

April 26, 2018

**FOR IMMEDIATE RELEASE**



**1st Capital Bank Announces  
First Quarter 2018 Financial Results  
Record Average Earning Assets**

*Salinas, California* – April 26, 2018. **1st Capital Bank** (OTC Pink: FISB) reported unaudited net income of \$1.24 million for the three months ended March 31, 2018, an increase of 57.3% compared to net income of \$787 thousand in the first quarter of 2017 and an increase of 681% compared to income of \$182 thousand in the fourth quarter of 2017, the immediately preceding quarter. During the fourth quarter of 2017, the bank adjusted the value of its deferred tax assets in accordance with the reduction in corporate tax rates from 35% to 21%, recognizing \$913 thousand of additional income tax expense. Earnings per share were \$0.26 (diluted) for the first quarter of 2018, compared to \$0.04 (diluted) for the prior quarter, and \$0.17 (diluted) for the first quarter of 2017.

Total assets grew \$16.5 million in the first quarter, to \$597 million at March 31, 2018, compared to \$580 million at December 31, 2017. Net loans likewise increased \$24.5 million during the first quarter, from \$421 million at December 31, 2017 to \$446 million at March 31, 2018. Growth was concentrated primarily in single family residential loans, which increased nearly \$24 million during the first quarter. Loan outstandings in the core relationship banking portfolio were essentially flat this past quarter, although the core banking relationship portfolio has increased 8.3% above prior year levels to \$325 million from \$300 million as of March 31, 2017. Increases in the investor owned real estate and multifamily loan categories essentially offset reductions in commercial and industrial loans and owner occupied commercial real estate loans during the quarter. Because of favorable changes in the loan portfolio mix and continuing declines in historical loss rates, a provision for loan losses of \$20 thousand was taken in the first quarter of 2018, compared with \$65 thousand in the fourth quarter of 2017, and no provision in the first quarter of 2017.

“We are pleased to report strong growth in revenues in the first quarter of 2018,” said Thomas E. Meyer, President and Chief Executive Officer. “We continue to increase noninterest income from our depositors as well as brokerage fees from our growing single family mortgage referral program. We additionally are entering the second quarter with a robust pipeline of new relationship lending opportunities, including nearly \$8 million in government guaranteed loans.”

Net interest income before provision for loan losses (“NII”) increased \$88 thousand, or 1.7%, to \$5.21 million, compared to \$5.12 million in the prior quarter; and increased 17.0% over the first quarter 2017 NII of \$4.45 million. Net interest margin increased slightly from 3.68% in the fourth quarter of 2017 to 3.70% in the first quarter of 2018, reflecting improved yields on the bank’s investment portfolio as well as the continued low cost of deposits.

Non-interest income increased \$70 thousand, or 22.6%, from \$311 thousand in the fourth quarter of 2017 to \$381 thousand in the first quarter of 2018, and increased 48.5% from \$256 thousand earned in the first quarter of 2017, as various fee income initiatives continue to show demonstrative results.

The Bank's efficiency ratio increased from 65.8% in the fourth quarter of 2017 to 69.4% in the first quarter of 2018, as the cost of employing skilled bankers has risen sharply in recent months.

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

Net interest income before provision for credit losses was \$5.21 million in the first quarter of 2018, an increase of \$88 thousand, or 1.7%, compared to \$5.12 million in the fourth quarter of 2017 and an increase of \$757 thousand, or 16.5%, compared to \$4.45 million in the first quarter of 2017.

Average earning assets were \$571 million during the first quarter of 2018, an increase of 3.3% compared to \$552 million in the fourth quarter of 2017. The yield on earning assets was 3.81% in the first quarter of 2018, compared to 3.78% in the fourth quarter of 2017, primarily due to increased yields in the investment portfolio. The average balance of the investment portfolio increased nominally by \$300 thousand, from \$73.6 million in the fourth quarter of 2017 to \$73.9 million in the first quarter of 2018. The yield on the investment portfolio increased from 1.31% in the first quarter of 2017 to 1.69% in the fourth quarter of 2017 and 2.01% in the first quarter of 2018, resulting from increased yields from floating rate securities.

The cost of interest-bearing liabilities increased to 0.23% in the first quarter of 2018, from 0.22% in the first quarter of 2017 and the fourth quarter of 2017, while the average balance of interest-bearing liabilities decreased from \$278 million in the first quarter of 2017 to \$271 million in the fourth quarter of 2017, and increased to \$285 million in the first quarter of 2018, as the Bank experienced seasonal fluctuations in deposits, particularly from larger depositors, and managed its leverage ratio, primarily with the ICS program. The average balance of noninterest-bearing demand deposit accounts increased from \$220 million, or 44.2% of total deposits, in the first quarter of 2017 to \$244 million, or 47.3% of total deposits, in the fourth quarter of 2017, and \$245 million, or 46.3% of total deposits in the first quarter of 2018. The Bank's overall cost of funds decreased, from 0.13% in the first quarter of 2017 to 0.12% in the fourth quarter of 2017 and the first quarter of 2018.

"During the first quarter of 2018, we attracted an additional \$16 million in deposits, while interest rates in our market remained stable. This continued growth in our core deposits has proven to be a good source of funding for our growing loan portfolio, and has enabled us to improve 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 a provision for loan losses in the first quarter of 2018 of \$20 thousand, a decrease from the \$65 thousand recorded in the fourth quarter of 2017, 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 \$3.9 million at March 31, 2018, compared to \$5.2 million at December 31, 2017, and \$8.0 million at March 31, 2017.

At March 31, 2018, non-performing loans were 0.06% of the total loan portfolio, unchanged from 0.06% at December 31, 2017 and increased from 0.03% at March 31, 2017. At March 31, 2018, the allowance for loan losses was 1.42% of outstanding loans, compared to 1.49% at December 31, 2017 and 1.52% at March 31, 2017, respectively. The Bank recorded net recoveries of \$12 thousand in the first quarter of 2018, compared to net recoveries of \$12 thousand in the fourth quarter of 2017, and net charge-offs of \$59 thousand in the first quarter of 2017.

## NON-INTEREST INCOME

Non-interest income recognized in the first quarter of 2018 was \$381 thousand, including \$70 thousand in gain on sale of Small Business Administration ("SBA") guaranteed loans, compared to \$311 thousand in the fourth quarter of 2017. The Bank recognized \$82 thousand in gain on sale of SBA loans in the fourth quarter of 2017 and \$72 thousand in the first quarter of 2017. Overall, this represents an increase non-interest income of \$70 thousand, or 22.6%, compared to the fourth quarter of 2017, and an increase of \$125 thousand compared to the first quarter of 2017, when non-interest income totaled \$256 thousand.

Management has been actively seeking to increase non-interest income across a range of sources, including account analysis fees and mortgage brokerage fees, which increased \$11 thousand and \$14 thousand, respectively, compared to the first quarter of 2017. Service charges on deposits increased from \$52 thousand in the first quarter of 2017 to \$68 thousand in the fourth quarter of 2017 and \$71 thousand in the first quarter of 2018.

## NON-INTEREST EXPENSES

Non-interest expenses increased \$306 thousand, or 8.5%, to \$3.88 million in the first quarter of 2018, compared to \$3.58 million for the fourth quarter of 2017, and increased \$473 thousand, or 13.9%, compared to \$3.41 million recognized in the first quarter of 2017.

Salaries and benefits increased \$287 thousand, or 13.1%, to \$2.48 million in the first quarter of 2018 from \$2.19 million in the fourth quarter of 2017 and increased \$290 thousand, or 13.2%, compared to \$2.19 million in the first quarter of 2017. These increases reflect increased costs of staff retention in the lending departments. From the fourth quarter of 2017 to the first quarter of 2018, base salaries and wages increased \$44 thousand, or 2.67%, from \$1.66 million to \$1.71 million, health insurance premiums increased \$16 thousand, or 10.6%, from \$155 thousand to \$171 thousand, and the employer's portion of payroll taxes increased \$119 thousand, or 119.7%, from \$99 thousand to \$218 thousand, reflecting the seasonal pattern of such taxes. Payroll taxes increased \$19 thousand, or 9.2%, year over year. Other non-interest expenses reflect a reclassification of certain electronic transaction fees, but were otherwise relatively unchanged.

The efficiency ratio (non-interest expenses divided by the sum of net interest income before provision for loan losses and non-interest income) was 69.4% for the first quarter of 2018, compared to 65.8% for the fourth quarter of 2017 and 72.4% for the first quarter of 2017. Annualized non-interest expenses as a percent of average total assets were 2.69%, 2.49%, and 2.53% for the first quarter of 2018, the fourth quarter of 2017, and the first quarter of 2017, respectively.

#### PROVISION FOR INCOME TAXES

The Bank's effective book tax rate was 26.6% in the first quarter of 2018, compared to 89.8% for the fourth quarter of 2017 and 39.4% for the first quarter of 2017. The lower effective rate in the first quarter of 2018 reflects the 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 [www.1stCapital.bank](http://www.1stCapital.bank). The main telephone number is 831.264.4000. The primary facsimile number is 831.264.4001.

*Member FDIC / Equal Opportunity 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.

**This news release is available at the [www.1stCapital.bank](http://www.1stCapital.bank) internet site for no charge.**

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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>2018</u>	December 31, <u>2017</u>	September 30, <u>2017</u>	March 31, <u>2017</u>
<b>Assets</b>				
Cash and due from banks	\$ 11,772	\$ 7,727	\$ 27,484	\$ 20,999
Funds held at the Federal Reserve Bank <sup>2</sup>	46,920	56,249	32,903	37,975
Time deposits at other financial institutions	996	1,743	747	747
Available-for-sale securities, at fair value	71,300	74,927	72,685	73,504
Loans receivable held for sale	1,000	--	--	--
<b>Loans receivable held for investment:</b>				
Construction / land (including farmland)	17,453	16,301	16,532	20,155
Residential 1 to 4 units	140,474	115,340	106,670	113,397
Home equity lines of credit	6,565	8,832	8,804	10,207
Multifamily	54,109	51,983	61,773	53,471
Owner occupied commercial real estate	64,009	67,326	67,124	61,182
Investor commercial real estate	117,896	105,196	102,904	95,485
Commercial and industrial	40,307	51,663	50,145	44,548
Other loans	11,685	11,292	12,560	10,108
Total loans held for investment	<u>452,498</u>	<u>427,933</u>	<u>426,512</u>	<u>408,553</u>
Allowance for loan losses	<u>(6,410)</u>	<u>(6,378)</u>	<u>(6,301)</u>	<u>(6,208)</u>
Net loans	446,088	421,555	420,211	402,345
Premises and equipment, net	2,315	2,308	2,376	1,824
Bank owned life insurance	7,706	7,654	7,599	7,487
Investment in FHLB <sup>3</sup> stock, at cost	3,163	3,163	3,163	2,939
Accrued interest receivable and other assets	5,535	4,905	6,168	5,668
<b>Total assets</b>	<u><u>\$ 596,795</u></u>	<u><u>\$ 580,231</u></u>	<u><u>\$ 573,336</u></u>	<u><u>\$ 553,488</u></u>
<b>Liabilities and shareholders' equity</b>				
<b>Deposits:</b>				
Noninterest bearing demand deposits	\$ 236,358	\$ 261,705	\$ 238,560	\$ 211,599
Interest bearing checking accounts	39,606	35,082	39,622	36,907
Money market deposits	125,147	107,101	119,384	126,638
Savings deposits	128,659	110,058	109,193	115,094
Time deposits	12,295	12,130	12,922	13,181
Total deposits	<u>542,065</u>	<u>526,076</u>	<u>519,681</u>	<u>503,419</u>
Accrued interest payable and other liabilities	1,839	2,163	2,060	1,283
Shareholders' equity	52,891	51,992	51,595	48,786
<b>Total liabilities and shareholders' equity</b>	<u><u>\$ 596,795</u></u>	<u><u>\$ 580,231</u></u>	<u><u>\$ 573,336</u></u>	<u><u>\$ 553,488</u></u>
Shares outstanding	4,697,873	4,686,521	4,443,889	4,372,184
Nominal and tangible book value per share	\$ 11.26	\$ 11.09	\$ 11.61	\$ 11.16
Ratio of net loans to total deposits	82.29%	80.13%	80.86%	79.92%

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>2018</u>	December 31, <u>2017</u>	September 30, <u>2017</u>	March 31, <u>2017</u>
<b><u>Operating Results Data</u><sup>1</sup></b>				
Interest and dividend income				
Loans	\$ 4,769	\$ 4,769	\$ 4,539	\$ 4,187
Investment securities	367	313	306	246
Federal Home Loan Bank stock	56	56	56	70
Other	174	130	165	102
Total interest and dividend income	<u>5,366</u>	<u>5,268</u>	<u>5,066</u>	<u>4,605</u>
Interest expense				
Interest bearing checking	4	5	3	4
Money market deposits	72	70	78	78
Savings deposits	70	64	64	64
Time deposits	9	9	9	8
Total interest expense on deposits	<u>155</u>	<u>148</u>	<u>154</u>	<u>154</u>
Interest expense on borrowings	3	--	--	--
Total interest expense	<u>158</u>	<u>148</u>	<u>154</u>	<u>154</u>
Net interest income	5,208	5,120	4,912	4,451
Provision for loan losses	<u>20</u>	<u>65</u>	<u>85</u>	<u>--</u>
Net interest income after provision for loan losses	<u>5,188</u>	<u>5,055</u>	<u>4,827</u>	<u>4,451</u>
Noninterest income				
Service charges on deposits	71	68	65	52
BOLI dividend income	52	55	56	54
Gain on sale of loans	70	82	98	72
Other	188	106	127	78
Total noninterest income	<u>381</u>	<u>311</u>	<u>346</u>	<u>256</u>

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

	Three Months Ended			
	March 31, 2018	December 31, 2017	September 30, 2017	March 31, 2017
Noninterest expenses				
Salaries and benefits	2,481	2,194	2,125	2,191
Occupancy	290	282	283	229
Data and item processing	196	183	186	135
Professional services	138	168	236	124
Furniture and equipment	126	120	115	124
Provision for unfunded loan commitments	(6)	17	5	18
Other	656	611	566	587
Total noninterest expenses	3,881	3,575	3,516	3,408
Income before provision for income taxes	1,688	1,791	1,657	1,299
Provision for income taxes	449	1,609	636	512
Net income	\$ 1,239	\$ 182	\$ 1,021	\$ 787

**Common Share Data<sup>2</sup>**

Earnings per common share

Basic	\$ 0.26	\$ 0.04	\$ 0.22	\$ 0.17
Diluted	\$ 0.26	\$ 0.04	\$ 0.22	\$ 0.17

Weighted average common shares  
outstanding

Basic	4,691,138	4,680,948	4,659,886	4,592,919
Diluted	4,776,021	4,763,936	4,723,406	4,667,064

<sup>1</sup> = Certain reclassifications have been made to prior period financial statements to conform them to the current period presentation.

<sup>2</sup> = Earnings per common share and weighted average common shares outstanding have been restated to reflect the effect of the 5% stock dividend declared November 22, 2017 and paid December 15, 2017.



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

<u>Asset Quality</u>	March 31, <u>2018</u>	December 31, <u>2017</u>	September 30, <u>2017</u>	March 31, <u>2017</u>
Loans past due 90 days or more and accruing interest	\$ --	\$ --	\$ --	\$ --
Nonaccrual restructured loans	--	--	--	--
Other nonaccrual loans	252	255	257	124
Other real estate owned	--	--	--	--
	<u>\$ 252</u>	<u>\$ 255</u>	<u>\$ 257</u>	<u>\$ 124</u>
Allowance for loan losses to total loans	1.42%	1.49%	1.48%	1.52%
Allowance for loan losses to nonperforming loans	2,543.65%	2,501.18%	2,451.75%	5,006.45%
Nonaccrual loans to total loans	0.06%	0.06%	0.06%	0.03%
Nonperforming assets to total assets	0.04%	0.04%	0.04%	0.02%

**Regulatory Capital and Ratios**

Common equity tier 1 capital	\$ 53,515	\$ 52,097	\$ 51,726	\$ 49,137
Tier 1 regulatory capital	\$ 53,515	\$ 52,097	\$ 51,726	\$ 49,137
Total regulatory capital	\$ 58,722	\$ 57,161	\$ 56,756	\$ 53,889
Tier 1 leverage ratio	9.14%	9.14%	9.07%	8.97%
Common equity tier 1 risk based capital ratio	12.88%	12.91%	12.90%	12.98%
Tier 1 risk based capital ratio	12.88%	12.91%	12.90%	12.98%
Total risk based capital ratio	14.14%	14.16%	14.15%	14.23%

	Three Months Ended			
	March 31, <u>2018</u>	December 31, <u>2017</u>	September 30, <u>2017</u>	March 31, <u>2017</u>
<b><u>Selected Financial Ratios<sup>1</sup></u></b>				
Return on average total assets	0.86%	0.13%	0.71%	0.58%
Return on average shareholders' equity	9.51%	1.38%	7.93%	6.61%
Net interest margin	3.70%	3.68%	3.52%	3.36%
Net interest income to average total assets	3.61%	3.56%	3.42%	3.30%
Efficiency ratio	69.44%	65.83%	66.87%	72.40%

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

	Three Months Ended			
	March 31, <u>2018</u>	December 31, <u>2017</u>	September 30, <u>2017</u>	March 31, <u>2017</u>
<b><u>Selected Average Balances</u></b>				
Gross loans	\$ 441,069	\$ 431,144	\$ 419,933	\$ 400,404
Investment securities	73,879	73,586	74,471	76,057
Federal Home Loan Bank stock	3,163	3,163	3,163	2,939
Other interest earning assets	52,773	44,568	56,673	57,376
Total interest earning assets	<u>\$ 570,884</u>	<u>\$ 552,461</u>	<u>\$ 554,240</u>	<u>\$ 536,776</u>
Total assets	\$ 585,047	\$ 569,812	\$ 569,570	\$ 546,805
Interest bearing checking accounts	\$ 35,668	\$ 36,702	\$ 33,672	\$ 34,223
Money market deposits	115,386	112,179	119,533	121,748
Savings deposits	120,323	109,936	109,916	108,703
Time deposits	12,543	12,368	12,985	13,097
Total interest bearing deposits	<u>283,920</u>	<u>271,185</u>	<u>276,106</u>	<u>277,771</u>
Noninterest bearing demand deposits	245,085	243,874	240,149	219,807
Total deposits	<u>\$ 529,005</u>	<u>\$ 515,059</u>	<u>\$ 516,255</u>	<u>\$ 497,578</u>
Borrowings	\$ 933	\$ 1	\$ --	\$ --
Shareholders' equity	\$ 52,826	\$ 52,365	\$ 51,049	\$ 48,260