PRESIDIO BANK

MARCH.2013

# FINANCIAL REPORT

Dear Shareholders, Clients and Friends:

Following up on strong loan growth in the 4th quarter of 2012, Presidio Bank continued the trend in the traditionally soft first quarter of 2013, albeit at a more modest pace. Earnings growth of 19% over the 1st quarter of 2012 was solid and positions the Bank well for remainder of the year. Total assets declined in the quarter as deposit totals fell for the second straight quarter. The Bank however remains very liquid and we are confident that the deposit attrition relates to the normal ebb and flow with our larger depositors rather than lost business.

## KEY FINANCIAL HIGHLIGHTS FOR THE 1ST QUARTER 2013:

- The loan portfolio grew modestly to $319 million, increasing $5 million during the quarter. Loans are up $69 million over the 1st quarter of 2012. Our loan pipeline is strong and we anticipate solid loan growth in 2nd quarter.
- As mentioned above, deposit balances declined for a second straight quarter, decreasing by $23 million to $335 million. The deposit mix continues to be favorable with 34% of total deposits in non-interest bearing demand accounts.
- Because of the growth in loans and due to carrying lower levels of liquid assets, Net Interest Margin increased 50 basis points (14.5%) from the fourth quarter of 2012. This increase came despite continued downward pressure on loan yields which declined 8 basis points during the quarter. The market for loans remains highly competitive and we expect downward pressure on loan yields for the foreseeable future. Funding costs have remained essentially flat.
- While the loan loss provision expense was zero for the quarter, the bank did experience an increase in non-performing assets as an additional loan was placed on non-performing status. This resulted in the non-performing asset ratio increasing to a still very healthy 0.89%. Loan loss reserves cover non-performing assets by 1.75 times. The Bank had no delinquent loans at quarter end (including the four non-performing loans in the portfolio which are all current).
- Operating expenses for the quarter declined 13% from the 4th quarter of 2012, however this is primarily due to some non-recurring expenses in the 4th quarter of 2012. Because of higher payroll taxes and employee benefit expense, the 1st quarter tends to be a heavy expense period. We anticipate expenses being flat to slightly down for the remainder of the year.

The loan growth achieved over the past two quarters has positively changed the Bank's earnings growth trajectory. Despite an increasingly competitive market, we continue to win quality business. Our 1st quarter results represent a good start to the year and our strong business pipeline suggests this trend will continue.

Sincerely,

Steve Heitel
President & CEO
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PRESIDIO BANK

# First Quarter Report - March 31, 2013

## Condensed Balance Sheet

| (Unaudited) | March 31, 2013 | December 31, 2012 | March 31, 2012 |
|---|---|---|---|
| **Assets** | | | |
| Cash and due from banks | $ 39,672,222 | $ 66,538,893 | $ 103,059,324 |
| Other overnight investments | 10,250,000 | 10,055,000 | 13,200,000 |
| Cash and cash equivalents | 49,922,222 | 76,593,893 | 116,259,324 |
| Investment Securities | 13,378,252 | 13,445,430 | 3,128,118 |
| Total loans | 318,765,737 | 313,991,986 | 250,255,282 |
| Less: allowance for loan losses | (4,945,316) | (4,945,316) | (4,945,316) |
| Net loans | **313,820,422** | **309,046,670** | **245,309,966** |
| Premises and equipment, net | 1,018,913 | 1,220,657 | 1,274,316 |
| Other assets and interest receivable | 5,101,308 | 5,164,568 | 5,700,008 |
| **Total assets** | **$383,241,117** | **$405,471,218** | **$371,671,732** |
| **Liabilities and Shareholders' Equity** | | | |
| Demand deposits | $ 113,117,654 | $ 131,437,855 | $ 97,006,274 |
| Money market | 116,026,242 | 125,735,242 | 132,856,942 |
| Interest checking | 58,478,817 | 53,779,803 | 50,923,433 |
| Savings | 3,969,726 | 3,502,631 | 1,664,747 |
| Time deposits | 43,298,060 | 42,917,913 | 42,650,403 |
| Total deposits | 334,890,499 | 357,373,444 | 325,101,799 |
| Other liabilities and interest payable | 2,053,135 | 2,209,223 | 1,546,021 |
| **Total liabilities** | **336,943,634** | **359,582,667** | **326,647,820** |
| Preferred Stock | 11,018,472 | 11,002,222 | 10,953,472 |
| Common stock | 35,279,011 | 34,886,329 | 34,070,440 |
| Total shareholder's equity | 46,297,483 | 45,888,551 | 45,023,912 |
| **Total liabilities and equity** | **$ 383,241,117** | **$ 405,471,218** | **$ 371,671,732** |
| Book value per common share | $ 8.50 | $ 8.46 | $ 8.29 |
| Equity to assets | 12.08% | 11.32% | 12.11% |
| Nonperforming assets to assets | 0.89% | 0.44% | 0.46% |
| Loan loss reserves to loans | 1.55% | 1.57% | 1.98% |

## Condensed Statement of Operations

| (Unaudited) | Quarter Ended March 31, 2013 | Quarter Ended December 31, 2012 | Quarter Ended March 31, 2012 |
|---|---|---|---|
| Interest and fees on loans | $ 3,794,091 | $ 3,558,202 | $ 3,651,255 |
| Interest on investments | 103,675 | 125,220 | 85,861 |
| Total interest income | 3,897,766 | 3,683,422 | 3,737,116 |
| Deposit interest expense | 192,349 | 209,853 | 240,300 |
| **Net interest income** | **3,705,417** | **3,473,569** | **3,496,816** |
| Provision for loan losses | 0 | 0 | 0 |
| Net interest income after provision | 3,705,417 | 3,473,569 | 3,496,816 |
| **Other operating income** | **128,945** | **161,072** | **110,827** |
| Salaries and benefits | 1,873,377 | 2,186,032 | 1,934,263 |
| FF&E and occupancy expense | 384,766 | 457,510 | 377,482 |
| Other | 832,317 | 910,256 | 671,656 |
| **Total operating expenses** | **3,090,460** | **3,553,798** | **2,983,401** |
| Income before income taxes | 743,902 | 80,843 | 624,242 |
| Provision for income taxes | 304,999 | 76,843 | 255,939 |
| **Net income** | $438,903 | $4,000 | $368,303 |
| Preferred dividends declared and paid | $142,313 | $142,313 | $142,313 |
| **Net income to common shareholders** | **$ 296,590** | **$ (138,313)** | **$ 225,990** |
| Earnings per common share | $0.07 | $(0.03) | $0.06 |
| Average Shares Outstanding | 4,142,000 | 4,121,000 | 4,058,000 |
| Net interest margin | 3.88% | 3.39% | 3.95% |
| Efficiency ratio | 80.60% | 97.78% | 82.70% |
| Return on average assets | 0.45% | 0.00% | 0.41% |
| Return on average common equity | 3.40% | -1.56% | 2.66% |

Presidio Bank Locations:

**San Francisco**
One Montgomery St. Suite 2300
San Francisco, CA 94104
415.229.8400

**Mid-Peninsula**
325 Lytton Ave. Suite 100
Palo Alto, CA 94301
650.321.0500

**North Bay**
999 5th Ave. Suite 100
San Rafael, CA 94901
415.456.6000

**East Bay**
1850 Mt. Diablo Blvd. Suite 640
Walnut Creek, CA 94596
925.287.7880

EQUAL HOUSING LENDER

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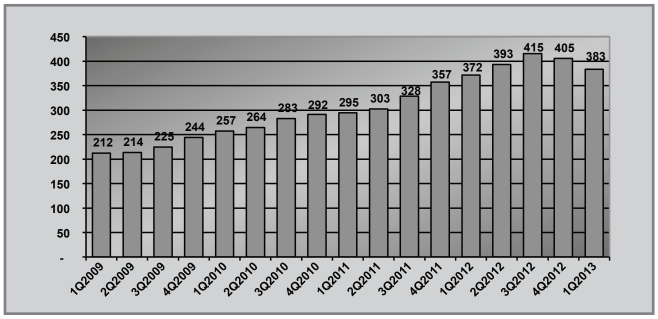
# QUARTERLY

FINANCIAL REPORT MARCH 2013

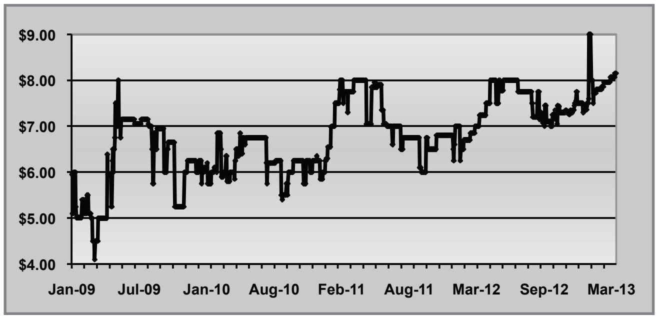
www.PresidioBank.com

Ticker Symbol: PDOB

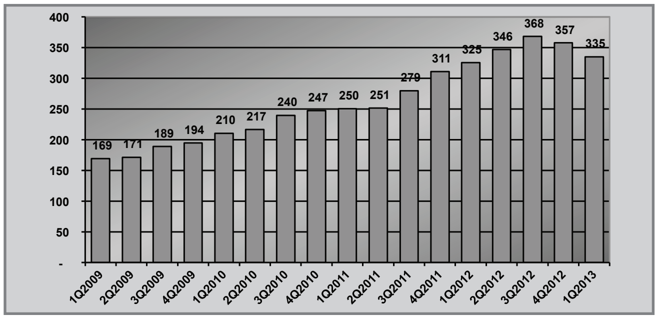
Total Assets ($ Millions)



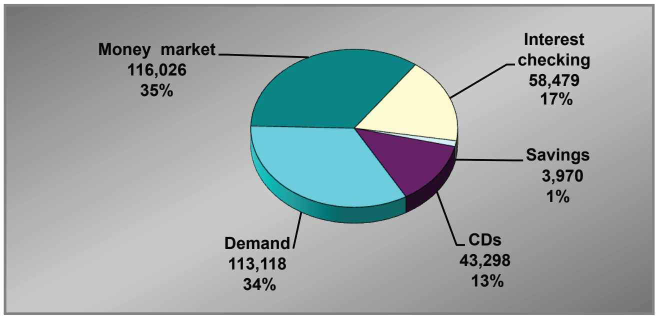

Stock Price



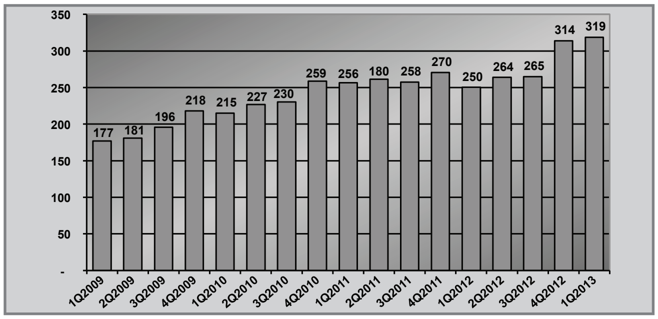

Total Deposits ($ Millions)



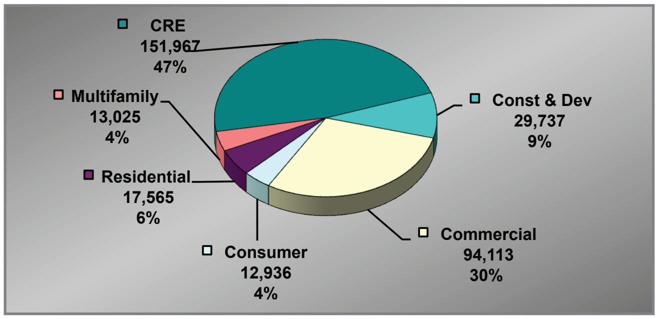

Deposits Composition ($000)




Total Loans ($ Millions)




Loan Composition ($000)




**Board of Directors:**

Craig F. Andersen
Bruce H. Cabral
Paula R. Collins
Stephen G. Heitel
Robert B. Leet
Stephen D. Mayer
Gregory J. Moss
Steven H. Oliver
Marina H. Park
James R. Woolwine

**Management Team:**

James R. Woolwine, Chairman
Stephen G. Heitel, President & CEO
Todd Allen, EVP/President, North Bay
Bryan Bredel, EVP/President, East Bay
Fred Bailard, EVP/Mgr, Cash Mgmt Solutions
Clay Jones, EVP/President, Mid-Peninsula
Mary Leonard-Wilson, EVP/CCO
Edward J. Murphy, EVP/CFO
Sherry A. Price, EVP/COO

# FINANCIAL FUNDAMENTALS

*Presidio Bank again reported strong results and progress toward its goal of above-peer safety and profitability metrics by managing its balance sheet to increase profitability while mitigating risks. Its strength and stability is enhanced through a community-based approach to banking, one which relies on long-term customer relationships and lending within local communities.*

## Liquidity

Liquid assets decreased since year-end as anticipated deposit outflows reduced assets. With very strong liquidity entering 2013, there was no need to raise additional non-core liquidity during the quarter. As of March 31, 2013, the Bank had 21% of its assets in cash and liquid securities. The Bank maintains funding sources with availability in excess of $75 million at quarter-end to address unexpected liquidity needs. The Bank currently has no dependency on non-core funding sources with liquid assets exceeding non-core liabilities at quarter-end. The Bank's Loan-to-Deposit Ratio, increased to 95% at quarter-end as the first quarter deposit reductions combined with strong loan generation over the past two quarters increased this ratio that reflects asset utilization as well as liquidity.

## Capital

The Bank's capital levels are above current regulatory requirements. The Bank's Tier I Risk Based Capital Ratio was 12.57% at the end of the first quarter 2013 versus a regulatory minimum of 6% for well-capitalized institutions. Increased loans and securities helped further leverage the Bank which should later result in enhanced return on equity for shareholders. The Bank's present capital base should support growth through 2013 and be further enhanced with projected profitability. This strong capital base also will allow Presidio to pursue an array of opportunities that may present themselves in the marketplace, including M&A, favorable capital alternatives or added lines of business.

## Credit Underwriting

Despite a modest increase in non-performing loans in the current quarter, the Bank continues to be an effective loan underwriter with above-peer credit metrics and strong reserves. A favorable mix of Commercial and Industrial with Commercial Real Estate lending helps to further stabilize the Bank and mitigate sector-specific impacts. With less than 1% of its loans in the non-performing category, the Bank maintains reserves at 1.55% of gross loans.

## Asset Yield

Compared to the fourth quarter of 2012, earning assets yields increased from 3.64% to 4.08%. The increase was attributable to reduced overnight deposits that helped drive the yields higher despite a small reduction in loan yields in the sequential quarters. The loan yield reduction was a result of comparatively low market interest rates and competitive local credit markets. Management believes that the deposit outflows that reduced earning assets and overall liquidity are likely seasonal in nature.

## Funding Cost

Presidio Bank continues to maintain a favorable deposit mix with non-interest bearing demand deposits making up 34% of total deposits at March 31, 2013. The overall cost of deposits held about steady at 0.23% for the first quarter. Management does not expect to benefit from further declines in its deposit costs, nor does it expect rapidly increasing deposit rates in the near-term. The Bank's balance sheet remains asset-sensitive and is therefore positioned for increased profitability should interest rates rise.

## Profitability

Operating leverage is achieved as the Bank grows its asset base against limited incremental cost increases. Foremost, Presidio continues to provide the superior service that enables the asset growth by leveraging new technologies to keep costs down. The first quarter of each year is cyclically heavy in core expenses and limited in asset growth. The Bank's efficiency ratio was 81% for the first quarter and should improve during 2013 as costs remain controlled. Presidio's return on assets and return on common equity were 0.5% and 3.4%, respectively, for the first quarter. These returns reflect the first quarter dynamics described above and Management believes that the Bank is poised for further improvement of these measures in future quarters.