant banking competition that offer similar loans to Heritage Bank.

Geographic Distribution of Small Farm Loans

Tract Income Level	% of Farms	#	%	$(000s)	%
Moderate	6.0	0	0.0	0	0.0
Middle	82.9	15	100.0	2,113	0.0
Upper	11.0	0	0.0	0	0.0
Totals	**100.0**	**15**	**100.0**	**2,113**	**0.0**

Source: 2022 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%

Small Business Loans

The geographic distribution of small business loans reflects reasonable dispersion throughout the Grand Island Metropolitan Assessment Area. The bank's lending in the moderate-income census tracts reasonably compares to the percentage of businesses located in these tracts. The following table provides details.

Geographic Distribution of Small Business Loans					
Tract Income Level	**% of Businesses**	**#**	**%**	**$(000s)**	**%**
Moderate	18.7	1	8.3	25	2.4
Middle	58.7	11	91.7	1,034	97.6
Upper	22.6	0	0.0	0	0.0
Totals	**100.0**	**12**	**100.0**	**1,059**	**100.0**
Source: 2022 D&B Data; Bank Data. Due to rounding, totals may not equal 100.0%					

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects less than reasonable dispersion throughout the Grand Island Metropolitan Assessment Area. The bank lacked lending in the moderate-income census tracts. However, this product type carries the least weight when drawing conclusions.

Geographic Distribution of Home Mortgage Loans					
Tract Income Level	**% of Owner-Occupied Housing Units**	**#**	**%**	**$(000s)**	**%**
Moderate	17.0	0	0.0	0	0.0
Middle	62.6	10	83.3	1,237	83.8
Upper	20.4	2	16.7	240	16.2
Total	**100.0**	**12**	**100.0**	**1,477**	**100.0**
Source: 2020 U.S.Census; Bank Data; Due to rounding, totals may not equal 100.0%					

<u>Borrower Profile</u>

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes and individuals of different income levels. Reasonable small farm, small business and home mortgage lending performance supports this conclusion.

Small Farm Loans

The distribution of borrowers reflects reasonable penetration among farms of different sizes. The bank's lending activity to farms with gross annual revenues of $1 million or less reasonably compares to the percentage of farms reporting revenue in this category. The following table provides details.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	**% of Farms**	**#**	**%**	**$(000s)**	**%**
<=$1,000,000	96.6	11	78.6	1,527	74.7
>$1,000,000	2.2	3	21.4	516	25.3
Revenue Not Available	1.2	0	0.0	0	0.0
Total	**100.0**	**14**	**100.0**	**2,043**	**100.0**
Source: 2022 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%					

Small Business Loans

The distribution of borrowers reflects reasonable penetration among businesses of different sizes. The bank's lending activity was below the percentage of businesses with gross annual revenues of $1 million or less, but is reasonably comparable. The following provides details.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	**% of Businesses**	**#**	**%**	**$(000s)**	**%**
<=$1,000,000	81.8	9	75.0	439	41.4
>$1,000,000	5.0	3	25.0	620	58.6
Revenue Not Available	13.2	0	0.0	0	0.0
Total	**100.0**	**12**	**100.0**	**1,059**	**100.0**
Source: 2022 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%					

Home Mortgage Loans

The distribution of home mortgage loans reflects reasonable penetration among individuals of different income levels, including low- and moderate-income borrowers. The bank's distribution of loans to low- and moderate-income borrowers was below demographic information. However, 8.1 percent of families within the assessment live below the poverty level. This combined with the historically high home prices and the increasing interest rate environment contribute to low- and moderate-income borrowers having a more difficult time qualifying for a home loan or even finding a home in their price range. The following table provides details.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	**% of Families**	**#**	**%**	**$(000s)**	**%**
Low	18.7	1	8.4	40	2.7
Moderate	19.5	1	8.4	239	16.2
Middle	23.2	2	16.6	107	7.3
Upper	38.6	4	33.3	739	50.0
Not Available	0.0	4	33.3	352	23.8
Total	**100.0**	**12**	**100.0**	**1,477**	**100.0**
Source: 2020 U.S.Census; Bank Data; Due to rounding, totals may not equal 100.0%					

COMMUNITY DEVELOPMENT TEST

Heritage Bank demonstrated adequate responsiveness to the community development needs of the Grand Island Metropolitan Assessment Area. The quantity and responsiveness of community development loans, qualified investments, and services supports this conclusion.

Community Development Loans

Heritage Bank originated 120 community development loans totaling approximately $4.9 million in the Grand Island Metropolitan Assessment Area. The loans were particularly responsive to the assessment area's affordable housing and economic development needs. The community development lending activities included 107 PPP loans totaling approximately $1.8 million.

The following table illustrates the community development loans by year and purpose.

Community Development Lending										
Activity Year	**Affordable Housing**		**Community Services**		**Economic Development**		**Revitalize or Stabilize**		**Totals**	
	#	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**	**#**	**$(000s)**
2020 (Partial)	-	-	-	-	-	-	-	-	**-**	**-**
2021	4	2,015	1	320	110	2,376	1	61	**116**	**4,772**
2022	3	166	-	-	-	-	1	35	**4**	**201**
YTD 2023	-	-	-	-	-	-	-	-	**-**	**-**
Total	**7**	**2.181**	**1**	**320**	**110**	**2,376**	**2**	**96**	**120**	**4,973**
Source: Bank Data										

Below is a notable example of a community development loan in the Grand Island Assessment Area.

- The bank made a $1 million loan to fund the purchase and renovation of a transitional housing shelter.

Qualified Investments

Heritage Bank made 30 instances of financial expertise or technical assistance to community development organizations in the Grand Island Metropolitan Assessment Area. The community development services were responsive to community services and economic development needs of the assessment area. All of the qualified investments in the assessment area were in the form of donations and grants.

The following table illustrates the bank's community development services by year and purpose.

Qualified Investments										
	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	$(0 s)	#	$(000s)	#	$(000s)	#	$(000s)	#	$(000s)
Qualified Grants & Donations	-	-	24	8	6	6			**30**	**14**
Source: Bank Data										

Community Development Services

Heritage Bank personnel provided 43 instances of financial expertise or technical assistance to community development organizations in the Grand Island Metropolitan Assessment Area. The community development services were responsive to affordable housing, community services, and economic development needs of the assessment area.

The following table illustrates the bank's community development services by year and purpose.

Community Development Services					
Activity Year	**Affordable Housing**	**Community Services**	**Economic Development**	**Revitalize or Stabilize**	**Totals**
	#	#	#	#	#
2020 (Partial)	-	-	-	1	**1**
2021	3	10	3	-	**16**
2022	1	8	-	-	**9**
YTD 2023	2	12		-	**17**
Total	**6**	**30**	**6**	**1**	**43**
Source: Bank Data					

APPENDICES

INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
3) The geographic distribution of the bank's loans;
4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

Community Development Test

The Community Development Test considers the following criteria:

1) The number and amount of community development loans;
2) The number and amount of qualified investments;
3) The extent to which the bank provides community development services; and
4) The bank's responsiveness through such activities to community development lending, investment, and service needs.

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

1. Support affordable housing for low- and moderate-income individuals;
2. Target community services toward low- and moderate-income individuals;
3. Promote economic development by financing small businesses or farms; or
4. Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Institution CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Institution CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that:

(1) Has as its primary purpose community development; and
(2) Except in the case of a wholesale or limited purpose institution:
   (i) as not been reported or collected by the institution or an affiliate for consideration in the institution's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
   (ii) Benefits the institution's assessment area(s) or a broader statewide or regional area including the institution's assessment area(s).

Community Development Service: A service that:

(1) Has as its primary purpose community development;
(2) Is related to the provision of <u>financial</u> services; and
(3) Has not been considered in the evaluation of the institution's retail banking services under § 345.24(d).

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

(1) An unemployment rate of at least 1.5 times the national average;
(2) A poverty rate of 20 percent or more; or
(3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area.

Performance under applicable tests is often analyzed using only quantitative factors (e.g, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as **non-MSA):** All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of $1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of $500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.