



## **1st Capital Bank Announces First Quarter 2019 Financial Results Record Average Earning Assets**

*Salinas, California* – April 30, 2019. **1st Capital Bank** (OTC Pink: FISB) reported unaudited net income of \$1.78 million for the three months ended March 31, 2019, an increase of 43.3% compared to net income of \$1.24 million in the first quarter of 2018 and a decrease of 8.4% compared to income of \$1.94 million in the fourth quarter of 2018, the immediately preceding quarter. Earnings per share were \$0.34 (diluted) for the first quarter of 2019, compared to \$0.38 (diluted) for the prior quarter, and \$0.24 (diluted) for the first quarter of 2018.

Total assets grew \$12.1 million in the first quarter, to \$634.4 million at March 31, 2019, compared to \$622.3 million at December 31, 2018. Net loans decreased \$4.1 million, or 0.9%, during the first quarter, from \$480.8 million at December 31, 2018 to \$476.7 million at March 31, 2019. Growth in higher yielding commercial and industrial loans of \$3.4 million and increases in the commercial real estate portfolio of \$2.4 million were not sufficient to offset the \$11.0 million decline in lower yielding single-family residential mortgages during the first quarter. Loan outstandings in the core relationship banking portfolio increased 1.8% during the first quarter to \$357.6 million from \$351.1 million at December 31, 2018, and increased 7.5% above prior year levels of \$332.8 as of March 31, 2018. Because of the relatively unchanged level of loans and continuing strong performance of the loan portfolio, no provision for loan losses was taken in the first quarter of 2019, compared with \$100 thousand in the fourth quarter of 2018, and a \$20 thousand provision in the first quarter of 2018.

“We believe our solid first quarter results, and our continued investments in infrastructure and previously announced high profile additions to our group of experienced relationship managers will enable the Bank to continue our growth during the remainder of 2019,” said Thomas E. Meyer, President and Chief Executive Officer. “We are optimistic that the strong local economies along California’s Central Coast will continue to present excellent opportunities to attract quality new relationships.”

Net interest income before provision for loan losses (“NII”) increased \$50 thousand, or 0.8%, to \$6.18 million, compared to \$6.13 million in the prior quarter; and increased 18.7% over the first quarter 2018 NII of \$5.21 million. Net interest margin increased 9 basis points from 4.01% in the fourth quarter of 2018 to 4.10% in the first quarter of 2019, reflecting improved yields on the Bank’s investment portfolio as well as the continued low cost of deposits.

Non-interest income decreased \$67 thousand, or 12.4%, from \$541 thousand in the fourth quarter of 2018 to \$474 thousand in the first quarter of 2019, and increased 24.4% from \$381 thousand earned in the first quarter of 2018. Continued progress in generating income from the brokering of single-family residential mortgages was more than offset by the decline in gains on sale of SBA 7a loans.

The Bank’s return on average assets increased from 0.86% in the first quarter of 2018 to 1.15% in the first quarter of 2019, but declined slightly from 1.24% in the fourth quarter of 2018. Return on average equity also increased from 9.51% in the first quarter of 2018 to 11.95% in the first quarter of 2019, but also declined from 13.33% recognized in the previous quarter.

The Bank's efficiency ratio increased from 58.3% in the fourth quarter of 2018 to 63.7% in the first quarter of 2019, primarily due to the investment in additional relationship managers combined with increases in other noninterest expenses.

### **NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES**

Net interest income before provision for credit losses was \$6.18 million in the first quarter of 2019, an increase of \$50 thousand, or 0.8%, compared to \$6.13 million in the fourth quarter of 2018 and an increase of \$972 thousand, or 18.7%, compared to \$5.21 million in the first quarter of 2018.

Average earning assets were \$611.3 million during the first quarter of 2019, an increase of 0.8% compared to \$606.2 million in the fourth quarter of 2018. The yield on earning assets was 4.28% in the first quarter of 2019, compared to 4.18% in the fourth quarter of 2018, primarily due to an improved mix in the loan portfolio and increased yields in the investment portfolio. The average balance of the investment portfolio decreased nominally by \$224 thousand, from \$69.8 million in the fourth quarter of 2018 to \$69.6 million in the first quarter of 2019. The yield on the investment portfolio increased from 2.01% in the first quarter of 2018 to 2.48% in the fourth quarter of 2018 and 2.66% in the first quarter of 2019, resulting from increased yields from floating rate securities.

The cost of interest-bearing liabilities increased to 0.38% in the first quarter of 2019, from 0.23% in the first quarter of 2018 and 0.36% in the fourth quarter of 2018, while the average balance of interest-bearing liabilities increased nominally from \$283.9 million in the first quarter of 2018 to \$284.9 million in the fourth quarter of 2018, and increased to \$287.3 million in the first quarter of 2019, as the Bank actively managed its leverage ratio, primarily with the placement of large depositor deposits into the ICS program. The average balance of noninterest-bearing demand deposit accounts increased from \$245.1 million, or 46.3% of total deposits, in the first quarter of 2018 to \$276.9 million, or 49.3% of total deposits, in the fourth quarter of 2018, and decreased to \$275.9 million, or 49.0% of total deposits in the first quarter of 2019. The Bank's overall cost of funds increased, from 0.12% in the first quarter of 2018 to 0.19% in the fourth quarter of 2018 and 0.20% in the first quarter of 2019.

"We are pleased to report that there was no significant attrition in the average balances of our noninterest-bearing deposits during a competitive first quarter of 2019, which contributed to the continued improvement in our net interest margin" noted Michael J. Winiarski, Chief Financial Officer.

### **PROVISION FOR CREDIT LOSSES**

The provision for credit losses is a charge against current earnings in an amount determined by management to be necessary to maintain the allowance for loan losses at a level sufficient to absorb estimated probable losses inherent in the loan portfolio in light of losses historically incurred by the Bank and adjusted for qualitative factors associated with the loan portfolio.

The Bank recorded no provision for loan losses in the first quarter of 2019 compared with a provision of \$100 thousand recorded in the fourth quarter of 2018, reflecting reductions in the level of criticized assets, changes in the mix of loan types within the portfolio and their respective historical loss rates, and management's assessment of the amounts expected to be realized from certain loans identified as impaired. Impaired loans totaled \$279 thousand at March 31, 2019 compared to \$3.0 million at December 31, 2018, and \$3.9 million at March 31, 2018.

At March 31, 2019, there were no non-performing loans in the Bank's loan portfolio, compared with \$2.7 million at December 31, 2018, and \$252 thousand at March 31, 2008. A large nonaccrual loan paid off in full together with accrued interest during the first quarter. At March 31, 2019, the allowance for loan losses was 1.36% of outstanding loans, compared to 1.34% at December 31, 2018 and 1.42% at March 31, 2018. The Bank recorded net recoveries of \$12 thousand in the first quarter of 2019, compared to net recoveries of \$13 thousand in the fourth quarter of 2018, and \$12 thousand in the first quarter of 2018.

### **NON-INTEREST INCOME**

Non-interest income recognized in the first quarter of 2019 was \$474 thousand, compared to \$541 thousand in the fourth quarter of 2018. The primary cause of the decrease was that the Bank recognized \$8 thousand in gain on sale of SBA loans in the first quarter of 2019 compared to \$59 thousand in the fourth quarter of 2018. Overall, this represents a decrease in non-interest income of \$67 thousand, or 12.4%, compared to the fourth quarter of 2018, and an increase of \$93 thousand compared to the first quarter of 2018, when non-interest income totaled \$381 thousand.

### **NON-INTEREST EXPENSES**

Non-interest expenses increased \$354 thousand, or 9.1%, to \$4.24 million in the first quarter of 2019, compared to \$3.89 million for the fourth quarter of 2018, and increased \$360 thousand, or 9.3%, compared to \$3.88 million recognized in the first quarter of 2018.

Salaries and benefits increased \$151 thousand, or 6.0%, to \$2.67 million in the first quarter of 2019 from \$2.52 million in the fourth quarter of 2018, and increased \$193 thousand, or 7.8%, compared to \$2.48 million in the first quarter of 2018. These increases primarily reflect key additions to staff, primarily in the lending departments. From the fourth quarter of 2018 to the first quarter of 2019, base salaries and wages increased \$24 thousand, or 1.29%, from \$1.85 million to \$1.88 million, health insurance premiums increased \$25 thousand, or 15.1%, from \$168 thousand to \$193 thousand, and the employer's portion of payroll taxes increased \$68 thousand, or 63.1%, from \$108 thousand to \$176 thousand, reflecting the seasonal pattern of such taxes. Payroll taxes decreased \$41 thousand, or 18.9%, year over year. Non-interest expenses other than salaries and benefits experienced a broad-based increase of \$203 thousand, or 14.9%, from \$1.36 million in the fourth quarter of 2018 to \$1.57 million in the first quarter of 2019, reflecting the Bank's expanded scope of operations and technology upgrades to enhance the customer experience and support internal operating needs.

The efficiency ratio (non-interest expenses divided by the sum of net interest income before provision for loan losses and non-interest income) was 63.7% for the first quarter of 2019, compared to 58.3% for the fourth quarter of 2018 and 69.4% for the first quarter of 2018. Annualized non-interest expenses as a percent of average total assets were 2.74%, 2.48%, and 2.69% for the first quarter of 2019, the fourth quarter of 2018, and the first quarter of 2018, respectively.

### **PROVISION FOR INCOME TAXES**

The Bank's effective book tax rate was 26.4% in the first quarter of 2019, compared to 27.7% for the fourth quarter of 2018 and 26.6% for the first quarter of 2018. The lower effective rates these past several quarters reflects the permanent impact of lower corporate income tax rates after the passage of the Tax Cuts and Jobs Act of 2017.

## **About 1st Capital Bank**

The Bank's primary target markets are commercial enterprises, professionals, real estate investors, family business entities, and residents along the Central Coast Region of California. The Bank provides a wide range of credit products, including loans under various government programs such as those provided through the U.S. Small Business Administration ("SBA") and the U.S. Department of Agriculture ("USDA"). A full suite of deposit accounts is also furnished, complemented by robust cash management services. The Bank operates full service branch offices in Monterey, Salinas, King City, and San Luis Obispo. The Bank's corporate offices are located at 150 Main Street, Suite 150, Salinas, CA 93901. The Bank's website is [1stCapital.Bank](http://1stCapital.Bank). The main telephone number is 831.264.4000. The primary facsimile number is 831.264.4001. Member FDIC | Equal Housing Lender | SBA Preferred Lender

## **Forward-Looking Statements**

Certain of the statements contained herein that are not historical facts are "forward-looking statements" within the meaning of and subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may contain words or phrases including, but not limited, to: "believe," "expect," "anticipate," "intend," "estimate," "target," "plans," "may increase," "may fluctuate," "may result in," "are projected," and variations of those words and similar expressions. All such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. Factors that might cause such a difference include, among other matters, changes in interest rates; economic conditions including inflation and real estate values in California and the Bank's market areas; governmental regulation and legislation; credit quality; competition affecting the Bank's businesses generally; the risk of natural disasters and future catastrophic events including terrorist related incidents and other factors beyond the Bank's control; and other factors. The Bank does not undertake, and specifically disclaims any obligation, to update or revise any forward-looking statements, whether to reflect new information, future events, or otherwise, except as required by law.

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- Financial Data Follow -

1ST CAPITAL BANK  
CONDENSED FINANCIAL DATA  
(Unaudited)  
(Dollars in thousands, except per share data)

<b><u>Financial Condition Data</u></b> <sup>1</sup>	March 31, <u>2019</u>	December 31, <u>2018</u>	September 30, <u>2018</u>	March 31, <u>2018</u>
<b>Assets</b>				
Cash and due from banks	\$ 6,569	\$ 6,476	\$ 5,408	\$ 11,772
Funds held at the Federal Reserve Bank <sup>2</sup>	60,979	45,625	33,571	46,920
Time deposits at other financial institutions	-	-	996	996
Available-for-sale securities, at fair value	69,320	70,263	68,154	71,300
Loans receivable held for sale	-	-	1,000	1,000
Loans receivable held for investment:				
Construction / land (including farmland)	20,189	21,353	22,396	17,453
Residential 1 to 4 units	139,765	150,677	147,205	140,474
Home equity lines of credit	8,676	8,008	7,853	6,565
Multifamily	54,586	53,181	53,984	54,109
Owner occupied commercial real estate	61,775	62,976	65,628	64,009
Investor commercial real estate	141,452	139,261	131,736	117,896
Commercial and industrial	42,098	38,745	38,672	40,307
Other loans	14,724	13,189	17,127	11,685
Total loans	<u>483,265</u>	<u>487,390</u>	<u>484,601</u>	<u>452,498</u>
Allowance for loan losses	<u>(6,560)</u>	<u>(6,548)</u>	<u>(6,435)</u>	<u>(6,410)</u>
Net loans	476,705	480,842	478,166	446,088
Premises and equipment, net	4,278	2,087	2,109	2,315
Bank owned life insurance	7,916	7,866	7,813	7,706
Investment in FHLB <sup>3</sup> stock, at cost	3,163	3,163	3,163	3,163
Accrued interest receivable and other assets	5,498	5,965	6,255	5,535
Total assets	<u>\$ 634,428</u>	<u>\$ 622,287</u>	<u>\$ 606,635</u>	<u>\$ 596,795</u>
<b>Liabilities and shareholders' equity</b>				
Deposits:				
Noninterest bearing demand deposits	\$ 268,195	\$ 281,695	\$ 248,036	\$ 236,358
Interest bearing checking accounts	35,832	33,144	35,274	39,606
Money market deposits	134,044	129,064	139,037	125,147
Savings deposits	110,877	99,340	109,530	128,659
Time deposits	18,953	17,254	16,010	12,295
Total deposits	<u>567,901</u>	<u>560,497</u>	<u>547,887</u>	<u>542,065</u>
Accrued interest payable and other liabilities	4,818	2,625	2,344	1,839
Shareholders' equity	61,709	59,165	56,404	52,891
Total liabilities and shareholders' equity	<u>\$ 634,428</u>	<u>\$ 622,287</u>	<u>\$ 606,635</u>	<u>\$ 596,795</u>
Shares outstanding	5,118,759	5,105,784	5,041,058	5,026,724
Nominal and tangible book value per share	\$12.06	\$11.59	\$11.19	\$10.52
Ratio of net loans to total deposits	83.94%	85.79%	87.27%	82.29%

1 = Loans receivable held for investment are presented according to definitions applicable to the regulatory Call Report.

2 = Includes cash letters in the process of collection settled through the Federal Reserve Bank.

3 = Federal Home Loan Bank

1ST CAPITAL BANK  
CONDENSED FINANCIAL DATA  
(Unaudited)  
(Dollars in thousands, except per share data)

	Three Months Ended			
	March 31, <u>2019</u>	December 31, <u>2018</u>	September 30, <u>2018</u>	March 31, <u>2018</u>
<b><u>Operating Results Data</u></b>				
Interest and dividend income				
Loans	\$ 5,681	\$ 5,611	\$ 5,448	\$ 4,769
Investment securities	456	436	404	367
Federal Home Loan Bank stock	56	107	54	56
Other	259	236	222	174
Total interest and dividend income	<u>6,452</u>	<u>6,390</u>	<u>6,128</u>	<u>5,366</u>
Interest expense				
Interest bearing checking	3	4	3	4
Money market deposits	129	134	123	72
Savings deposits	91	81	80	70
Time deposits	49	41	28	9
Total interest expense on deposits	<u>272</u>	<u>260</u>	<u>234</u>	<u>155</u>
Interest expense on borrowings	-	-	-	3
Total interest expense	<u>272</u>	<u>260</u>	<u>234</u>	<u>158</u>
Net interest income	6,180	6,130	5,894	5,208
Provision for loan losses	-	100	-	20
Net interest income after provision for loan losses	<u>6,180</u>	<u>6,030</u>	<u>5,894</u>	<u>5,188</u>
Noninterest income				
Service charges on deposits	76	78	78	71
BOLI dividend income	51	53	54	52
Gain on sale of loans	8	59	-	70
Other	339	351	339	188
Total noninterest income	<u>474</u>	<u>541</u>	<u>471</u>	<u>381</u>

1ST CAPITAL BANK  
CONDENSED FINANCIAL DATA  
(Unaudited)  
(Dollars in thousands, except per share data)

	Three Months Ended			
	March 31, 2019	December 31, 2018	September 30, 2018	March 31, 2018
Noninterest expenses				
Salaries and benefits	2,674	2,523	2,482	2,481
Occupancy	306	292	299	290
Data and item processing	215	193	204	196
Professional services	130	119	161	138
Furniture and equipment	157	116	137	126
Provision for unfunded loan commitments	(15)	10	4	(6)
Other	773	633	682	656
Total noninterest expenses	4,240	3,886	3,969	3,881
Income before provision for income taxes	2,414	2,685	2,396	1,688
Provision for income taxes	638	745	654	449
Net income	\$ 1,776	\$ 1,940	\$ 1,742	\$ 1,239

**Common Share Data<sup>1</sup>**

Earnings per common share

Basic	\$0.35	\$0.38	\$0.35	\$0.25
Diluted	\$0.34	\$0.38	\$0.34	\$0.24

Weighted average common shares outstanding

Basic	5,110,382	5,081,260	5,038,340	5,019,518
Diluted	5,186,796	5,166,613	5,147,292	5,110,342

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<sup>1</sup> = Earnings per common share and weighted average common shares outstanding have been restated to reflect the effect of the 7% stock dividend to shareholders of record November 21, 2018 and paid December 14, 2018.

1ST CAPITAL BANK  
CONDENSED FINANCIAL DATA  
(Unaudited)  
(Dollars in thousands)

<u>Asset Quality</u>	March 31, <u>2019</u>	December 31, <u>2018</u>	September 30, <u>2018</u>	March 31, <u>2018</u>
Loans past due 90 days or more and accruing interest	\$ -	\$ -	\$ -	\$ -
Nonaccrual restructured loans	-	-	-	-
Other nonaccrual loans	-	2,711	2,906	252
Other real estate owned	-	-	-	-
	<u>\$ -</u>	<u>\$ 2,711</u>	<u>\$ 2,906</u>	<u>\$ 252</u>
Allowance for loan losses to total loans	1.36%	1.34%	1.33%	1.42%
Allowance for loan losses to nonperforming loans	n/a	241.53%	221.44%	2,543.65%
Nonaccrual loans to total loans	0.00%	0.56%	0.60%	0.06%
Nonperforming assets to total assets	0.00%	0.44%	0.48%	0.04%

**Regulatory Capital and Ratios**

Common equity tier 1 capital	\$ 61,585	\$ 59,565	\$ 57,166	\$ 53,515
Tier 1 regulatory capital	\$ 61,585	\$ 59,565	\$ 57,166	\$ 53,515
Total regulatory capital	\$ 67,209	\$ 65,177	\$ 62,747	\$ 58,722
Tier 1 leverage ratio	9.79%	9.55%	9.35%	9.14%
Common equity tier 1 risk based capital ratio	13.72%	13.30%	12.83%	12.88%
Tier 1 risk based capital ratio	13.72%	13.30%	12.83%	12.88%
Total risk based capital ratio	14.97%	14.55%	14.09%	14.14%

	Three Months Ended			
<u>Selected Financial Ratios</u> <sup>1</sup>	March 31, <u>2019</u>	December 31, <u>2018</u>	September 30, <u>2018</u>	March 31, <u>2018</u>
Return on average total assets	1.15%	1.24%	1.12%	0.86%
Return on average shareholders' equity	11.95%	13.33%	12.38%	9.51%
Net interest margin	4.10%	4.01%	3.89%	3.70%
Net interest income to average total assets	3.99%	3.91%	3.80%	3.61%
Efficiency ratio	63.73%	58.26%	62.36%	69.44%

<sup>1</sup> = All Selected Financial Ratios are annualized other than the Efficiency Ratio.

	Three Months Ended			
<u>Selected Average Balances</u>	March 31, <u>2019</u>	December 31, <u>2018</u>	September 30, <u>2018</u>	March 31, <u>2018</u>
Gross loans	\$ 487,838	\$ 484,041	\$ 480,621	\$ 441,069
Investment securities	69,553	69,778	70,152	73,879
Federal Home Loan Bank stock	3,163	3,163	3,163	3,163
Other interest earning assets	50,778	49,212	46,534	52,773
Total interest earning assets	<u>\$ 611,332</u>	<u>\$ 606,194</u>	<u>\$ 600,470</u>	<u>\$ 570,884</u>
Total assets	\$ 628,320	\$ 622,259	\$ 615,388	\$ 585,047
Interest bearing checking accounts	\$ 34,268	\$ 36,273	\$ 34,883	\$ 35,668
Money market deposits	127,764	124,924	140,443	115,386
Savings deposits	107,158	106,889	117,023	120,323
Time deposits	18,099	16,828	15,216	12,543
Total interest bearing deposits	<u>287,289</u>	<u>284,914</u>	<u>307,565</u>	<u>283,920</u>
Noninterest bearing demand deposits	<u>275,956</u>	<u>276,866</u>	<u>249,488</u>	<u>245,085</u>
Total deposits	<u>\$ 563,245</u>	<u>\$ 561,780</u>	<u>\$ 557,053</u>	<u>\$ 529,005</u>
Borrowings	\$ -	\$ -	\$ -	\$ 933
Shareholders' equity	\$ 60,286	\$ 57,751	\$ 55,858	\$ 52,826