



PRESIDIO BANK

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PRESS RELEASE

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FOR IMMEDIATE RELEASE:

PRESIDIO BANK REPORTS RESULTS FOR THE SECOND QUARTER 2019

San Francisco, CA, July 25, 2019: Presidio Bank (OTCBB: PDOB), a Bay Area business bank, today reported unaudited results for the second quarter ended June 30, 2019 with Net Income of \$2.7 million, down from \$3.1 million in the first quarter of 2019 and down from \$2.8 million in the second quarter of 2018. During the second quarter of 2019, the Bank incurred \$726 thousand in pretax costs related to its recently announced merger with Heritage Bank of Commerce. Net of these costs, Net Income would have increased over the first quarter of 2019 and the second quarter of 2018. Diluted Earnings per Share were \$0.41 for the second quarter of 2019 versus \$0.47 for the first quarter of 2019 and \$0.44 for the second quarter of 2018. Total Assets were \$840 million at June 30, 2019, down \$66 million from March 31, 2019 and down \$13 million from June 30, 2018.

“The Bank had another solid quarter of core operating results with strong net interest margin and good expense control,” said Presidio Bank CEO Steve Heitel. “We are excited about our upcoming merger with Heritage Bank of Commerce and the ability to expand our geographic reach and product offerings.”

Financial Highlights

- Total Loans Outstanding were down \$7 million from the quarter ending March 31, 2019 and up \$45 million from the quarter ending June 30, 2018 or 7%. Growth in Commercial Real Estate Loans was offset by declines in Construction Loans, Personal Loans and Residential Real Estate Loans. A number of bridge loans paid off during the quarter as real estate sales activity remains strong. Line of Credit utilization was 39%, up from 37% in the first quarter of 2019. Loan Originations for the second quarter of 2019 were \$47 million, up from \$24 million in the first quarter of 2019. Loan pipeline activity remains solid, although loan payoffs are expected to remain elevated.
- Total Deposits decreased by \$71 million from the quarter ended March 31, 2019. \$54 million of decline was centered in three client relationships. One client brought in a large temporary deposit at the end of the first quarter that was distributed in the second quarter. A large deposit client was sold and balances transferred to the acquiror’s bank. A third client had a seasonal reduction in balances with a rebound expected in the third quarter. In addition, the Bank reduced brokered deposits by \$10 million during the quarter. Despite a \$59 million reduction during the quarter, Demand Deposits still account for 43% of Total Deposits.
- Net Interest Income of \$9.7 million in the second quarter of 2019 was up from \$9.5 million in the first quarter. Net Interest Income was up 16% from the second quarter of 2018. Net Interest Margin declined slightly during the second quarter of 2019 to 4.61% from 4.64% in the first quarter of 2019. Loan Yields for the quarter increased to 5.54% from 5.50% in the first quarter of 2019. Cost of Deposits was up to 0.44% in the quarter from 0.41% in the first quarter of 2019.



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- Gross Operating Expenses were up 6% from the first quarter of 2019 and 17% from the second quarter of 2018. Adjusted for merger related expenses, Operating Expenses declined by 7% from the first quarter of 2019 and increased by 2% from the second quarter of 2018. The decline from the first quarter of 2019 was largely due to the seasonal decline in Compensation and Benefit Expense.
- Year-to-date June 30, 2019 Total Revenue grew 16% over year-to-date June 30, 2018 Total Revenue while Total Expenses grew 12% for the same period. Adjusted for merger related expenses, Total Expenses grew only 5%. The Bank's efficiency ratio was 59.9% in the second quarter of 2019 versus 57.3% in the first quarter of 2019 and 59.1% in the second quarter of 2018.
- Credit quality deteriorated modestly during the quarter as classified loans increased by \$3.4 million. The Classified to Capital Ratio increased to 11.8% from 8.8% due to two newly classified relationships. Total Criticized and Classified Loans still only represent 3% of Loan Commitments and 4% of Loans Outstanding. The Bank still has one non-performing loan totaling \$3.7 million.
- Book Value per Share increased to \$15.16 per share at June 30, 2019 from \$14.67 per share at March 31, 2019 and \$13.06 at June 30, 2018.

“I am pleased to report that the Bank has maintained its Outstanding Rating for Community Reinvestment in a recent Federal Reserve Examination,” said Presidio Bank Chairman Jim Woolwine. “In addition, Presidio has once again been named to the San Francisco Business Times list of Top Corporate Philanthropists.”

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2nd Quarter 2019 Financial Results

(Dollars in thousands, except per share amounts, unaudited)

Condensed Balance Sheet

	6/30/2019	3/31/2019	Change	6/30/2018	Change	12/31/2018	Change
Cash and due from banks	13,389	18,021	-25.7%	8,842	51.4%	7,804	71.6%
Interest bearing due from banks	48,013	102,859	-53.3%	130,412	-63.2%	67,877	-29.3%
Total cash and equivalents	61,402	120,880	-49.2%	139,254	-55.9%	75,681	-18.9%
Investment securities	54,743	56,255	-2.7%	41,326	32.5%	57,925	-5.5%
Loans, net of fees	698,073	705,114	-1.0%	653,226	6.9%	710,939	-1.8%
Allowance for loan losses	(7,463)	(7,463)	0.0%	(7,325)	1.9%	(7,439)	0.3%
Net loans	690,610	697,651	-1.0%	645,901	6.9%	703,500	-1.8%
Premises and equipment, net	2,063	2,175	-5.2%	2,464	-16.3%	2,287	-9.8%
Other assets and interest receivable	31,669	29,098	8.8%	24,373	29.9%	23,042	37.4%
Total assets	840,487	906,059	-7.2%	853,318	-1.5%	862,435	-2.5%
Non-interest-bearing demand	307,648	366,381	-16.0%	298,354	3.1%	319,358	-3.7%
Interest bearing transaction	94,385	119,282	-20.9%	108,338	-12.9%	116,120	-18.7%
Money market and savings accounts	268,411	243,680	10.1%	302,077	-11.1%	285,245	-5.9%
Time deposits	51,916	64,363	-19.3%	48,698	6.6%	37,995	36.6%
Total deposits	722,360	793,706	-9.0%	757,467	-4.6%	758,718	-4.8%
Borrowings	10,007	9,875	1.3%	9,961	0.5%	9,865	1.4%
Other liabilities	12,155	9,859	23.3%	5,152	135.9%	5,182	134.6%
Total liabilities	744,522	813,440	-8.5%	772,580	-3.6%	773,765	-3.8%
Common stock	69,109	68,728	0.6%	66,995	3.2%	67,978	1.7%
Retained earnings	26,447	23,752	11.3%	13,908	90.1%	20,693	27.8%
Other comprehensive income	409	139	194.0%	(165)	NM	(1)	NM
Total shareholder's equity	95,965	92,619	3.6%	80,738	18.9%	88,670	8.2%
Total liabilities and equity	840,487	906,059	-7.2%	853,318	-1.5%	862,435	-2.5%

Book value per share

Book value per share	\$ 15.16	\$ 14.67	\$ 13.06	\$ 14.21
Total shares outstanding EOP	6,331	6,311	6,184	6,241

Capital Ratios

Tier 1 leverage ratio	10.9%	10.7%	9.8%	10.3%
Tier 1 risk-based capital ratio	10.9%	10.5%	9.9%	10.0%
Tangible common risk-based ratio	10.9%	10.5%	9.9%	10.0%
Total risk-based capital ratio	13.0%	12.5%	12.1%	12.1%

NM = Not Meaningful

Condensed Statement of Income

(Dollars in thousands, except per share amounts, unaudited)

	For the three months ended					For the six months ended		
	6/30/2019	3/31/2019	Change Fav./ (Unfav.)	6/30/2018	Change Fav./ (Unfav.)	6/30/2019	6/30/2018	Change Fav./ (Unfav.)
Interest income	10,698	10,495	1.9%	9,042	18.3%	21,193	17,612	20.3%
Interest expense	1,037	985	(5.4%)	707	(46.8%)	2,022	1,194	(69.3%)
Net interest income	9,661	9,510	1.6%	8,335	15.9%	19,171	16,418	16.8%
Provision for loan loss	-	24	NM	-	NM	24	159	84.7%
Net interest income after provision	9,661	9,486	1.8%	8,335	15.9%	19,147	16,259	17.8%
Other income	278	311	(10.5%)	309	(9.8%)	589	629	(6.4%)
Compensation and benefit expenses	3,274	3,678	11.0%	3,254	(0.6%)	6,952	6,537	(6.4%)
Occupancy and equipment expenses	665	628	(5.9%)	602	(10.6%)	1,293	1,218	(6.1%)
Data processing	438	445	1.5%	400	(9.5%)	883	785	(12.6%)
Merger expense	726	33	(2104.8%)	-	NM	759	-	NM
Professional and legal	265	176	(51.2%)	278	4.5%	441	425	(3.7%)
Other operating expenses	583	665	12.4%	571	(2.1%)	1,248	1,348	7.4%
Total operating expenses	5,951	5,625	(5.8%)	5,105	(16.6%)	11,576	10,313	(12.2%)
Net income before taxes	3,988	4,172	(4.4%)	3,539	12.7%	8,160	6,575	24.1%
Income taxes	1,283	1,113	(15.3%)	710	(80.7%)	2,396	1,521	(57.5%)
Net income	2,705	3,059	(11.6%)	2,829	(4.4%)	5,764	5,054	14.0%

Earnings Per Share

Basic earnings per share	\$ 0.43	\$ 0.49	(12.2%)	\$ 0.46	(7.3%)	\$ 0.91	\$ 0.83	10.6%
Diluted earnings per share	\$ 0.41	\$ 0.47	(12.2%)	\$ 0.44	(5.9%)	\$ 0.88	\$ 0.78	12.4%
Average shares outstanding	6,244	6,198		6,053		6,227	6,038	
Average diluted shares	6,522	6,473		6,419		6,505	6,409	

Performance Ratios

Return on average assets	1.24%	1.44%		1.38%		1.34%	1.26%	
Return on average common equity	11.45%	13.58%		14.31%		12.51%	13.06%	
Net interest margin	4.61%	4.64%		4.20%		4.63%	4.23%	
Cost of funds	0.54%	0.52%		0.38%		0.53%	0.33%	
Efficiency ratio	59.9%	57.3%		59.1%		58.6%	60.6%	

Average Balances

Total assets	873,108	864,060		822,750		868,609	808,674	
Earning assets	839,730	831,305		795,498		835,541	781,899	
Total loans	703,845	709,283		642,855		706,549	638,968	
Total deposits	758,192	749,334		728,532		753,788	715,877	
Common equity	94,880	91,346		79,177		93,123	77,891	

NM = Not Meaningful

Condensed Balance Sheet (5 Quarter Data)

(Dollars in thousands, except per share amounts, unaudited)

	6/30/2019	3/31/2019	12/31/2018	9/30/2018	6/30/2018
Cash and due from banks	13,389	18,021	7,804	9,041	8,842
Interest bearing due from banks	48,013	102,859	67,877	78,598	130,412
Total cash and equivalents	61,402	120,880	75,681	87,639	139,254
Investment securities	54,743	56,255	57,925	59,282	41,326
Loans, net of fees	698,073	705,114	710,939	668,934	653,226
Allowance for loan losses	(7,463)	(7,463)	(7,439)	(7,423)	(7,325)
Net loans	690,610	697,651	703,500	661,511	645,901
Premises and equipment, net	2,063	2,175	2,287	2,371	2,464
Other assets and interest receivable	31,669	29,098	23,042	23,366	24,373
Total assets	840,487	906,059	862,435	834,169	853,318
Non-interest-bearing demand	307,648	366,381	319,358	315,493	298,354
Interest bearing transaction	94,385	119,282	116,120	101,712	108,338
Money market and savings accounts	268,411	243,680	285,245	278,867	302,077
Time deposits	51,916	64,363	37,995	38,400	48,698
Total deposits	722,360	793,706	758,718	734,472	757,467
Borrowings	10,007	9,875	9,865	9,928	9,961
Other liabilities	12,155	9,859	5,182	5,014	5,152
Total liabilities	744,522	813,440	773,765	749,414	772,580
Common stock	69,109	68,728	67,978	67,783	66,995
Retained earnings	26,447	23,752	20,693	17,401	13,908
Other comprehensive income	409	139	(1)	(429)	(165)
Total shareholder's equity	95,965	92,619	88,670	84,755	80,738
Total liabilities and equity	840,487	906,059	862,435	834,169	853,318

Book value per share

Book value per share	\$ 15.16	\$ 14.67	\$ 14.21	\$ 13.59	\$ 13.06
Total shares outstanding EOP	6,331	6,311	6,241	6,238	6,184

Capital Ratios

Tier 1 leverage ratio	10.9%	10.7%	10.3%	9.9%	9.8%
Common equity tier 1 capital ratio	10.9%	10.5%	10.0%	10.2%	9.9%
Tier 1 risk-based capital ratio	10.9%	10.5%	10.0%	10.2%	9.9%
Total risk-based capital ratio	13.0%	12.5%	12.1%	12.3%	12.1%



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Condensed Statement of Income (5 Quarter Data)

(Dollars in thousands, except per share amounts, unaudited)

	For the three months ended				
	6/30/2019	3/31/2019	12/31/2018	9/30/2018	6/30/2018
Interest income	10,698	10,495	10,323	9,866	9,042
Interest expense	1,037	985	812	752	707
Net interest income	9,661	9,510	9,511	9,114	8,335
Provision for loan loss	-	24	16	98	-
Net interest income after provision	9,661	9,486	9,495	9,016	8,335
Other income	278	311	315	279	309
Compensation and benefit expenses	3,274	3,678	3,335	3,301	3,254
Occupancy and equipment expenses	665	628	606	625	602
Data processing	438	445	420	388	400
Merger expense	726	33	-	-	-
Professional and legal	265	176	161	145	278
Other operating expenses	583	665	503	473	571
Total operating expenses	5,951	5,625	5,025	4,932	5,105
Net income before taxes	3,988	4,172	4,785	4,363	3,539
Income taxes	1,283	1,113	1,503	870	710
Net income	2,705	3,059	3,282	3,493	2,829

Earnings Per Share

Basic earnings per share	\$ 0.43	\$ 0.49	\$ 0.53	\$ 0.56	\$ 0.46
Diluted earnings per share	\$ 0.41	\$ 0.47	\$ 0.50	\$ 0.53	\$ 0.44
Average shares outstanding	6,244	6,198	6,160	6,132	6,053
Average diluted shares	6,522	6,473	6,458	6,454	6,419

Performance Ratios

Return on average assets	1.24%	1.44%	1.52%	1.60%	1.38%
Return on average common equity	11.45%	13.58%	14.95%	16.64%	14.31%
Net interest margin	4.61%	4.64%	4.55%	4.32%	4.20%
Cost of funds	0.54%	0.52%	0.42%	0.39%	0.38%
Efficiency ratio	59.9%	57.3%	51.2%	52.5%	59.1%

Average Balances

Total assets	873,108	864,060	857,104	864,605	822,750
Earning assets	839,730	831,305	829,811	836,348	795,498
Total loans	703,845	709,283	675,569	665,655	642,855
Total deposits	758,192	749,334	754,400	763,647	728,532
Common equity	94,880	91,346	87,084	83,346	79,177

Loans (5 Quarter Data)

(Dollars in Thousands, unaudited)

	6/30/2019	3/31/2019	12/31/2018	9/30/2018	6/30/2018
Commercial real estate	330,747	321,407	328,667	304,123	303,444
Land and construction	41,403	44,188	56,179	55,185	53,771
Commercial	190,626	190,307	176,179	177,747	180,783
Personal	20,723	31,429	34,738	22,505	13,709
Residential	34,003	39,507	38,357	36,552	31,011
Multifamily	81,557	79,260	77,928	73,839	71,505
Deferred loan fees	(986)	(984)	(1,109)	(1,017)	(997)
Loans	698,073	705,114	710,939	668,934	653,226
Allowance for loan losses	(7,463)	(7,463)	(7,439)	(7,423)	(7,325)
Net loans	690,610	697,651	703,500	661,511	645,901

Non-Performing Assets (5 Quarter Data)

(Dollars in Thousands, unaudited)

	6/30/2019	3/31/2019	12/31/2018	9/30/2018	6/30/2018
Non-Accrual Loans	3,746	3,746	3,746	-	-
Non-Performing Loans (NPL)	3,746	3,746	3,746	-	-
Other Real Estate Owned	-	-	-	-	-
Non-Performing Assets (NPA)	3,746	3,746	3,746	-	-
90+ Days Delinquent	-	-	-	-	-
NPAs & 90 Day Delinquent	3,746	3,746	3,746	-	-
Quarterly Net Charge-off's	-	-	-	-	-
NPAs / Assets %	0.45%	0.41%	0.43%	0.00%	0.00%
NPAs & 90 Day / Assets %	0.45%	0.41%	0.43%	0.00%	0.00%
NPAs / Actual Loans and OREO %	0.45%	0.41%	0.43%	0.00%	0.00%
Loan Loss Reserves / Loans (%)	1.07%	1.06%	1.05%	1.11%	1.12%



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Net Interest Income (Quarterly Data)

(Dollars in Thousands, unaudited)

	For the Three Months Ended					
	6/30/2019			3/31/2019		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
Assets:						
Interest-bearing deposits	\$ 80,113	\$ 483	2.42 %	\$ 64,868	\$ 389	2.43 %
Federal Reserve and Federal Home Loan Bank stock	5,560	80	5.79	4,897	81	6.71
Investment Securities	50,212	408	3.26	52,257	409	3.18
Loans: (2)						
Commercial	195,386	2,989	6.14	180,631	2,739	6.15
Land and Construction	42,537	715	6.74	53,729	889	6.71
Commercial Real Estate	325,544	4,181	5.15	325,034	4,027	5.03
Residential	34,456	530	6.16	38,349	586	6.20
Multifamily	80,984	998	4.94	78,281	951	4.93
Personal	24,938	314	5.06	33,259	424	5.16
Total Loans	703,845	9,727	5.54	709,283	9,616	5.50
Total Earning Assets	839,730	10,698	5.11	831,305	10,495	5.12
Allowance for loan losses	(7,463)			(7,463)		
Cash and cash equivalents	10,766			10,760		
Other assets	30,075			29,458		
Total Assets	\$ 873,108			\$ 864,060		
Liabilities:						
Interest-bearing deposits:						
Interest-bearing NOW deposits	\$ 104,364	\$ 117	0.45 %	\$ 110,416	\$ 105	0.38 %
Money market deposits	259,619	477	0.74	254,365	438	0.70
Savings deposits	3,484	2	0.28	3,506	2	0.26
Certificates and other time deposits	59,318	230	1.55	57,877	211	1.48
Total Interest-bearing Deposits	426,785	826	0.78	426,164	756	0.72
Borrowings	9,893	211	8.55	12,641	229	7.33
Total Interest-bearing Liabilities	436,678	1,037	0.95	438,805	985	0.91
Noninterest-bearing deposits	331,407			323,170		
Other liabilities	10,143			10,739		
Total Liabilities	778,228			772,714		
Stockholders' Equity	94,880			91,346		
Total Liabilities and Stockholders' Equity	\$ 873,108			\$ 864,060		
Net Interest Income		\$ 9,661			\$ 9,510	
Net Interest Margin			4.61 %			4.64 %
Cost of Funds			0.54 %			0.52 %
Cost of Deposits			0.44 %			0.41 %



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Net Interest Income (Annual Data)

(Dollars in Thousands, unaudited)

	For the Six Months Ended					
	6/30/2019			6/30/2018		
	Average Balance	Interest Income / Expense	Average Rate	Average Balance	Interest Income / Expense	Average Rate
Assets:						
Interest-bearing deposits	\$ 72,533	\$ 872	2.42 %	\$ 128,478	\$ 1,071	1.68 %
Federal Reserve and Federal Home Loan Bank stock	5,230	161	6.22	4,731	153	6.52
Investment Securities	51,229	817	3.22	9,722	108	2.25
Loans: (2)						
Commercial	188,049	5,729	6.14	194,728	5,189	5.37
Land and Construction	48,102	1,603	6.72	49,329	1,588	6.49
Commercial Real Estate	325,291	8,209	5.09	283,420	6,862	4.88
Residential	36,392	1,115	6.18	31,941	838	5.29
Multifamily	79,640	1,949	4.94	64,993	1,484	4.60
Personal	29,075	738	5.12	14,557	319	4.41
Total Loans	706,549	19,343	5.52	638,968	16,280	5.14
Total Earning Assets	835,541	21,193	5.12	781,899	17,612	4.54
Allowance for loan losses	(7,463)			(7,272)		
Cash and cash equivalents	10,763			9,418		
Other assets	29,768			24,629		
Total Assets	\$ 868,609			\$ 808,674		
Liabilities:						
Interest-bearing deposits:						
Interest-bearing NOW deposits	\$ 107,373	\$ 222	0.42 %	\$ 109,885	\$ 108	0.20 %
Money market deposits	257,006	915	0.72	247,683	444	0.36
Savings deposits	3,495	5	0.27	3,829	4	0.20
Certificates and other time deposits	58,602	441	1.52	49,978	216	0.88
Total Interest-bearing Deposits	426,476	1,583	0.75	411,375	772	0.38
Borrowings	11,260	439	7.85	10,074	422	8.45
Total Interest-bearing Liabilities	437,736	2,022	0.93	421,449	1,194	0.57
Noninterest-bearing deposits	327,312			304,502		
Other liabilities	10,438			4,832		
Total Liabilities	775,486			730,783		
Stockholders' Equity	93,123			77,891		
Total Liabilities and Stockholders' Equity	\$ 868,609			\$ 808,674		
Net Interest Income		\$ 19,171			\$ 16,418	
Net Interest Margin			4.63 %			4.23 %
Cost of Funds			0.53 %			0.33 %
Cost of Deposits			0.42 %			0.22 %

About Presidio Bank

Presidio Bank provides business banking services to small and mid-size businesses, including professional service firms, real estate developers and investors, and not-for-profit organizations, and to their owners who desire personalized, responsive service with access to local decision makers. Presidio Bank offers clients the resources of a large bank combined with the personalized services of a neighborhood bank. Presidio Bank is headquartered in San Francisco, California and currently operates five banking offices in San Francisco, Walnut Creek, San Rafael, San Mateo and Palo Alto. More information is available at www.presidiobank.com. Presidio Bank is a member of FDIC and an Equal Housing Lender.

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This press release contains certain forward-looking statements that involve risk and uncertainties. These statements are identifiable by use of the words "believe," "expect," "intend," "anticipate," "plan," "estimate," "project," or similar expressions. The risks and uncertainties that may affect the operations, performance, development, growth projections and results of Presidio Bank's business include, but are not limited to, the growth of the economy, interest rate movements, timely development by Presidio Bank of technology enhancements for its products and operating systems, the impact of competitive products, services and pricing, client-based requirements, Congressional legislation, changes in regulatory or generally accepted accounting principles and similar matters. Readers are cautioned not to place undue reliance on forward-looking statements which are subject to influence by the named risk factors and unanticipated future events. Actual results, accordingly, may differ materially from management expectations.