

**HERITAGE**  
COMMERCE CORP



PRESIDIO BANK

**Creating the Premier Business Bank in the San Francisco Bay Area**

**Acquisition of Presidio Bank**

**May 16, 2019**



## Forward Looking Statement Disclaimer

This communication contains certain forward-looking information about Heritage Commerce Corp (“HTBK”), Presidio Bank (“Presidio”), and the combined company after the close of transaction that is intended to be covered by the safe harbor for “forward-looking statements” provided by the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are forward-looking statements. Such statements involve inherent risks, uncertainties, and contingencies, many of which are difficult to predict and are generally beyond the control of HTBK, Presidio and the combined company. We caution readers that a number of important factors could cause actual results to differ materially from those expressed in, or implied or projected by, such forward-looking statements. In addition of actors previously disclosed in reports filed by HTBK with the Securities and Exchange Commission (“SEC”), risks and uncertainties for each institution and the combined institution include, but are not limited to: lower than expected revenues, credit quality deterioration or a reduction in real estate values could cause an increase in the provision for credit losses and allowance for credit losses and a reduction in net earnings, increased competitive pressure among depository institutions, the ability to complete the proposed transaction, including obtaining regulatory approvals and approval by the shareholders of Presidio, or the successful integration of Presidio, or achieve expected beneficial synergies and/or operating efficiencies, in each case with in expected time-frames or at all, regulatory approvals may not be received on expected time frames or at all, the possibility that personnel changes/retention will not proceed as planned, the possibility that a change in the interest rate environment may reduce net interest margins, higher than anticipated operating expenses, the effectiveness of our risk management framework, asset/liability re-pricing risks and liquidity risks, the costs and effects of legal, compliance, and regulatory actions, changes and developments, including the impact of adverse judgments or settlements in litigation, the initiation and resolution of regulatory or other governmental inquiries or investigations, the results of regulatory examinations or reviews, changes in law or regulations, including but not limited to tax laws, general economic conditions, either nationally or in the market areas in which the entities operate or anticipate doing business, are less favorable than expected, and other risk factors described in documents filed by HTBK with the SEC.

In connection with the proposed merger, HTBK will file with the SEC a Registration Statement on Form S-4 that will include a joint proxy statement of HTBK and Presidio and a prospectus of HTBK as well as other relevant documents concerning the proposed transaction. The final joint proxy statement and will be distributed to the shareholders of HTBK and Presidio in connection with their vote on the proposed transaction.

SHAREHOLDERS OF HTBK AND PRESIDIO ARE URGED TO READ THE REGISTRATION STATEMENT AND THE JOINT PROXY STATEMENT/PROSPECTUS WHEN IT BECOMES AVAILABLE AND ANY OTHER RELEVANT DOCUMENTS FILED WITH THE SEC AS WELL AS ANY AMENDMENTS OR SUPPLEMENTS TO THOSE DOCUMENTS BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION.

The final joint proxy statement and prospectus and other relevant materials (when they become available), and any other documents filed by HTBK with the SEC, can be obtained free of charge on the SEC’s website, [www.sec.gov](http://www.sec.gov), or on HTBK’s website, [www.heritagecommercecorp.com](http://www.heritagecommercecorp.com), under the “Presentations” link or the “SEC Filings” link, or by mail to HTBK at 150 Almaden, San Jose, CA 95113, Attention: Debbie Reuter, Corporate Secretary, or by telephone at (408) 947-6900, or on Presidio’s website, [www.presidiobank.com](http://www.presidiobank.com), under the “Media & Investor” link and then the “Investor Relations” link and then the “Documents & Financial Statements” link, or by mail to Presidio Bank at One Montgomery, Suite 2300, San Francisco, CA 94104, Attention: Cheryl Whiteside, Corporate Secretary, or by telephone at (415) 229-8405.

The directors, executive officers and certain other members of management and employees of HTBK and Presidio may be deemed participants in the solicitation of proxies in favor of the Merger from their respective shareholders. Information about the directors and executive officers of Heritage is included in the proxy statement for its 2019 Annual Meeting of HTBK Shareholders, which was filed with the SEC on April 15, 2019. Information about the directors and executive officers of Presidio will be included in the joint proxy statement and prospectus regarding the proposed transaction. This presentation does not constitute an offer to sell or the solicitation of an offer to buy securities or a solicitation of any vote or approval.

# Creating a \$4.0 Billion Business Bank in the Bay Area

## Acquisition combines complementary business models and branch footprints

### Strategic Rationale

- Expands HTBK's branch presence in the San Francisco Bay Area – an ideal geographic fit
  - Bay Area continues to provide superior opportunities for a middle market business bank
- Presidio is a high quality business banking franchise with core clientele of small to mid-size businesses, similar to HTBK
- Presidio and Heritage share a strong credit culture
- Familiarity of management teams at Presidio and Heritage – multiple executives have worked together at previous banks
- Certain members of Presidio leadership team joining HTBK leadership team upon closing
- Presidio has a highly attractive core deposit franchise with \$729 million of low-cost, non-maturity deposits
- Presidio has strong profitability with return on average assets of 1.44%
- Financially compelling projected pro forma results for HTBK

### Scarcity Value

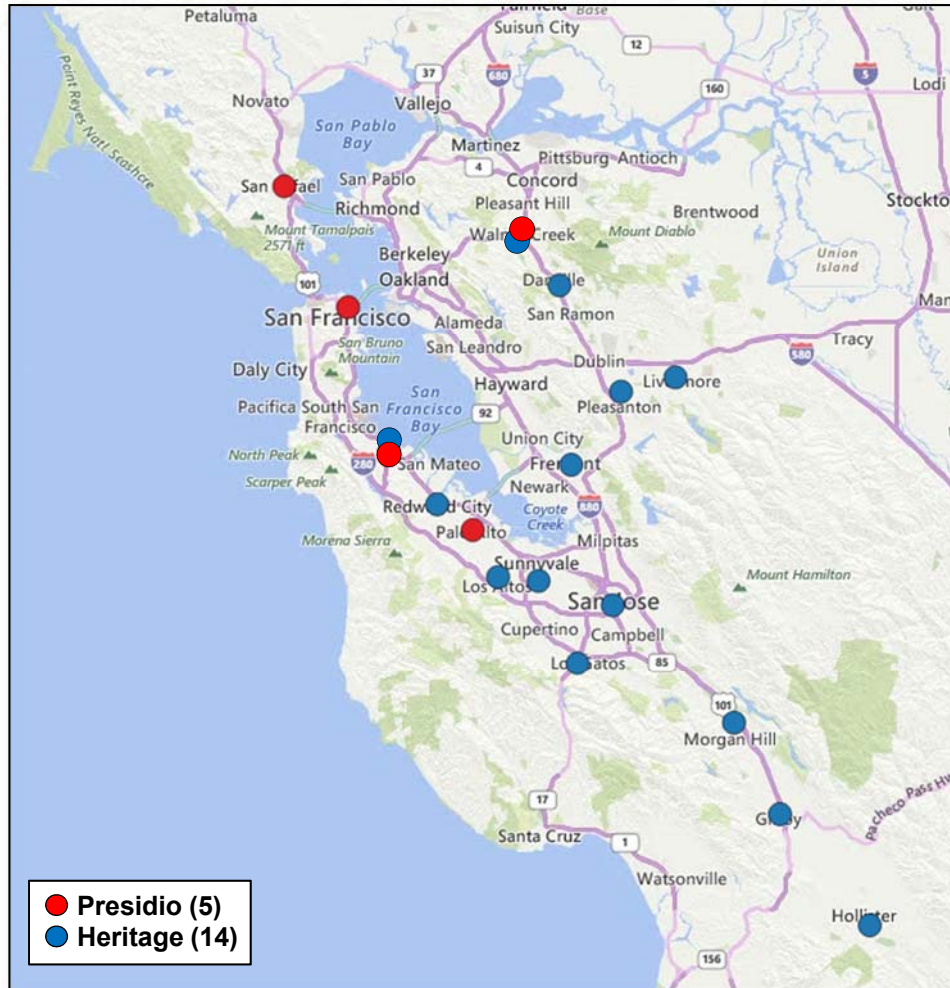
- Presidio Bank is one of the few remaining business banks in San Francisco – no comparable franchise
- Significant scarcity value for this combined franchise
- #1 deposit share rank for pro forma HTBK in the San Francisco Bay Area amongst community banks

# Overview of Presidio Bank

	As of the year ended			MRQ
	2016	2017	2018	Q1 2019
<b>Balance Sheet</b>				
Total Assets	\$ 747,503	\$ 793,858	\$ 862,464	\$ 906,059
Gross Loans	\$ 572,779	\$ 626,281	\$ 710,939	\$ 705,114
Total Deposits	\$ 663,484	\$ 704,153	\$ 758,718	\$ 793,706
Total Equity	\$ 67,362	\$ 74,762	\$ 88,660	\$ 92,619
Loans / Deposits	86.3%	88.9%	93.7%	88.8%
<b>Deposits</b>				
Noninterest Bearing Deposits (\$)	\$ 257,757	\$ 295,070	\$ 319,358	\$ 366,381
Noninterest Bearing Deposits (%)	38.8%	41.9%	42.1%	46.2%
Non-Maturity (\$)	\$ 617,072	\$ 653,884	\$ 720,723	\$ 729,343
Non-Maturity (%)	93.0%	92.9%	95.0%	91.9%
<b>Asset Quality</b>				
NPAs / Total Assets	0.14%	0.00%	0.43%	0.41%
Loan Loss Reserves / Gross Loans	1.20%	1.14%	1.05%	1.06%
<b>Income Statement</b>				
Net Interest Income	\$ 24,218	\$ 28,981	\$ 35,043	\$ 9,510
Noninterest Income	\$ 698	\$ 948	\$ 1,221	\$ 311
Noninterest Expense	\$ 16,931	\$ 18,294	\$ 20,268	\$ 5,625
Operating Revenue (1)	\$ 24,916	\$ 29,929	\$ 36,264	\$ 9,821
Provision Expense	\$ 567	\$ 298	\$ 273	\$ 24
Net Income	\$ 4,477	\$ 5,477	\$ 11,829	\$ 3,059
<b>Performance Ratios</b>				
Net Interest Margin	3.63%	4.05%	4.34%	4.64%
Yield on Loans	4.65%	4.91%	5.25%	5.50%
Cost of Total Deposits	0.15%	0.15%	0.26%	0.41%
Noninterest Income / Avg. Assets	0.10%	0.13%	0.15%	0.14%
Noninterest Expense / Avg. Assets	2.49%	2.48%	2.43%	2.60%
ROAA	0.66%	0.75%	1.42%	1.44%
ROAE	7.08%	7.60%	14.50%	13.58%
Efficiency Ratio	68.0%	61.1%	55.9%	57.3%

- Presidio is a business bank established in 2006 and headquartered in San Francisco with \$906 million in assets as of Q1 2019 and 5 full-service branches
- Accomplished leadership team with decades of experience in banking in the Bay Area
- Relationship-based business banking model built solely from organic growth – Presidio has not done any acquisitions
  - 8.5% growth for loans in Q1 2019 vs. Q1 2018
  - 4.7% growth for deposits in Q1 2019 vs. Q1 2018
- 46.2% of deposits are noninterest bearing and 91.9% are non-maturity
- Pristine credit history with NPA/Assets < 1.0% since inception
- 84% of loan portfolio from CRE and C&I
- 1.44% ROAA and 13.58% ROAE in Q1 2019
- Earnings stream driven mainly from spread income
  - 16.9% growth in operating revenue vs. Q1 2018
  - 37.5% growth in net income vs. Q1 2018
  - No revenue from gain on sale of loans

# Pro Forma Branch Map



- Logical geographic fit – expands HTBK footprint into San Francisco, Marin County, and Palo Alto
- Opportunity to consolidate two branch locations in San Mateo and Walnut Creek
- Average deposits per branch of \$159 million for Presidio
- Average deposits per branch of \$202 million for pro forma HTBK with branch consolidation<sup>(1)</sup>

# Well Positioned in the Economically Vibrant San Francisco Bay Area

## Deposit Market Share

Pro Forma HTBK will rank 1<sup>st</sup> amongst independent community banks<sup>(1)</sup> headquartered in the markets it serves

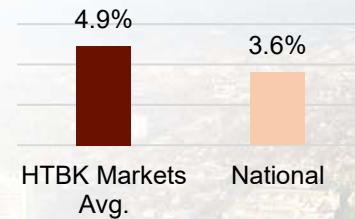
## San Francisco Bay Area Market Demographics

HTBK Market Area:  
Affluent and Growing

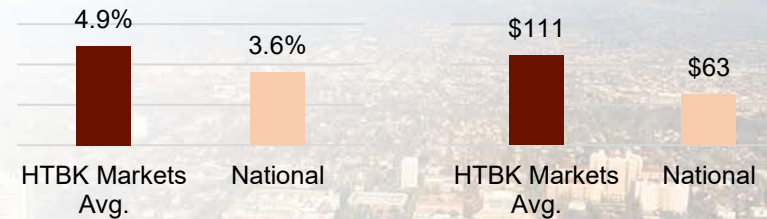
Rank	Company	# of Branches	Bay Area <sup>(2)</sup> Deposits (\$000s)	Market Share (%)
<b>1</b>	<b>Heritage Commerce Corp. - Pro Forma</b>	<b>17*</b>	<b>\$ 3,463,448</b>	<b>0.69%</b>
1	Fremont Bancorp.	21	\$ 3,426,160	0.69%
2	Mechanics Bank	29	\$ 3,356,781	0.67%
<b>3</b>	<b>Heritage Commerce Corp</b>	<b>14</b>	<b>\$ 2,705,981</b>	<b>0.54%</b>
4	Bank of Marin Bancorp	16	\$ 1,678,188	0.34%
5	Westamerica Bancorp.	16	\$ 1,229,681	0.25%
6	TriCo Bancshares	13	\$ 1,004,447	0.20%
7	Luther Burbank Corp.	3	\$ 979,321	0.20%
8	BayCom Corp	8	\$ 824,697	0.17%
9	California Bancorp	3	\$ 800,103	0.16%
<b>10</b>	<b>Presidio Bank</b>	<b>5</b>	<b>\$ 757,467</b>	<b>0.15%</b>
11	Avidbank Holdings Inc.	2	\$ 689,975	0.14%
<b>Top National Banks</b>				
1	Bank of America Corporation	194	\$ 139,584,157	27.93%
2	Wells Fargo & Co.	226	\$ 105,468,005	21.10%
3	SVB Financial Group	5	\$ 45,763,506	9.16%
4	First Repub Bank	38	\$ 38,262,434	7.66%
5	JPMorgan Chase & Co.	203	\$ 37,640,380	7.53%
6	Citigroup Inc.	93	\$ 24,436,000	4.89%
7	Comerica Inc.	30	\$ 10,236,420	2.05%
8	U.S. Bancorp	116	\$ 6,141,591	1.23%
<b>Total For Market</b>				
All Banks and Thrifts		1,383	\$ 499,768,945	-

MSA	Est. Population		
	2018 Population	Growth 2019-2024	Median HHI
San Francisco-Oakland-Berkeley, CA	4,783,590	4.9%	\$ 107,112
San Jose-Sunnyvale-Santa Clara, CA	2,024,798	4.9%	\$ 121,234
<b>HTBK Market Area</b>	<b>6,808,388</b>	<b>4.9%<sup>(3)</sup></b>	<b>\$ 111,312<sup>(3)</sup></b>
California	39,964,848	3.9%	\$ 74,605
US	329,236,175	3.6%	\$ 63,174

### 2019-2024 Projected Population Growth



### Median HHI (\$000s)



## Complementary Business Models

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**Complementary  
Strengths**

Business Banking Culture	✓	✓	✓
Deep Roots in Local Business Community	✓	✓	✓
Local Advisory Boards	✓	✓	✓
Relationship Banking	✓	✓	✓
Low Cost, Core Deposit Base	✓	✓	✓
Noninterest Bearing Deposits	<b>38%</b>	<b>46%</b>	✓
C&I Lending ≥ 25% of Total Loan Portfolio	✓	✓	✓
Disciplined Credit Culture	✓	✓	✓
Strong Profitability – (ROATCE)	<b>17.90%</b>	<b>13.58%</b>	✓
<i><u>Geographic Footprint</u></i>			
• Downtown San Francisco	-	✓	✓
• Marin County	-	✓	✓
• East Bay	✓	✓	✓
• Peninsula	✓	✓	✓
• South Bay	✓	-	✓

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Source: S&P Global Market Intelligence, earnings release data for the quarter ended 3/31/2019

# Transaction Overview

## Consideration

- 100% stock consideration for Presidio shareholders
- Fixed exchange ratio of 2.470x, with no caps or collars
- Presidio's stock options are exchanged for equivalent options in HTBK, based on the exchange ratio
- \$30.18 per Presidio common share, and aggregate consideration of \$200.3 million<sup>(1)(2)</sup>

## Pro Forma Ownership

- Approximately 15.6 million shares will be issued to Presidio shareholders<sup>(2)</sup>
- Pro forma ownership: 73.5% HTBK / 26.5% Presidio

## Transaction Multiples<sup>(1)</sup>

- Price-to-LTM earnings per share: 15.6x
- Price-to-tangible book value per share: 205.7%
- 1-Day market premium: 19.3%
- Core deposit premium: 14.8%<sup>(3)</sup>

## Additional Details

- 3 members of Presidio's Board, including CEO Steve Heitel, will join HTBK's Board upon closing
- Entered into employment agreements with Presidio team leaders, including Clay Jones, President of Presidio, who will join HTBK as EVP and President of the Community Business Banking Group
- Expected closing in Q4 2019
- Presidio board members and certain executives have entered into non-compete, non-solicit, non-disclosure and voting agreements

(1) Based on HTBK's closing stock price of \$12.22 as of 5/16/2019

(2) Based on 6,322,914 Presidio shares outstanding, 9,041 restricted stock units outstanding, and 512,675 stock options with a weighted average strike price of \$12.30. Does not include 4,521 RSUs reserved for potential performance bonuses

(3) Core deposits defined as non-maturity deposits



# Pro Forma Impact and Transaction Assumptions

## Pro Forma Impact

- EPS accretion of 5.0% in 2020 and 6.1% in 2021<sup>(1)</sup>
- Tangible book value dilution of 8.0% and earnback period of 4.3 years<sup>(2)</sup>
- Internal rate of return greater than 25%
- Pro forma company remains well capitalized for regulatory purposes
  - TCE ratio of 9.0%, leverage ratio of 9.3%, risk based capital ratio of 13.6%

## Key Transaction Assumptions

- Cost savings of 50%, or \$12.1 million in 2020
  - \$1.3 million, or 12% of cost savings will be due to the retirement of HTBK employees and replacement by existing Presidio employees
- Loan mark of 1.90% of gross loans, including 1.00% for credit and 0.90% for interest rate
- Core deposit intangible asset of 2.55% of non-maturity deposits, 10 year amortization (based on sum-of-years' digits)
- Transaction costs of \$17.8 million, pre-tax
- Redeeming Presidio's \$10.0 million of subordinated debt at 103% of par value, which has an interest rate of 8.00% (\$800k pro forma savings)

# Pro Forma Loan & Deposit Composition

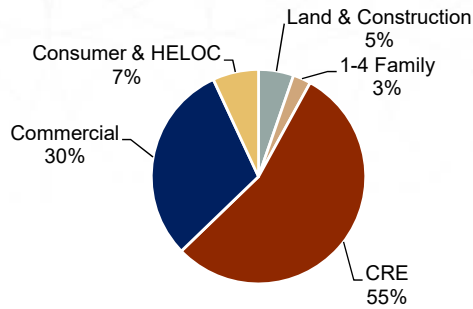
## HERITAGE COMMERCE CORP



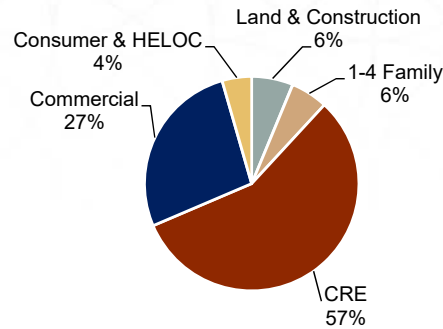
## PRESIDIO BANK

## HTBK Pro Forma

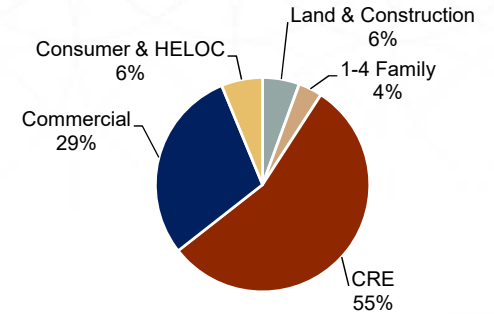
Loans



Gross Loans: \$1.9 Billion  
Yield on Loans: 5.92%

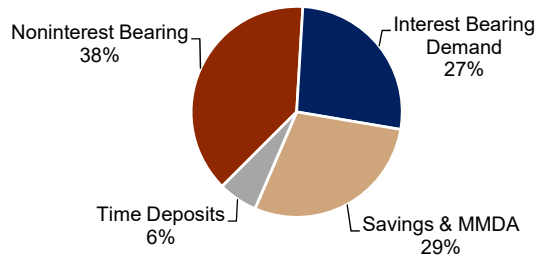


Gross Loans: \$706 Million  
Yield on Loans: 5.50%

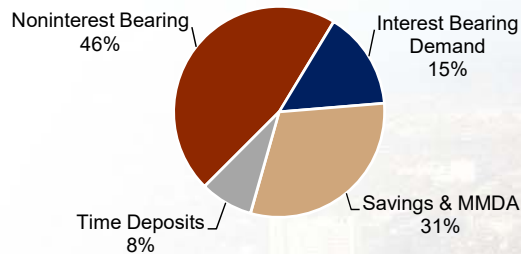


Gross Loans: \$2.6 Billion  
Yield on Loans: 5.80%

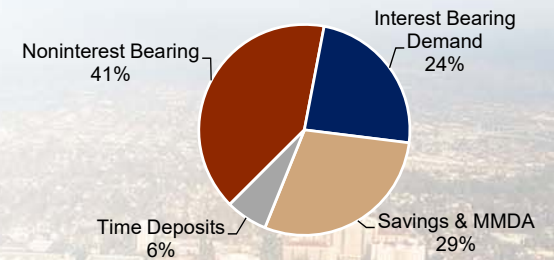
Deposits



Total Deposits: \$2.6 Billion  
Cost of Deposits: 0.28%



Total Deposits: \$794 Million  
Cost of Deposits: 0.41%



Total Deposits: \$3.4 Billion  
Cost of Deposits: 0.31%

## Summary

- Strong rationale for this acquisition from a strategic, financial, and cultural perspective
- Enhances HTBK's geographic footprint in the Bay Area; well positioned for future growth opportunities
- \$4.0 billion pro forma assets with expanded branch footprint throughout the Bay Area
- Presidio Bank is a high-performing franchise with a similar business banking culture to HTBK
  - Retaining key leadership and relationship managers
  - Presidio Board members joining HTBK's Board of Directors
  - Meaningful addition of low-cost, sticky core deposit funding
- HTBK has a history of successful merger execution and integration, creating shareholder value

# Contact Information

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