



HERITAGE  
COMMERCE CORP

Acquisition Summary of Bay View Funding (“BVF”)  
October 9, 2014

## Forward Looking Statement Disclaimer

Forward-looking statements are based on management's knowledge and belief as of today and include information concerning the Company's possible or assumed future financial condition, and its results of operations, business and earnings outlook. These forward-looking statements are subject to risks and uncertainties. For a discussion of factors which could cause results to differ, please see the Company's reports on Forms 10-K and 10-Q as filed with the Securities and Exchange Commission and the Company's press releases. Readers should not place undue reliance on the forward-looking statements, which reflect management's view only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

## Strategic Rationale

- **Complementary to Commercial Banking platform**
  - Expands market depth of commercial enterprises that can be served, both within footprint and outside
    - Provides compatible and complementary commercial products to the core banking franchise, just in different economic segments
  - Consistent with the asset sensitivity of core bank portfolio
    - Factored Accounts Receivables revolve rapidly, demonstrating similar asset / liability behavior to a Prime Rate based C&I loan
  - Expands Risk Management capabilities
    - Provides ability to internally migrate eroding / improving risk rated clients between varying levels of portfolio risk management practices
  
- **Enhanced Specialty Lending Expertise**
  - Factoring
  - Corporate finance / asset-based lending
  - SBA lending
  - Non-profit organizations, education, and churches
  - Construction lending

## Strategic Rationale *(continued)*

### ■ Experienced Management

- Business Unit will report to Keith Wilton, EVP & COO
  - From 2002-2007, Keith Wilton was President of Greater Bay Bank's highly successful Specialty Finance Group which included a large factoring / asset-based lending operation
- Existing Management to continue to operate business
  - Glen Shu, CEO has 23 years with BVF and will remain under a 3-year employment and non-compete agreement.
  - Other key management average 18 years with BVF

### ■ Operational Leverage for both entities

- Liquidity
- Margin
- Efficiency
- Capital
- Infrastructure (Credit, Risk Management, and Compliance)

## Strategic Rationale (*continued*)

### ■ **Low Execution Risk**

- Understand the business and customer base
- Expect to retain all BVF employees
- Consistent risk / credit cultures
- Minimal system / operational integration
- Thorough due diligence (credit, operational, and regulatory)
- BVF headquartered in HTBK footprint
- Expedited closing

### ■ **Additive to long-term shareholder value**

- Profitable company purchasing just under \$500 million per year in accounts receivables

## Transaction Overview

|                                 |  |
|---------------------------------|--|
| <b>Target:</b>                  | <ul style="list-style-type: none"> <li>▪ BVF/CSNK Acquisition Corp.             <ul style="list-style-type: none"> <li>• dba Bay View Funding (“BVF”)</li> </ul> </li> </ul>                   |
| <b>Target Profile:</b>          | <ul style="list-style-type: none"> <li>▪ BVF is a nationally recognized leader in the factoring industry</li> </ul>  |
| <b>Transaction Value:</b>       | <ul style="list-style-type: none"> <li>▪ \$22.5 million</li> </ul>   |
| <b>Consideration:</b>           | <ul style="list-style-type: none"> <li>▪ 100% cash - 90% at close, 10% holdback for 18 months to support representations and warranties</li> </ul>   |
| <b>Board Representation:</b>    | <ul style="list-style-type: none"> <li>▪ None</li> </ul>   |
| <b>Existing BVF Management:</b> | <ul style="list-style-type: none"> <li>▪ CEO will remain with BVF under 3-year employment &amp; non-compete agreements. Active board members executed 3-year non-compete agreements</li> </ul> |
| <b>Approval:</b>                | <ul style="list-style-type: none"> <li>▪ HTBK and BVF Boards of Directors have approved the transaction, and BVF shareholders have approved and signed the stock purchase agreement</li> </ul> |
| <b>Expected Completion:</b>     | <ul style="list-style-type: none"> <li>▪ Almost immediate as subsidiary of the Bank, pending any regulatory approvals required</li> </ul>  |
| <b>Full Integration:</b>        | <ul style="list-style-type: none"> <li>▪ Q1 2015, pending required regulatory approvals</li> </ul>   |

## Pro-forma Full Integration Financial Impact & Assumptions

### Acquisition Impact

- **EPS Accretion:** > 20% of 2015e Consensus EPS
- **TBV Earnback:** < 4.5 years
- **IRR:** > 25%
- **Risk Based Capital:** ~13.0%

### Transaction Assumptions

- **One-time Costs:** \$1.0 to \$1.3 million pre-tax
- **Cost Savings:** Minimal expected cost savings (Other than Funding Costs and Directors' expense)
- **Full Integration:** Q1, 2015

# Contact Information



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