



September 11, 2020

Fellow Shareholder:

The Board of Directors of 1<sup>st</sup> Capital Bank (the “Bank”) has determined that it is in the best interests of the Bank and its shareholders to form a bank holding company. The Bank is proposing a reorganization that, if approved by our banking regulators and by our shareholders, will result in the Bank becoming a wholly-owned subsidiary of a newly-organized bank holding company, 1<sup>st</sup> Capital Bancorp (the “Company”), that will, in turn, be owned by the current shareholders of the Bank. The reorganization involves only a change in the form of ownership of the Bank, does not involve a sale of the Bank and will not change your equity or voting interest relative to other shareholders. If the reorganization is completed, the Bank’s shareholders will receive one share of Company common stock for every share of Bank common stock that they own, the currently-outstanding stock options to purchase Bank common stock will be converted into identical stock options to purchase a like number of shares of Company common stock and the currently-issued and outstanding restricted stock will be converted into issued and outstanding restricted stock of the Company having the same restrictions as were applicable to the restricted stock issued by the Bank and will be subject to divestiture on the same terms as the restricted stock issued by the Bank. Current Bank common stock certificates will be converted without recognition of gain or loss for income tax purposes, into Company common stock on a share-for-share basis, and all Bank common stock certificates will represent shares of Company and will remain valid. You will not be required to exchange your Bank common stock certificates into Company certificates.

The reorganization can only occur if the holders of a majority of the outstanding shares of Bank common stock approve it. We are holding a special shareholders meeting on October 8, 2020 for this purpose. At the special meeting, shareholders will be asked to consider and vote on the proposed reorganization.

This document is both a proxy statement by which the Board of Directors of the Bank is soliciting proxies for use at the special meeting and an offering memorandum relating to the shares of Company common stock that the Bank’s shareholders will receive if the reorganization is completed.

Our Board of Directors believes that the reorganization is in the best interests of the Bank and its shareholders, unanimously approves the reorganization proposal, and unanimously recommends that you vote “FOR” approval of the reorganization.

A detailed explanation of the proposed reorganization and the conversion of the stock option plans are contained in the accompanying Proxy Statement/Offering Memorandum. Also enclosed is a form of proxy card and a prepared return addresses envelope.

**YOUR VOTE IS VERY IMPORTANT**, regardless of how many shares you own. Whether you plan to attend the special meeting or not, please complete, date, sign and return the proxy form, or

vote by Internet or phone. If you prefer to attend the meeting and vote in person, you may do so, even if you turn in your proxy or otherwise vote ahead of time.

If you do plan to attend the meeting in person, please contact us so that we may make appropriate arrangements to maintain mandated social distancing protocols and conform with any other health and safety guidelines that may be in effect at the time of the meeting.

Due to the emerging public health impact of the coronavirus outbreak (COVID-19) and to support the health and well-being of our shareholders, we will also be providing access to this Special Meeting in a virtual meeting format as discussed the Notice of Special Meeting of Shareholders and in the Proxy Statement/Offering Memorandum.

Please accept our thanks for your continued support and confidence in 1<sup>st</sup> Capital Bank.

Sincerely,

A handwritten signature in black ink, appearing to read "Kurt J. Gollnick", with a large, stylized loop at the end.

Kurt J. Gollnick  
*Chairman of the Board*

150 Main Street, Suite 150, Salinas, California 93901 ● Telephone (831) 264-4000

**1<sup>st</sup> CAPITAL BANK**  
**150 Main Street, Suite 150**  
**Salinas, California 93901**  
**(831) 264-4000**  
**www.1stCapital.Bank**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

To Be Held on October 8, 2020

September 11, 2020

To Our Shareholders:

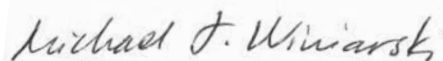
The Special Meeting of Shareholders of 1<sup>st</sup> Capital Bank (“Bank”) will be held at 150 Main Street, Salinas, California 93901 on Thursday, October 8, 2020, at 6:00 p.m. Pacific Time, and will be available virtually over the internet at [www.meetingcenter.io/212680834](http://www.meetingcenter.io/212680834) by entering the information that is printed in the shaded bar located on the reverse side of your proxy card and entering the meeting password “FISB2020,” for the following purposes:

1. To consider and vote upon a Plan of Reorganization and Agreement of Merger among 1<sup>st</sup> Capital Bank, 1<sup>st</sup> Capital Bancorp, and 1<sup>st</sup> Capital Merger Corp. dated July 22, 2020 (the “Reorganization Agreement”) and Reorganization that would establish a holding company for the Bank.
2. To consider and vote upon a proposal to grant discretionary authority to adjourn the Special Meeting if necessary to permit further solicitation of proxies if there are not sufficient votes at the time of the Special Meeting to approve the principal terms of the Reorganization Agreement and the Reorganization.

Shareholders of record at the close of business on September 8, 2020 are entitled to notice of and to vote at the Special Meeting or any and all adjournments or postponements thereof. This Notice, the Proxy Statement, and a proxy are being made available on or about September 11, 2020.

Regardless of whether you plan to attend the Special Meeting in person or virtually, we urge you to vote “**FOR**” proposals 1 and 2 as soon as possible.

By Order of the Board of Directors



Michael J. Winiarski  
*Corporate Secretary*

**Whether or not you expect to be present at the Special Meeting, please vote online, by telephone, or complete, date, sign, and promptly return your proxy in the enclosed business reply envelope, which requires no postage if mailed in the United States. The proxy may be revoked at any time prior to exercise. If you are present at the Special Meeting, you may, if you wish, revoke your proxy at that time and exercise the right to vote your shares personally.**



**1<sup>st</sup> CAPITAL BANK**  
**PROXY STATEMENT AND**  
**1<sup>st</sup> CAPITAL BANCORP OFFERING MEMORANDUM**  
**Approximately 5,542,593 shares of Common Stock**

This proxy statement/offering memorandum (“Proxy Statement”) relates to the solicitation of proxies for the Special Meeting of Shareholders of 1<sup>st</sup> Capital Bank (“Bank”) to be held at 150 South Main Street, Salinas, California, 93901, on Thursday, October 8, 2020, at 6:00 p.m. Pacific Time, and available virtually over the internet at [www.meetingcenter.io/212680834](http://www.meetingcenter.io/212680834) by entering the information that is printed in the shaded bar located on the reverse side of your proxy card and using the meeting password “FISB2020,” and at any and all adjournments or postponements thereof (“Special Meeting”). At the meeting, if you are a shareholder of record on September 8, 2020, you will:

- vote upon a Plan of Reorganization and Agreement of Merger among 1<sup>st</sup> Capital Bank, 1<sup>st</sup> Capital Bancorp, and 1<sup>st</sup> Capital Merger Corp. dated July 22, 2020 (the “Reorganization Agreement”) and Reorganization that would establish a holding company for the Bank.
- vote upon a proposal to grant discretionary authority to adjourn the Special Meeting if necessary to permit further solicitation of proxies if there are not sufficient votes at the time of the Special Meeting to approve the principal terms of the Reorganization Agreement and the Reorganization.

This Proxy Statement is also an offering memorandum of 1<sup>st</sup> Capital Bancorp (“Company”) for the shares of its common stock, no par value, which it will issue if the holding company transaction proceeds. There has only been a limited trading market for the shares of 1<sup>st</sup> Capital Bank and it is not anticipated that an active market for the shares of 1<sup>st</sup> Capital Bancorp will exist as a result of this transaction.

As a holder of 1<sup>st</sup> Capital Bancorp stock, you will have substantially the same rights that you currently have with your shares of 1<sup>st</sup> Capital Bank common stock, other than as required by California law. Additionally, certain provisions of 1<sup>st</sup> Capital Bank’s charter documents and California law may have the effect of deterring takeover offers. **See the discussions of “Comparison of the Rights of Holders of Company Common Stock and Bank Common Stock” and “Certain Anti-Takeover Provisions.”**

**Neither the Securities and Exchange Commission, the Federal Reserve nor any state securities commissioner has approved or disapproved these securities or determined if this offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense.**

**These securities are not deposits, accounts or other obligations of a bank and are not insured by the Federal Deposit Insurance Corporation.**

The date of this Proxy Statement is September 11, 2020

### Summary

*This summary highlights selected information from this document. It does not contain all of the information that may be important to you. We urge you to read carefully the entire document and the appendices in order to fully understand the matters on which you will be voting.*

#### **Special Meeting**

1<sup>st</sup> Capital Bank will hold a special meeting of shareholders on Thursday, October 8, 2020, at 6:00 p.m. at 150 South Main Street, Salinas, California, 93901. At the meeting, if you are a shareholder of record on September 8, 2020, you will:

- vote upon a Reorganization Agreement and Reorganization that would establish a holding company for the Bank.
- vote upon a proposal to grant discretionary authority to adjourn the Special Meeting if necessary to permit further solicitation of proxies if there are not sufficient votes at the time of the Special Meeting to approve the principal terms of the Reorganization Agreement and the Reorganization.

#### **Proposal No. 1 - Holding Company Formation**

##### **Holding Company Formation**

The Board of Directors of 1<sup>st</sup> Capital Bank has determined it is in the best interests of the shareholders of the Bank to reorganize the operating structure of the Bank by forming a holding company to be the parent company of the Bank, and for the Bank's shareholders to exchange their stock in the Bank for shares of stock in the new holding company (the "Reorganization").

##### **Parties to the Reorganization:**

**1<sup>st</sup> Capital Bank** is a California state bank that commenced operations in April 2007. It currently maintains its headquarters banking office and five other branch offices. At June 30, 2020, the Bank had total assets of \$737 million, total deposits of \$651 million and total shareholders' equity of \$71 million.

**1<sup>st</sup> Capital Bancorp** is a California corporation that was recently formed for the purpose of becoming the parent bank holding company of the Bank. The Company has no operating history. The address of its principal office is 150 Main Street, Suite 150, Salinas, California.

**1<sup>st</sup> Capital Merger Corp.** ("Interim") will be a wholly-owned subsidiary of the Company organized by the Bank and the Company in connection with the Reorganization. If the Reorganization is approved by the shareholders of the Bank and the other conditions set forth in the Reorganization Agreement are satisfied or waived, Interim will merge with and into the Bank, with the Bank surviving the merger. (See, "HOLDING COMPANY FORMATION – Description of the Reorganization").

## **The Reorganization**

Pursuant to the Reorganization Agreement entered into by the Company, Interim and the Bank among other things:

- Interim will merge with and into the Bank, which will continue to be named “1<sup>st</sup> Capital Bank”;
- the business of the Bank will continue in the form of the combined companies unaffected and unimpaired by the Reorganization;
- each outstanding share of Bank common stock will convert into and be exchanged for one share of Company common stock;
- the Company will assume the Bank’s equity based compensation plan, as well as its other employee stock based plans;
- the Bank will be a wholly-owned subsidiary of the Company; and
- the existing holders of Bank common stock will own all of the outstanding shares of Company common stock.

The Company expects that the Reorganization will close early in the fourth quarter of 2020. (See, “HOLDING COMPANY FORMATION - Description of the Reorganization”).

## **Reasons for the Reorganization**

The Board of Directors of the Bank believes that a holding company form of organization will:

- provide flexibility for meeting the financing needs of the enterprise, including providing capital to the Bank, either through stock offerings, debt offerings, or borrowing at terms and conditions otherwise unavailable to the Bank as a stand alone entity;
- provide greater flexibility in responding to evolving changes in the banking and financial services industries and meeting the competition of other financial institutions; and
- facilitate the acquisition of other financial institutions and companies engaged in other related activities.

There are no current agreements, discussions or understandings for the diversification of operations through use of the holding company. The Bank’s Board of Directors believes, however,

that the ability to act promptly to take advantage of any desirable opportunities that may arise in the future could be jeopardized if formation of the Company is deferred.

### **Recommendation of the Board of Directors**

The Board of Directors unanimously recommends that you approve the Reorganization Agreement and the Reorganization. (See, “HOLDING COMPANY FORMATION - Recommendation of the Board of Directors”).

### **Vote Required**

Approval of the Reorganization Agreement and the Reorganization requires the affirmative vote of the holders of not less than a majority of the issued and outstanding shares of Bank common stock. (See, “HOLDING COMPANY FORMATION - Description of the Reorganization”).

### **Conditions to the Reorganization**

The Reorganization Agreement is conditioned upon the following:

- approval and ratification of the Reorganization Agreement and the Reorganization by the holders of not less than a majority of the outstanding shares of the Bank, Interim and the Company as required by applicable law;
- receipt of all other approvals and consents, and satisfaction of all other requirements as are prescribed by applicable law in connection with the Reorganization;
- issuance (unless waived by the Bank, Interim and the Company) of a favorable opinion, in form and substance satisfactory to the parties and their counsel, with respect to the tax consequences to the parties and their shareholders resulting from the Reorganization; and
- performance by each party hereto of all its obligations under the Reorganization Agreement. (See, “HOLDING COMPANY FORMATION - Conditions to the Reorganization and Termination”).

### **Tax Consequences**

You will recognize neither gain nor loss for federal income tax purposes as a result of the Reorganization unless you exercise dissenters’ rights. (See, “HOLDING COMPANY FORMATION - Income Tax Consequences”).



## **Dissenters' Rights**

By following certain procedures, you may dissent from the Reorganization and obtain the value of your shares in cash. The procedures for dissenting are set forth in Chapter 13 of the California General Corporation Law which is attached as Appendix "A" (See, "HOLDING COMPANY FORMATION - Dissenting Shareholders Rights").

## **Management of the Company**

The directors and officers of the Company are the same persons who currently serve as directors and officers of the Bank. (See, "HOLDING COMPANY FORMATION - Description of 1<sup>st</sup> Capital Bancorp - Management").

## **Comparison of the Rights of Holders of Company Common Stock and Bank Common Stock And Anti-Takeover Provisions**

As a holder of Company common stock, you will have substantially the same rights that you currently have with your shares of Bank common stock, other than as required by California law. Additionally, certain provisions of the Company's charter documents and California law may have the effect of deterring takeover offers. (See, "HOLDING COMPANY FORMATION - Comparison of the Rights of Holders of Company Common Stock and Bank Common Stock" and "HOLDING COMPANY FORMATION - Certain Anti-Takeover Provisions").

## **Market for Company Common Stock and Dividends**

There has been a limited trading market for the shares of the Bank and it is not anticipated that an active market for the shares of the Company will exist as a result of the Reorganization.

The Bank has never issued cash dividends to shareholders but issued a 2.00% stock dividend that was paid in 2012, 5.00% stock dividends that were paid in 2014, 2015, 2016 and 2017, and 7.00% stock dividends that were paid in 2018 and 2019, and it is anticipated that the Company will take a similar approach to dividend policy; however, whether or not stock or cash dividends will be paid in the future by the Company will be determined by the Board of Directors after consideration of various factors, including key factors of the Bank's profitability and regulatory capital ratios. The Company will be almost exclusively dependent on the receipt of cash dividends from the Bank in order to provide cash for the Company to pay for operating expenses. Moreover, if the Company borrows funds or utilizes trust preferred securities to provide capital to the Bank, it will be dependent on cash dividends from the Bank to pay principal and interest on such debt. There are regulatory restrictions on the amount of cash dividends that a state bank may pay. There may also be certain covenants within debt instruments or trust preferred securities that will restrict the payment of dividends. (See, "HOLDING COMPANY FORMATION - Comparison of the Rights of Holders of Company Common Stock and Bank Common Stock" and "HOLDING COMPANY FORMATION - Market for Company Common Stock and Dividends").

## Forward Looking Statements

Certain statements contained in this Proxy Statement, including, without limitation, statements containing the words “believes,” “anticipates,” “intends,” “expects,” “estimates,” “may,” “could” and words of similar impact, constitute “forward looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934. Such forward looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Bank and/or the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Such factors include, among others, the following:

- general economic and business conditions in those areas in which the Bank operates;
- demographic changes;
- competition;
- fluctuations in interest rates;
- changes in business strategy or development plans;
- changes in governmental regulation;
- credit quality;
- the availability of capital to fund the expansion of the Bank’s and/or the Company’s business;
- economic, political and global changes arising from the War on Terrorism;
- economic and regulatory impacts of the COVID-19 pandemic; and
- other factors referenced in this Proxy Statement.

**When relying on forward looking statements to make decisions with respect to the Bank and/or Company, investors and others are cautioned to consider these and other risks and uncertainties.** The Bank and the Company disclaim any obligation to update any such factors or to publicly announce the results of any revisions to any of the forward looking statements contained herein to reflect future events or developments.

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## INFORMATION CONCERNING THE SOLICITATION OF PROXIES

This Proxy Statement is being furnished to the shareholders of 1<sup>st</sup> Capital Bank, a California banking corporation (the “Bank”), in connection with the solicitation of proxies by the Board of Directors for use at the Special Meeting of Shareholders to be held at 150 Main Street, Salinas, California 93901 on Thursday, October 8, 2020 at 6:00 p.m. local time, and also available virtually over the internet at [www.meetingcenter.io/212680834](http://www.meetingcenter.io/212680834) by entering the information that is printed in the shaded bar located on the reverse side of your proxy card and using the meeting password “FISB2020” (the “Meeting”). Only shareholders of record on September 8, 2020 (the “Record Date”) will be entitled to notice of the Meeting and to vote at the Meeting. At the close of business on the Record Date, the Bank had outstanding and entitled to be voted 5,542,593 shares of its no par value common stock (the “Common Stock”).

The Special Meeting of Shareholders will be held for the purpose of considering and voting on the following matters:

1. ***Holding Company Formation.*** To consider and vote upon a Reorganization Agreement that would establish a holding company for the Bank.
2. ***Adjournment.*** To consider and vote upon a proposal to grant discretionary authority to adjourn the Special Meeting if necessary to permit further solicitation of proxies if there are not sufficient votes at the time of the Special Meeting to approve the principal terms of the Reorganization Agreement and the Reorganization.

If your Bank common stock is held by a broker, bank, or other nominee, you will receive instructions from them that you must follow in order to have your shares voted. If you hold your shares in your own name as a holder of record, you may instruct the proxies how to vote your shares by using the internet voting site listed on the proxy card, or by signing, dating and mailing the proxy card in the postage paid envelope that we have provided to you. Specific instructions for using the internet voting system are on the proxy card. The proxies will vote your shares in accordance with the direction you give by internet voting. If you sign and return a proxy card without giving specific instructions, your shares will be voted for the matters of business listed in this Proxy Statement.

Shareholders are entitled to one vote for each share held on both items of business presented at the Meeting.

Any person giving a proxy in the form accompanying this Proxy Statement has the power to revoke that proxy prior to its exercise. The proxy may be revoked prior to the Meeting by delivering to the Secretary of the Bank either a written instrument revoking the proxy or a duly executed proxy bearing a later date. The proxy may also be revoked by the shareholder by attending and voting at the Meeting. Unless you decide to attend the meeting and vote your shares in person after you have submitted voting instructions to the proxies, we recommend that you revoke or amend your prior instructions in the same way you initially gave them - that is, by internet or in writing. This will

help to ensure that your shares are voted the way you have finally determined you wish them to be voted.

Votes cast by proxy or in person at the Meeting will be counted by the Inspector of Election for the Meeting. The Inspector will treat abstentions and “broker non-votes” (shares held by brokers or nominees as to which instructions have not been received from the beneficial owners or persons entitled to vote and the broker or nominee does not have discretionary voting power under applicable rules of the stock exchange or other self-regulatory organization of which the broker or nominee is a member) as shares that are present and entitled to vote for purposes of determining the presence of a quorum. Abstentions and “broker non-votes” will not be counted as shares voted for purposes of determining the outcome of any matter as may properly come before the Meeting.

Unless otherwise instructed, the proxy holders will vote each valid proxy, which is not revoked,

- **“FOR”** approval of the Reorganization Agreement and formation of the Bank’s Holding Company
- **“FOR”** a proposal to grant discretionary authority to adjourn the Special Meeting if necessary to permit further solicitation of proxies if there are not sufficient votes at the time of the Special Meeting to approve the principal terms of the Reorganization Agreement and the Reorganization.

The Bank will bear the entire cost of preparing, assembling, printing and mailing proxy materials furnished by the Board of Directors to shareholders. Copies of proxy materials will be furnished to brokerage houses, fiduciaries and custodians to be forwarded to the beneficial owners of the Bank’s common stock. In addition to the solicitation of proxies by use of the regular and electronic mail, some of the officers, directors and regular employees of the Bank, may (without additional compensation) solicit proxies by telephone or personal interview and Bank may retain the services of a proxy solicitation firm, the costs of which will be borne by the Bank.

## **QUESTIONS AND ANSWERS ABOUT PROXY MATERIALS AND THE SPECIAL MEETING**

**Question:** WHY AM I RECEIVING THESE MATERIALS?

**Answer:** The Board of Directors of 1<sup>st</sup> Capital Bank is providing this Proxy Statement to you in connection with the Bank's Special Meeting of Shareholders regarding the formation of a bank holding company. As a shareholder, you are invited to attend the Special Meeting and are entitled to vote on each proposal described in this Proxy Statement.

**Question:** WHO IS ENTITLED TO VOTE?

**Answer:** Shareholders who own our no par value common stock as of the close of business on September 8, 2020 ("Record Date") may vote at the Special Meeting. There were 5,542,593 shares of Bank common stock outstanding on the Record Date.

**Question:** HOW MANY VOTES AM I ENTITLED TO?

**Answer:** Shareholders are entitled to one vote per share held as of the Record Date with respect to each matter brought before the shareholders at the Special Meeting.

**Question:** WHAT IS THE DIFFERENCE BETWEEN HOLDING SHARES AS A SHAREHOLDER OF RECORD AND BEING A BENEFICIAL OWNER?

**Answer:** Many shareholders hold the Bank's shares beneficially through a stockbroker, bank, or other nominee, rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

**Shareholder of Record** – If your shares are registered directly in your name with the Bank's transfer agent (Computershare), you are considered, with respect to those shares, the *shareholder of record*, and the Notice of Availability of Proxy Materials, and this Proxy Statement and the accompanying Notice are being sent to you by the Bank. As the *shareholder of record*, you have the right to vote by proxy or to vote in person at the Special Meeting. The Bank has also enclosed a proxy for you to use, or you may vote online or by telephone by following the instructions on the proxy.

**Beneficial Owner** – If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the *beneficial owner* of shares held in street name, and this Proxy Statement and Notice are being forwarded to you by your broker, bank, or nominee which is considered, with respect to those shares, the *shareholder of record*. As the *beneficial owner*, you have the right to direct your broker, bank, or nominee how to vote and are also invited to attend the Special Meeting. If you wish to vote these shares at the Special Meeting, you must contact your broker, bank, or nominee for instructions as to how to do so. Your broker, bank, or nominee will send you a voting instruction card, or provide you separate instructions for how to vote online or by telephone, for you to use in directing the broker, bank, or nominee how to vote your shares on your behalf.

***Question:*** WHAT IS THE PROXY?

***Answer:*** The proxy enables you to appoint Kurt J. Gollnick and Gregory T. Thelen as your proxy holders and representatives at the Special Meeting. By completing and returning the proxy, you are authorizing them to vote your shares at the Special Meeting as you instructed on your proxy. By doing so, your shares will be voted whether or not you attend the Special Meeting. Even if you plan to attend the Special Meeting, it is a good idea to complete and return your proxy before the Special Meeting date just in case your plans change. If a proposal comes up for vote at the Special Meeting that is not on the proxy, the proxy holders will vote your shares, under your proxy, in accordance with the recommendation of the Board of Directors.

***Question:*** WHAT AM I BEING ASKED TO VOTE ON?

***Answer:*** You are being asked to vote on a proposed Reorganization in which the Company will become a bank holding company and will own all of the shares of the Bank's common stock.

If the Reorganization is approved and subsequently completed, all of your shares of Bank common stock, no par value, will be automatically converted into the right to receive an equal number of shares of Company common stock, no par value, without further action on your part. Furthermore, if the Reorganization is consummated, and if you hold stock options to acquire shares of Bank common stock, these stock options will be automatically converted into stock options to acquire shares of Company common stock and if you hold restricted stock issued by the Bank, such shares of restricted stock will be converted into shares of restricted stock of the Company having the same restrictions as were applicable to the restricted stock issued by the Bank and will be subject to divestiture on the same terms as the restricted stock issued by the Bank.

***Question:*** WHAT IS A BANK HOLDING COMPANY?

***Answer:*** A bank holding company is a corporation that owns a substantial amount of the common stock of a bank. In this case, it is proposed that the Company would own 100% of the outstanding capital stock of the Bank.

***Question:*** WHY DO WE NEED A BANK HOLDING COMPANY?

***Answer:*** The Board believes that the bank holding company structure will help our overall organization to be more competitive. With the bank holding company structure, we believe that, as the Bank continues to grow and prosper, we will be able to engage in new lines of business more easily and to possibly buy other banks or branches of other banks if those opportunities arise in the future. In addition, the holding company structure will permit the efficient use of debt to fund these types of activities without having to raise additional capital by selling stock. The reasons why we believe a bank holding company is advantageous are explained more fully under the section entitled "HOLDING COMPANY FORMATION – Reasons for the Reorganization" herein.

**Question:** DOES THIS MEAN THE BANK IS BEING SOLD?

**Answer:** The Bank is not being sold and you are not being asked to relinquish your ownership interests in our organization. Rather, if the Reorganization is completed, you will receive one share of Company common stock for every share of Bank common stock that you own. Furthermore, any outstanding stock options to purchase Bank common stock you own will be converted into identical stock options to purchase an identical number of shares of Company common stock and any restricted stock you own will be converted on a one-for-one basis into restricted stock of the Company having the same restrictions as were applicable to the restricted stock issued by the Bank and will be subject to divestiture on the same terms as the restricted stock issued by the Bank.

The end result is that you will own the Company's stock and the Company will own the Bank.

**Question:** WHAT HAPPENS TO THE BANK IF THE REORGANIZATION IS COMPLETED?

**Answer:** The Bank will continue to operate with all of its same directors, officers and employees and at the same locations. The only difference is that all of the common stock of the Bank will be owned by the Company and you and other shareholders will own shares of the Company common stock rather than shares of Bank common stock.

**Question:** WILL MANAGEMENT OF THE COMPANY DIFFER FROM THE BANK'S CURRENT MANAGEMENT?

**Answer:** No. The management of the Company will be the same as the current management of the Bank, including the directors of the Company, who will be the same individuals as the directors of the Bank.

**Question:** IF I DO NOT WANT TO BE A SHAREHOLDER OF THE COMPANY CAN I CONTINUE TO OWN BANK COMMON STOCK?

**Answer:** No. If the Reorganization is completed, you will not be entitled to hold Bank common stock, Bank common stock options or Bank restricted stock.

**Question:** WHEN WILL THE REORGANIZATION BE COMPLETED?

**Answer:** The Reorganization will occur after we receive approval from the shareholders and regulators and all of the other conditions have been satisfied or waived. Currently, we anticipate that the Reorganization will be completed by early in the 4<sup>th</sup> quarter of 2020, although we can provide no assurances that the Reorganization will be completed by such date or at all.

**Question:** IF I HOLD PHYSICAL SHARE CERTIFICATES, SHOULD I SEND IN MY BANK COMMON STOCK CERTIFICATES NOW?

**Answer:** No. Please do not send in your Bank common stock certificates with your proxy. After the Reorganization, you will receive instructions for returning your certificates representing shares of Bank common stock to our transfer agent and the shares of Company common stock represented

thereby will be reissued to you in book-entry form, unless you opt out and wish to have the transfer agent issue physical share certificates representing your shares of Company common stock. See “HOLDING COMPANY FORMATION – Exchange of Share Certificates” herein.

**Question:** WHAT SHOULD I DO IF I HOLD MY SHARES OF BANK COMMON STOCK IN BOOK-ENTRY FORM?

**Answer:** You are not required to take any specific actions if your shares of Bank common stock are held in book-entry form. After the completion of the Reorganization, shares of Bank common stock held in book-entry form will be automatically converted into shares of the Company common stock in book-entry form, and you will receive notice of the same.

**Question:** HOW WILL OUR GOVERNMENT SUPERVISION AND REGULATION CHANGE?

**Answer:** After the Reorganization is completed: (1) the Federal Bank Holding Company Act of 1956, as amended (the “BHCA”), will apply to the Company, and the Board of Governors of the Federal Reserve System (the “Federal Reserve”) will regulate its operations as a bank holding company; (2) the Bank will continue to be regulated by the California Department of Business Oversight (the “DBO”) and the Federal Deposit Insurance Corporation (the “FDIC”); and (3) the deposits of the Bank will continue to be insured by the FDIC to the fullest extent provided by law.

**Question:** WHAT OTHER APPROVALS ARE REQUIRED?

**Answer:** We cannot complete the Reorganization unless the Federal Reserve, the FDIC and the DBO approve it. We have filed all required documents (or will shortly file all remaining supplements to such documents) with these regulators. Although we do not know of any reason why we would be unable to obtain the requisite regulatory approvals in a timely manner, we cannot be certain that we will obtain them, or when we will obtain them.

**Question:** WILL THE BANK CONTINUE TO HAVE AN ANNUAL SHAREHOLDERS MEETING?

**Answer:** Yes. However, if the Reorganization is completed, Company shareholders will have the right to elect the directors of the Company, but will no longer have any right to elect the directors of the Bank. The Company currently plans to hold annual shareholders meetings in substantially the same fashion that the Bank has held such meetings historically.

**Question:** HOW DO I VOTE?

**Answer:** You may vote by mail, by telephone, or via the internet. If voting by mail, mark your choices on the enclosed proxy and sign, date, and return it in the enclosed pre-addressed, postage pre-paid envelope. If you sign and return your proxy, or vote by telephone or via the internet, but do not make any selections, your shares will be voted:



- **“FOR”** the Reorganization Agreement that would establish a holding company for the Bank.
- **“FOR”** a proposal to grant discretionary authority to adjourn the Special Meeting if necessary to permit further solicitation of proxies if there are not sufficient votes at the time of the Special Meeting to approve the principal terms of the Reorganization Agreement and the Reorganization.

*If you vote by telephone or via the internet, there is no need to return the proxy.*

You may vote in person at the Special Meeting. We will distribute written ballots to anyone who wants to vote in person at the Special Meeting. However, if your shares are held in street name and you are a beneficial owner of the Bank’s shares, you must request a proxy from your broker, bank, or nominee in order to vote in person at the Special Meeting. We will ask you to provide documentation to validate your identity if you wish to vote in person at the Special Meeting.

**Question:** CAN I VOTE BY TELEPHONE OR VIA THE INTERNET?

**Answer:** Yes, if you are a shareholder of record or your brokerage firm supports telephone or internet voting. If you are a shareholder of record:

- To vote by telephone: Call toll free 1-800-652-VOTE (8683) within the United States, U.S. Territories, or Canada on a touch tone telephone. Follow the instructions provided by the recorded message.
- To vote via the internet: You can access [www.investorvote.com/FISB](http://www.investorvote.com/FISB) through the internet or by scanning the QR code on your proxy card with your smartphone. Then follow the instructions on the secure website.

If you are not a shareholder of record, please follow the telephone or internet voting instructions provided by your brokerage firm.

*If you vote by telephone or electronically via the internet, your vote must be received by 12:00 a.m., Pacific Time, on October 8, 2020 to ensure that your vote is counted.*

**Question:** WHAT DOES IT MEAN IF I RECEIVE MORE THAN ONE PROXY?

**Answer:** Your shares are probably registered differently or are in more than one account. Vote each proxy you receive to ensure that all your shares are voted. Unless you need multiple accounts for specific purposes, we recommend that you consolidate as many of your accounts as possible under the same name and address. If you need assistance with this matter and you are a shareholder of record, please contact our transfer agent, Computershare, by telephone at (800) 522-6645, by mail at P.O. Box 505000, Louisville, Kentucky 40233-5000, via overnight delivery at 462 South 4<sup>th</sup> Street, Louisville, Kentucky 40202, or via the internet at [www.computershare.com](http://www.computershare.com). Otherwise, please contact your brokerage firm.

***Question:*** HOW DO I REVOKE MY PROXY?

***Answer:*** You may revoke your proxy and change your vote at any time before the polls close at the Special Meeting. You may do this by (i) signing another proxy with a later date and delivering the new proxy to the Bank or (ii) voting in person at the Special Meeting.

***Question:*** WILL MY SHARES BE VOTED IF I DO NOT RETURN MY PROXY?

***Answer:*** If your shares are held in your name, they will not be voted at the Special Meeting unless you either complete and submit a proxy, vote by telephone or via the internet, or attend the Special Meeting and vote in person.

If your shares are held in street name, there are specific rules that define when the brokerage firm can vote your shares without your instruction. Your brokerage firm will be entitled to vote your shares regarding the proposal to approve a Reorganization Agreement that would establish a holding company for the Bank.

***Question:*** HOW MANY SHARES MUST BE PRESENT TO HOLD THE ANNUAL MEETING?

***Answer:*** To hold the Special Meeting and conduct business, a majority of our shares outstanding as of September 8, 2020 must be present in person or by proxy at the Special Meeting. This is called a quorum. Abstentions and broker non-votes, if any, will be counted for purposes of satisfying the quorum requirement. If there are insufficient shares present in person or by proxy to establish a quorum at the Special Meeting, the Special Meeting may be adjourned to permit the further solicitation of proxies.

***Question:*** HOW MANY VOTES MUST THE PROPOSAL TO ESTABLISH A HOLDING COMPANY FOR THE BANK RECEIVE IN ORDER TO BE APPROVED?

***Answer:*** The approval of the proposal to establish a holding company for the Bank must receive affirmative approval of at least a majority of the outstanding shares.

***Question:*** HOW ARE VOTES COUNTED?

***Answer:*** On the proposal to approve a Reorganization Agreement and Reorganization that would establish a holding company for the Bank, you may vote “FOR,” “AGAINST,” or “ABSTAIN.” On the proposal to grant discretionary authority to adjourn the Special Meeting if necessary to permit further solicitation of proxies if there are not sufficient votes at the time of the Special Meeting to approve the principal terms of the Reorganization Agreement and the Reorganization, you may vote “FOR,” “AGAINST,” or “ABSTAIN.”

Broker non-votes will not be treated as votes cast on the proposal. Any proxies marked “ABSTAIN” for Proposal No. 1 will not be counted as affirmative votes and will have the same effect as a vote “against” the proposal if votes in favor are less than a majority of the required quorum.

If you return your proxy without indicating voting instructions, your shares will be counted as being voted “FOR” the proposal to approve a Reorganization Agreement that would establish a holding company for the Bank. Voting results are tabulated and certified by the Inspector of Election at the Special Meeting.

***Question:*** IS MY VOTE CONFIDENTIAL?

***Answer:*** In general, proxies, written ballots, and voting tabulations that identify shareholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within the Bank or to third parties except (i) as may be necessary to meet legal requirements, (ii) to allow for the tabulation of votes and the certification of the voting, or (iii) to facilitate a successful proxy solicitation by the Bank’s Board of Directors.

***Question:*** WHERE DO I FIND THE VOTING RESULTS OF THE MEETING?

***Answer:*** We will announce the voting results at the Special Meeting. You may obtain a copy of the voting results by calling our Corporate Secretary at (831) 264-4000 after the Special Meeting. The results of the voting also will be contained in the minutes of the Special Meeting, which will be available at the Bank for review by shareholders.

### **Solicitation of Proxies**

The solicitation of proxies is being made by the Board of Directors of the Bank. The expense of preparing, assembling, printing, and mailing this Proxy Statement and the materials used in the solicitation of proxies for the Special Meeting will be borne by the Bank. It is contemplated that proxies will be solicited principally through the use of the regular and electronic mail, but officers, directors, and employees of the Bank may solicit proxies personally or by telephone, without receiving special compensation therefor. The Bank will reimburse banks, brokerage houses, and other custodians, nominees, and fiduciaries for their reasonable expenses in forwarding the Proxy Statement to shareholders whose stock in the Bank is held of record by such entities. In addition, the Bank may use the services of individuals or companies it does not regularly employ in connection with this solicitation of proxies, if the Board of Directors and management determine it to be advisable.

## **Voting Securities; Record Date; Cumulative Voting**

There were issued and outstanding 5,542,593 shares of the Bank's common stock on September 8, 2020 ("Record Date"), which has been fixed as the Record Date for the purpose of determining shareholders entitled to notice of, and to vote at, the Special Meeting. On any matter submitted to the vote of the shareholders, each holder of Bank common stock will be entitled to one vote, in person or by proxy, for each share of common stock he or she held of record on the books of the Bank as of the Record Date. Votes cast will be counted by the Inspector of Election for the Special Meeting. The Inspector will treat abstentions and "broker non-votes" as shares that are present and entitled to vote for purposes of determining the presence of a quorum, but "broker non-votes" are not treated as shares voted on the proposal and therefore will have no effect upon the outcome of the proposal. Abstentions will not be counted as affirmative votes on the proposal and will have the same effect as a vote "against" the proposal if votes in favor are less than a majority of the required quorum. "Broker non-votes" are shares held by brokers or nominees as to which instructions have not been received from the beneficial owners or persons entitled to vote and the broker or nominee does not have discretionary voting power under applicable rules of the stock exchange or other self-regulatory organization of which the broker or nominee is a member. Approval of the proposal requires the affirmative vote of a majority of the shares represented and voting at the Special Meeting.

## **STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

Management of the Bank knows of no person who owns, beneficially or of record, either individually or together with associates, five percent or more of the outstanding shares of the Bank's common stock, except as set forth in the table below. The following table sets forth, as of the Record Date, the number and percentage of shares of the Bank's common stock beneficially owned, directly or indirectly, by each of the Bank's directors, principal shareholders, the executive officers<sup>(1)</sup> named in the Summary Compensation Table, and all of the individuals named in the table as a group. Beneficial ownership generally includes shares over which a person named below has sole or shared voting or investment power and shares which such person has the right to acquire within 60 days of the Record Date.

Unless otherwise indicated in the notes to the table, each person listed below possesses sole voting and sole investment power, or shared voting and investment power with a spouse, for the shares of the Bank's common stock listed below.

- (1) As used throughout this Proxy Statement, the term "executive officer" means the Chief Executive Officer; the President; the Executive Vice President, Chief Financial Officer; and the Executive Vice President, Chief Credit Officer. The Bank's Chairman of the Board, Vice Chairman of the Board, Senior Vice Presidents, and Vice Presidents are not considered to be executive officers of the Bank.

Name and Address of Beneficial Owner <sup>(1)</sup>	Amount and Nature of Beneficial Ownership	Percent of Outstanding Shares
<b>DIRECTORS:</b>		
Jigisha Desai	-0-	0.0%
Susan C. Freeland	69,865	1.3%
Francis Giudici	18,546	0.3%
Kurt J. Gollnick	43,659	0.8%
Daniel R. Hightower, M.D.	152,226	2.8%
Henry P. Ruhnke, Jr.	27,801	0.5%
Gregory T. Thelen <sup>(2)</sup>	223,152	4.0%
F. Warren Wayland	66,928	1.2%
<b>NON-DIRECTOR EXECUTIVE OFFICERS:</b>		
Dale R. Diederick <sup>(3)</sup>	22,240	0.4%
Jon D. Ditlevsen	15,543	0.3%
Samuel D. Jimenez <sup>(4)</sup>	1,500	0.0%
Thomas E. Meyer <sup>(5)</sup>	23,307	0.4%
Michael J. Winiarski	32,638	0.6%
All Directors and Executive Officers as a Group (12 persons)	694,905	12.6%

- (1) The address of all directors and executive officers as of the Record Date is 150 Main Street, Suite 150, Salinas, CA 93901.
- (2) Mr. Thelen's shares include 163,021 shares held in client trusts for which he is a trustee, as to which he has voting authority but otherwise he disclaims beneficial ownership.
- (3) Mr. Diederick's shares include 7,095 shares subject to vested stock options.
- (4) As previously disclosed, Mr. Jimenez was hired as the Bank's Chief Executive Officer and began serving in that role on April 8, 2020. Mr. Jimenez is not included in the compensation tables that follow because his employment began in 2020.
- (5) As previously disclosed, Mr. Meyer retired on March 31, 2020. He is included in the ownership table and following executive compensation discussion because he served as the Bank's President and Chief Executive Officer during 2019.

## **CORPORATE GOVERNANCE**

The Board of Directors is committed to the highest levels of corporate governance, sound business practices, and transparency in financial reporting. To further these objectives, the Board of Directors has adopted the following practices:

- The following committees are composed solely of independent directors: Audit and Compliance Committee and Human Resources and Compensation Committee.
- Periodic executive sessions of the full Board of Directors and at least one annual executive session which is composed solely of independent directors.
- Director access to officers and employees.
- Director access to independent advisors.
- Methodology for reporting concerns to non-employee directors or to the Audit and Compliance Committee.

### **Director Independence**

The Bank has adopted the NASDAQ “independence” definition in NASDAQ Listing Rule 5605(a)(2) to determine the independence of its directors and nominees for election as directors. Each member of the Board of Directors and nominee for election as a director is qualified as “independent” under such NASDAQ definition. Accordingly, all of our Board of Directors are “independent.”

### **Code of Ethics**

The Board of Directors has adopted a “Code of Ethics” that requires the Bank’s directors, officers (including the principal executive and financial and accounting officers, and persons performing similar functions) and employees to conduct business in accordance with the highest ethical standards and in compliance with all laws, rules, and regulations applicable to the Bank. The Code of Ethics may be obtained by any shareholder, without charge for one copy, by writing to 1<sup>st</sup> Capital Bank, 150 Main Street, Suite 150, Salinas, California 93901, Attention: Corporate Secretary.

## **Leadership Structure of the Board**

The Board believes that the Bank and its shareholders are best served by having an independent Board Chairman whose duties are separate from those of the Chief Executive Officer. In accordance with the Bank's bylaws, the Board of Directors hires the Chief Executive Officer and elects the Board Chairman. The Chairman is selected from the independent directors. The Board of Directors believes that the current structure of the Board of Directors is appropriate to effectively manage the affairs of the Bank and is in the best interests of the Bank's shareholders.

## **Board's Role in Risk Oversight**

The Board of Directors is actively involved in oversight of risks that could affect the Bank. This oversight is conducted primarily through committees of the Board of Directors, as disclosed in the descriptions of each of the committees below, but the full Board has retained responsibility for general oversight of risks. The Board satisfies this responsibility through full reports by each committee chair regarding the committee's considerations and actions, as well as through regular reports directly from officers responsible for oversight of particular risks within the Bank.

## **Attendance at Annual Meetings of Shareholders**

The Board of Directors encourages all of its members to attend the annual meetings of shareholders. All of the Bank's directors attended the Bank's 2020 Annual Meeting of Shareholders.

## Information with Respect to Members of the Board Directors

The information presented below includes information each director has given the Bank regarding age, current positions held, principal occupation and business experience for the past five years, and the names of other publicly held companies for which the director currently serves as a director or has served as a director during the past five years.

<b>Name, Position(s) and Age</b>	<b>Principal Occupation and Business Experience During the Past Five Years</b>
Jigisha Desai Director since June 2020 Age 54	Ms. Desai is the Senior Vice President and Chief Financial Officer of Granite Construction Incorporated. She has been with Granite Construction since 1993, where she has served in various capacities including vice president and treasurer, assistant treasurer and treasury manager. Ms. Desai received a B.S. in accounting from the University of Houston and an M.B.A. in corporate finance from Golden Gate University. In 2016 she completed the Harvard Business School's Advanced Management Program. She is a member of Engineering & Construction Treasurer's Peer Group, Association of Financial Professionals and is a Certified Treasury Professional. Ms. Desai also served on the board of Girls, Inc.
Susan C. Freeland Director since 2006 Age 75	Ms. Freeland is a Broker Associate with Carmel Realty Company in Carmel, California. During her varied career, Ms. Freeland has had experience in commercial banking as a Marketing Officer for Colorado Exchange National Bank in Colorado Springs and as Vice President and Manager for trust and investment services in the Monterey offices of Bank of America and First National Bank from 1996 to 2004. Ms. Freeland obtained a Juris Doctor from The Monterey College of Law, where she graduated at the top of her class. She earned a Bachelor of Arts degree from The Colorado College. Ms. Freeland is an inactive member of the California and Monterey County Bar Associations. She is a Past President of the Rotary Club of Monterey and Past Chair of the Planned Giving Council for California State University, Monterey Bay. She is the Past President of the Monterey History and Art Association. She has served on the boards of the Monterey County Symphony Association, Action Council for Monterey County, and the York School board of trustees.



Name, Position(s) and Age	Principal Occupation and Business Experience During the Past Five Years
Francis Giudici Director since 2013 Age 63	Mr. Giudici is a lifelong Monterey County resident and the President of L.A. Hearne Company, headquartered in King City, California. L.A. Hearne Company is a family owned (third generation) diversified agricultural business that markets farm products, seed, and animal feed; operates retail farm stores; provides trucking services; and operates various ancillary lines of business. L.A. Hearne employs about 100 individuals. Before joining the Board of Directors, Mr. Giudici served on and actively participated in the Bank's Salinas Valley Advisory Board for several years. Mr. Giudici has been extensively involved in agricultural industry organizations throughout his career, including serving as President or Chairman for a number of entities. Mr. Giudici has also devoted over two decades to supporting local youth athletics, including coaching both football and baseball.
Kurt J. Gollnick Director since 2006 Chairman of the Board Age 62	Mr. Gollnick is the Chief Operating Officer and a director of Scheid Vineyards Inc., dba Scheid Family Wines, a publicly held Delaware corporation listed on the OTC Pink Marketplace. Scheid Family Wines is one of the country's largest independent growers of premium grapes and produces in excess of two million cases of wine per year. Mr. Gollnick completed his undergraduate studies in Agricultural Business at California Polytechnic State University, San Luis Obispo. Mr. Gollnick is the 2006 recipient of the National Steinbeck Center's Emerging Agricultural Leader Award. Mr. Gollnick has served on various non-profit boards throughout Monterey County, including holding the titles of President or Chairman. In his role as Chairman of the Board since the formation of the Bank, Mr. Gollnick has attended numerous financial industry conferences, including those sponsored by the Western Bankers Association. In addition, Mr. Gollnick has attended various events sponsored by the Bank's regulatory agencies.
Daniel R. Hightower, M.D. Director since 2006 Vice Chairman of the Board Age 65	Dr. Hightower is the former Chief of Staff of Community Hospital of the Monterey Peninsula and currently is on the medical staff in the Department of Radiology. Dr. Hightower obtained a Bachelor of Science degree in Biological Sciences from the University of Southern California. He earned a M.D. degree from the University of California, San Francisco, School of Medicine. Dr. Hightower is a Past President and former trustee of the Carmel Unified School District Board of Education and a former trustee of the Community Hospital of the Monterey Peninsula.

<b>Name, Position(s) and Age</b>	<b>Principal Occupation and Business Experience During the Past Five Years</b>
Henry P. Ruhnke, Jr. Director since 2010 Age 57	Mr. Ruhnke is a registered architect and a principal of Wald, Ruhnke & Dost Architects, LLP, headquartered in Monterey, California and founded in 1990. He has served on the Monterey Planning Commission, and the Monterey Architectural Review Committee. He is a former board member of the American Institute of Architects Monterey Bay, a graduate of Leadership Monterey, and is a director of the Monterey County Hospitality Association, a member of the Rotary Club of Monterey, Monterey Commercial Property Association, and the Monterey Chamber of Commerce.
Gregory T. Thelen Director since 2006 Age 66	Mr. Thelen is a certified public accountant and a long-time resident of Monterey County. Mr. Thelen worked for Deloitte from 1978 to 1998 before opening his own accounting practice serving Salinas and Carmel. In 2003, he formed the accounting firm of Thelen, Chang, Nguyen and Van Ruler, LLP, headquartered in Salinas, California, and in 2016 again opened his own accounting practice serving Carmel and Salinas.
F. Warren Wayland Director since 2009 Age 75	Mr. Wayland is a certified public accountant and co-founder and retired managing partner of Hayashi & Wayland, an accounting and consulting firm. Mr. Wayland is a past Treasurer of The Community Foundation for Monterey County and the Salinas Valley Memorial Hospital Foundation. He is a past President of the California Rodeo Association, a past President of the Monterey County Cattlemen's Association, and a past Vice President of the California Cattlemen's Association. Mr. Wayland is currently the President of Public Recreation Unlimited and also served as Project Chairman of the Salinas Sports Complex, on the National Cattlemen's Association Taxation and Finance Committees, and as Treasurer of The Boys & Girls Club of Monterey County. In 1998 and again in 2014, Mr. Wayland was recognized as the Salinas Valley Chamber of Commerce Citizen of the Year. In 2004 and 2005, Mr. Wayland served as a director for Central Coast Bancorp, a publicly traded bank holding company headquartered in Salinas, California.

Except as disclosed in the table above, no director or executive officer of the Bank currently serves, or within the last five years has served, as a director of any public company, including any company which has a class of securities registered under, or which is subject to the periodic reporting requirements of, the Securities Exchange Act of 1934, or of any company registered as an investment company under the Investment Company Act of 1940. None of the directors were subject to any legal, judicial, or administrative proceedings involving or based on violations of federal or state securities, commodities, banking or insurance laws and regulations or settlements thereof, involvement in mail or wire fraud or fraud in connection with any business entity, any disciplinary sanctions or orders imposed by a stock, commodities or derivatives exchange or other

self-regulatory organization, convictions in a criminal proceeding (excluding traffic violations and minor offenses) or had a petition under bankruptcy laws filed by or against themselves or an affiliate, in each case within the last ten years.

## **Board Committees and Attendance**

The Bank's Board of Directors met twenty-five times for regularly scheduled and special meetings during 2019. Each director attended at least 75% of the aggregate of (i) the total number of meetings of the Board of Directors and (ii) the total number of meetings of committees on which each director served. Average director attendance at the combination of Board and committee meetings was 91%.

**Asset Liability and Investment Committee.** The Asset Liability and Investment Committee is responsible for the safe and sound operation of the Bank with regard to the investment portfolio, liquidity management, capital planning, wholesale funding, capital markets related transactions, and interest rate risk management. The Committee is responsible for approving management strategies regarding investment securities, deposit programs, and lending initiatives, including pricing the Bank's products and services. The Committee is also responsible for overseeing the Bank's compliance with various laws and regulations that apply to the Bank's capital markets and correspondent banking activities. The members of the Committee during 2019 were Directors Freeland (Chair), Giudici, Meyer, Ruhnke, and Wayland. The Committee met twelve times during 2019.

**Audit and Compliance Committee.** The Audit and Compliance Committee operates in accordance with an Audit and Compliance Committee Charter and policies established by the Board of Directors. The Committee is responsible for:

- providing independent, objective oversight of the Bank's financial reporting, internal controls, and disclosure quality, content, and controls;
- hiring the Bank's independent accountants and internal auditors, including validating their qualifications, authorizing their compensation, and approving the lead partners;
- assessing the performance of the independent accountants and internal auditors;
- monitoring the independence of the independent accountants;
- approving and reviewing the Bank's internal audit program;
- reviewing all findings arising from the attestation audit, internal audits, credit reviews, and regulatory examinations, and ensuring that any corrective actions are timely performed;
- monitoring the Bank's tax compliance;

- administering the Bank's Code of Ethics, including addressing any potential or actual conflicts of interest and providing for "whistleblower" access;
- handling communications from employees or other parties submitted to the Committee regarding concerns about accounting, auditing, or compliance matters; and
- overseeing the Bank's compliance with laws and regulations.

The Bank's Compliance Officer, independent accountants, and internal auditors report directly to the Committee. The Committee has authority to retain independent legal, accounting, and other advisors as desired to assist the Committee in performing its duties.

The Committee holds discussions with management, the internal auditors, and the independent accountants, Crowe LLP, including discussions with Crowe LLP without management being present.

The Committee regularly reports to the Board its findings, conclusions, and recommendations, if any, relating to the adequacy of internal controls and procedures in accordance with applicable laws, regulations, and accounting principles generally accepted in the United States of America. The members of the Committee during 2019 were Directors Thelen (Chair), Freeland, Gollnick, and Wayland. Each Committee member is deemed "independent" under NASDAQ Listing Rule 5605(a)(2), financially sophisticated, and qualified to review the Bank's financial statements. Director Thelen has been designated as the "Audit Committee Financial Expert" for the Committee. The Committee met six times during 2019.

**Corporate Governance and Nominating Committee.** The Corporate Governance and Nominating Committee is responsible for the review and recommendation of corporate governance standards for the Bank and the evaluation and recommendation to the Board of Directors of candidates for nomination as directors of the Bank. The members of the Committee during 2019 were Directors Hightower (Chair), Freeland, Gollnick, and Meyer. The Committee met three times during 2019.

The Bank operates in a highly regulated industry and is subject to the supervision, regulation, and periodic examination by state and federal banking regulatory authorities including the California Department of Business Oversight and Federal Deposit Insurance Corporation. Directors of the Bank are subject to certain rules and regulations and potential liabilities not otherwise applicable to directors of non-banking organizations. Consequently, evaluation of candidates by the Committee and the Bank's Board of Directors may include more extensive inquiries into personal background information including confirmation of the accuracy and completeness of background information by such means as (a) requiring candidates to complete questionnaires to elicit information of the type required to be disclosed by the Bank in reports filed with such state and federal banking regulatory authorities, (b) conducting background investigations by qualified independent organizations experienced in conducting criminal and civil investigatory reviews, and (c) such other personal and financial reviews and analyses as the Committee and the Board of Directors may deem appropriate in connection with the consideration of candidates. Shareholders who wish to nominate a candidate for election to the Bank's Board of

Directors, as opposed to recommending a potential nominee for consideration by the Committee and the Board of Directors, are required to comply with the advance notice and any other requirements of the Bank's Bylaws, applicable laws, and regulations.

**Human Resource and Compensation Committee.** The Human Resource and Compensation Committee operates in accordance with a Human Resources and Compensation Committee Charter established by the Board of Directors. The Committee is responsible for review and approval of compensation and benefits philosophy, programs, plans, and policies. The Committee ensures that compensation programs are competitive and compliant with applicable regulations. The Committee reviews and approves salaries and incentive compensation for executive officers. The Committee also reviews awards under equity-based compensation plans. The Committee is responsible for establishing goals, evaluating performance, and generating a recommendation for compensation of the President and Chief Executive Officer. The members of the Committee are each "independent" as defined under NASDAQ Listing Rule 5605(a)(2). The Committee did not engage the services of any outside consultants to provide advice regarding compensation and benefits during 2019. The members of the Committee during 2019 were Directors Ruhnke (Chair), Giudici, Hightower, and Thelen. The Committee met one time during 2019.

**Loan Committee.** The Loan Committee is responsible for fulfilling Loan Committee duties in accordance with the Bank's Credit Policy, including (i) review and approval of loan and credit requests exceeding certain thresholds, (ii) establishing loan and credit related policies, and (iii) reviewing the Bank's loan portfolio. The Committee also monitors loan officer compliance with lending policies, verifies that management follows proper procedures in monitoring and maintaining the allowance for loan and lease losses, and assesses concentrations of credit. The Committee also has general oversight responsibility for the Bank's policy and performance under the lending component of the Community Reinvestment Act. The members of the Committee during 2019 were Directors Wayland (Chair), Freeland, Giudici, Gollnick, Meyer, Ruhnke, and Thelen. The Committee held thirty-four meetings during 2019, of which eleven were joint meetings with the Board of Directors.

**Information Systems Steering Committee.** The Information Systems Steering Committee is responsible for ensuring that the Bank effectively follows the information technology related policies approved by the Board. The Committee assesses technology infrastructure and the Bank's business continuity plan and reviews current trends in technology with the objective of ensuring that the Bank is effectively conducting technology planning. The Committee also reviews information technology related audits and regulatory examination reports, ensuring that any corrective actions are timely and effectively implemented. The members of the Committee during 2019 were Directors Hightower (Chair), Freeland, Meyer, and Ruhnke. The Committee met three times during 2019.

**Availability of Committee Charters.** Each of the Audit and Compliance Committee, Corporate Governance and Nominating Committee, and Human Resources and Compensation Committee operates pursuant to a separate written charter adopted by the Board of Directors. Each Committee reviews its charter at least annually. All of the Committee charters can be viewed at the "Shareholder-Information" link under "About Us" on our website [www.1stCapital.Bank](http://www.1stCapital.Bank). Each

charter is also available in print form upon request by any shareholder to: Corporate Secretary, 1<sup>st</sup> Capital Bank, 150 Main Street, Suite 150, Salinas, California 93901.

## **DIRECTOR COMPENSATION**

Directors are entitled to receive compensation in the form of fees for attendance at meetings of the Board of Directors and committees of the Board on which they serve and awards of stock options and restricted shares under the Bank's 2016 Equity Incentive Plan (the "2016 Plan"). Prior to the adoption of the 2016 Plan, directors were entitled to similar compensation under the Bank's 2007 Equity Incentive Plan (the "2007 Plan"). The ten-year term of the 2007 Plan expired as to further awards on April 2, 2017. As of the Record Date, there were no option or restricted stock awards to directors outstanding for shares reserved for issuance under the 2007 Plan. The 2016 Plan set aside 358,703 shares (subsequently adjusted for stock dividends to 452,774 shares) of the Bank's no par value common stock to be reserved for issuance under the 2016 Plan for the award of incentive and nonstatutory stock options and restricted shares to non-employee directors, officers, employees, and consultants of the Bank. Only nonstatutory stock options may be granted to non-employee directors and consultants under the 2016 Plan. As of the Record Date, there were 502,781 shares reserved under the 2016 Plan for issuance of outstanding time-based restricted share awards to non-employee directors, none of which were then vested or would vest within 60 days of the Record Date.

The following table reflects the compensation earned and paid to the Bank's non-employee directors during the fiscal year 2019.

### **Director Compensation**

(In Whole Dollars)							
Name	Fees Earned or Paid in Cash	Time- Based Restricted Share Awards <sup>(1)</sup>	Stock Option Awards <sup>(2)</sup>	Non- Equity Incentive Plan Compen- sation	Non- Qualified Deferred Compen- sation Earnings	All Other Compen- sation	Total
Susan C. Freeland	\$ 24,000	\$ 32,742	--	--	--	--	\$ 56,742
Francis Giudici	\$ 24,000	\$ 32,742	--	--	--	--	\$ 56,742
Kurt J. Gollnick	\$ 36,000	\$ 49,113	--	--	--	--	\$ 85,113
Daniel R. Hightower, M.D.	\$ 24,000	\$ 32,742	--	--	--	--	\$ 56,742
Henry P. Ruhnke, Jr.	\$ 24,000	\$ 32,742	--	--	--	--	\$ 56,742
Gregory T. Thelen	\$ 24,000	\$ 32,742	--	--	--	--	\$ 56,742
F. Warren Wayland	\$ 24,000	\$ 32,742	--	--	--	--	\$ 56,742

(1) The amounts shown reflect the grant date fair value under FASB ASC Topic 718 of all restricted share awards to the Bank's non-employee directors for the year ended December 31, 2019. Please also refer to Notes 1 and 13 of Notes to Financial Statements in the Bank's audited financial statements for the years ended December 31, 2019 and 2018 included in the Bank's 2019 Annual Report to Shareholders for discussion of the assumptions related to calculation of the grant date fair values under ASC Topic 718. All awards were granted December 19, 2019 and vest December 19, 2020.

(2) No nonstatutory stock options were awarded to directors for the year ended December 31, 2018. As of December 31, 2018, there were no vested and exercisable nonstatutory stock options held by individual directors.

At a regularly scheduled Board meeting held on December 19, 2019, the Board approved the award of 3,210 time-based restricted shares to Chairman Gollnick and the award of 2,140 time-based restricted shares to each of Directors Freeland, Giudici, Hightower, Ruhnke, Thelen, and Wayland, for a total of 16,050 restricted share awards. The fair value of the Bank's common stock

on December 19, 2019 was \$15.30 per share. The foregoing time-based restricted share awards vest on December 19, 2020. The aggregate fair value of the foregoing restricted share awards granted on December 19, 2019 was \$245,565.

At a regularly scheduled Board meeting held on December 14, 2018, the Board approved monthly cash director fees of \$2,000 for each of Directors Freeland, Giudici, Hightower, Ruhnke, Thelen, and Wayland and \$3,000 to Chairman Gollnick, effective January 1, 2019, which continued in effect throughout 2019.

## **EXECUTIVE OFFICERS**

The following table sets forth the names of and certain information, as of the Record Date, concerning the Bank's executive officers.

<b>Name, Position, Tenure and Age</b>	<b>Principal Occupation and Business Experience During the Past Five Years</b>
Samuel D. Jimenez Chief Executive Officer since 2020 Age 55	Mr. Jimenez has served as Chief Executive Officer since April 2020. Prior to joining the Bank, Mr. Jimenez served as Executive Vice President and Chief Operating Officer of Bank of Commerce Holdings, the \$1.5 billion (assets) parent company of Merchants Bank of Commerce, Sacramento, California, from 2013 to 2020. He served as Chief Financial Officer of Bank of Commerce Holdings from 2009 through 2014, and previously served as Director of Risk Management of subsidiary bank Redding Bank of Commerce from 2003 to 2009. Previously, Mr. Jimenez was a Federal Deposit Insurance Corporation Examiner, from 1993 to 2003. He is a certified public accountant.
Jon D. Ditlevsen President since 2020 Vice President & Chief Lending Officer June 2013 to April 2020 Age 64	Mr. Ditlevsen has served as President since April 2020 and as Executive Vice President and Chief Lending Officer from June 2013 to April 2020. Mr. Ditlevsen is a veteran California banker, with over thirty-five years of financial institution experience, including working at community, regional, and national banks. He has served the Bank's primary market area and adjacent counties for many years. Over his career, Mr. Ditlevsen has worked in a variety of credit and lending related capacities, including service as Senior Vice President and Regional Manager for Comerica Bank, a subsidiary of Comerica Inc., from 1994 to 2010 and as Senior Vice President and Central Coast Regional Manager for Wells Fargo Bank, a subsidiary of Wells Fargo & Company, from 2010 to 2013. Mr. Ditlevsen earned an undergraduate degree from San Jose State University and has pursued ongoing education throughout his career with emphasis in leadership, sales management, and credit underwriting. Mr. Ditlevsen has been active in local community groups on an ongoing basis, with a focus on education and health related organizations.

<b>Name, Position, Tenure and Age</b>	<b>Principal Occupation and Business Experience During the Past Five Years</b>
Dale R. Diederick Executive Vice President & Chief Credit Officer since 2013 Age 70	Mr. Diederick was appointed Executive Vice President and Chief Credit Officer effective April 2013. He previously served the Bank as First Vice President and Senior Credit Officer since September 2011. Mr. Diederick is an experienced credit professional who has more than forty years of credit and risk management experience. Before he joined 1 <sup>st</sup> Capital Bank in 2011, his experience included serving in the capacities of Senior Credit Administrator, Chief Risk Officer, and Chief Credit Officer at Pacific Capital Bancorp, its subsidiaries, and/or its predecessor companies from 1983 to 2005, and again from 2008 to 2011.
Vida Villanueva Executive Vice President & Chief Operating Officer since August 2020 Age 47	Ms. Villanueva was appointed Executive Vice President and Chief Operating Officer effective August 14, 2020. She previously served in a number of senior-level positions with HSBC Financial and was an integral part of the senior leadership team creating organizational strategy and transformation. She served as chief operating officer for the company's Kuwait and Latin America operations, and the head of management services and change delivery for North America. She also managed a \$100 million P&L within the Americas region.
Michael J. Winiarski Executive Vice President & Chief Financial Officer since 2014 Age 64	Mr. Winiarski has served as Executive Vice President and Chief Financial Officer since March 2014, and served as Acting Chief Executive Officer of the Bank from March 2020 to April 2020. Mr. Winiarski has more than thirty-five years of experience in the financial services industry and for more than fifteen has served as Chief Financial Officer for publicly traded and privately held commercial banks, including four years with Hanmi Financial Corporation. After earning a Bachelor of Science degree in accounting from California State University, Long Beach, Mr. Winiarski served eight years with Deloitte. He is a certified public accountant (inactive).



## **EXECUTIVE COMPENSATION / COMPENSATION DISCUSSION AND ANALYSIS** **(“CD&A”)**

The Human Resource and Compensation Committee is responsible for overseeing the Bank’s compensation and benefits structure, policies, and programs. During 2019, none of the members of the Committee was an officer (or former officer) or employee of the Bank. No executive officers of the Bank had any interlocking relationship with any other for-profit entity during 2019, including serving on the compensation committee or serving as a director of another entity that would present an interlocking relationship. The Committee makes recommendations to the Board of Directors regarding the compensation and benefits for directors, officers (including executive officers), and employees. A key function of this Committee is to ensure that executive officers are compensated in a manner consistent with the Bank’s compensation strategies, internal equity considerations, competitive practices, and the requirements of applicable regulatory bodies.

The Committee also:

- develops the Bank’s overall compensation strategies;
- reviews the effectiveness of the Bank’s compensation strategies in ensuring that executive management is rewarded appropriately, with a balance between short-term and long-term objectives and remuneration;
- establishes performance objectives for the Chief Executive Officer;
- determines the individual elements of compensation and benefits for the Chief Executive Officer and other executive officers;
- reviews executive management’s recommendations for equity-based compensation awards to employees and makes appropriate recommendations to the full Board of Directors; and
- reviews other incentive compensation programs, including those for relationship officers.

### **Compensation Philosophy**

The objectives of the Bank’s compensation program are:

- to provide motivation for the executive officers to enhance shareholder value by linking their compensation to the generation of core earnings and the operation of the Bank in a safe and sound manner;
- to integrate total compensation with the Bank’s short-term and long-term performance goals and the objective of increasing shareholder value;

- to attract high performing executive officers by providing total compensation opportunities which are consistent with externally competitive norms of the financial services industry and the Bank's level of performance;
- to retain qualified executives vital to the success of the organization;
- to align pay with performance; and
- to reward above average individual and corporate performance as measured by financial results and strategic achievements.

There are five key elements to the Bank's compensation program for executives:

1. base salary;
2. equity compensation;
3. incentive compensation;
4. participation in nonqualified benefit plans; and
5. other benefits.

The Committee believes that this five-part program best serves the interests of the Bank and its shareholders. This program allows the Bank to be competitive within the industry, and ensures retention of high quality executive officers. At the same time, it advances both the short-term and the long-term interests of shareholders by linking a significant amount of executive compensation to the Bank's performance.

### **Compensation Review Process**

The Committee generally meets on at least an annual basis to review salaries and other forms of compensation and benefits.

***Peer Group and Benchmark Targets.*** The Committee selected a compensation peer group, based on the asset ranges of the institutions and their geographical locations, from publicly traded banks headquartered in California. The combined peer group provides a benchmark against banks that have executive positions with responsibilities similar in breadth and scope to the Bank and that compete with the Bank for executive talent. Using the survey data, the Committee considered "marketplace compensation," adjusted for reviews of Bank and individual performance.

***Review of Executive Performance.*** The Committee reviews, on an annual basis, each compensation element for each executive officer. In each case, the Committee takes into account the scope of responsibilities and years of experience and balances these against competitive salary levels and other information contained in survey data. The Committee members had the opportunity to interact with the executive officers throughout the year, allowing the Committee to form its own assessment of each executive officer's performance. Following review of survey data and interaction with executive officers, the Committee makes its own assessments and approves compensation for recommendation to the Board of Directors for each executive officer.

## Long-Term Incentives

**2016 Equity Incentive Plan.** The Bank has two share-based compensation plans, the 2016 Equity Incentive Plan (“2016 Plan”) and the 2007 Equity Incentive Plan (“2007 Plan”). The 2016 Plan was adopted by the Board of Directors on March 30, 2016 and ratified and approved by the Bank’s shareholders at the Bank’s annual shareholders’ meeting held June 8, 2016. The ten-year term of the 2007 Plan expired as to further awards on April 2, 2017. In anticipation of the expiration, the Board of Directors determined that it was advisable to adopt the 2016 Plan; provided, however, that the 2007 Plan and 253,373 shares of the Bank’s common stock reserved thereunder as of March 30, 2016 (subsequently adjusted for stock dividends to 319,820 shares) remained in effect for issuance pursuant to then outstanding awards of restricted stock and stock options. All other shares formerly reserved for the 2007 Plan that were not granted or awarded were restored to the category of authorized and unissued shares of Bank common stock. No awards of restricted stock or stock options were made under the 2016 Plan until after it was ratified and approved by the Bank’s shareholders.

The 2016 Plan permits the award of incentive stock options, nonstatutory stock options, and restricted stock for up to 452,774 shares, as adjusted to account for stock dividends, of the Bank’s common stock reserved under the 2016 Plan. The 2016 Plan is designed to attract and retain officers, employees and directors, and provide additional incentive to promote the success of the Bank’s business, while also aligning the interests of award recipients with the creation of long-term shareholder value. The amount, frequency, and terms of awards may vary based on competitive practices, the Bank’s operating results, and government regulations. New shares may be issued upon option exercise or lapse of restrictions for restricted stock awards. The 2016 Plan does not provide for the settlement of awards in cash. In addition, the 2016 Plan requires that the exercise price of options may not be less than the fair market value of shares of the Bank’s common stock at the date the option is awarded, and that the exercise price must be paid in full at the time the option is exercised.

The 2016 Plan provides that stock options and restricted stock may be awarded to non-employee directors, officers, employees, and consultants of the Bank. All stock options and restricted stock awards are adjusted to protect against dilution in the event of certain changes in the Bank’s capitalization, including stock splits and stock dividends. The Bank’s practice is that the full Board of Directors acting as the administrator of the 2016 Plan approves all stock options and restricted stock awards at regularly scheduled meetings.

### *Stock Options*

The 2016 Plan provides for the issuance of both incentive stock options and nonstatutory stock options. Any stock options awarded under the 2016 Plan have an exercise price equal to the fair value of shares of the Bank’s common stock on the date of award. The Board of Directors sets the exercise price for each stock option using the closing price of shares of the Bank’s common stock as quoted on the OTC Pink Marketplace on the date of the award. Stock options become exercisable in accordance with a vesting schedule established at the award date. Generally, stock option vesting may vary among participants, but will not be less than 20% per year over five years following the award date, and stock options expire ten years from the date of award.

### *Restricted Stock Awards*

Awards of restricted stock consist of shares of the Bank's common stock that are subject to forfeiture until specific conditions or goals are met. The 2016 Plan allows for both time-based and performance-based restricted stock awards. Conditions for vesting may be based on continuing employment or service and/or achieving specified performance goals. During the period of restriction, Plan participants holding restricted stock awards have no voting or cash dividend rights. The restrictions lapse in accordance with a schedule or with other conditions determined by the Board of Directors as reflected in each award agreement.

### *Change In Control*

Upon a change in control of the Bank or upon the occurrence of certain other events as further described in the 2016 Plan, outstanding stock options and restricted stock awards become fully vested and exercisable in the case of stock options and fully vested without restrictions in the case of restricted stock awards. Stock options and restricted stock awards or equivalent equity based compensation may be substituted by a successor corporation.

See the "Equity Compensation Plan Information," "Director Compensation," "Summary Compensation" and "Outstanding Equity Awards at Fiscal Year-End" tables and any related footnotes thereto in this Proxy Statement and Notes 1 and 14 in the Bank's audited financial statements included in the Bank's Annual Report to Shareholders for the year ended December 31, 2019 for more information regarding outstanding stock options and outstanding restricted stock under the 2016 Plan and 2007 Plan.

**Section 401(k) Retirement Plan.** The Bank maintains the 1<sup>st</sup> Capital Bank 401(k) Profit Sharing Plan and Trust ("Plan") to enable employees to save for retirement under a tax-advantaged plan and to furnish employees the opportunity to directly manage their retirement assets through a variety of investment options. The Plan allows eligible employees to elect to contribute from 0.00% to 92.00% of their eligible compensation to the Plan, subject to the annual contribution limit established by the Internal Revenue Service applicable to each employee.

The Plan was converted to a "safe harbor" plan effective January 1, 2014. In conjunction with this change, the Bank commenced 100% matching of the employee Plan contributions up to 1.00% of their eligible compensation and then 50% matching of the employee Plan contributions above 1.00% and up to 6.00% of their eligible compensation. In addition, all Bank matching contributions became immediately fully vested effective with the transition of the Plan to a safe harbor classification.

Effective January 1, 2019, the Bank commenced matching 50% of the employee Plan contributions up to 8.00% of their eligible compensation and relinquished the Plan's "safe harbor" status. As such, highly compensated employees' contributions may be subject to taxation in the year following any year in which the aggregate contribution rate of highly compensated employees, as defined, exceeds the aggregate contribution rate of non-highly compensated employees by more than 2.00%.

The 401(k) Plan does not provide the employees the option to invest directly in the Bank's common stock, nor does the Bank use its common stock for matching purposes.

***Nonqualified Deferred Compensation Plan.*** The Bank established the 1<sup>st</sup> Capital Bank Nonqualified Deferred Compensation Plan ("Plan") effective December 1, 2012. The Plan is a defined contribution program. Participants in the Plan are general unsecured creditors of the Bank. The Plan was established for the purpose of providing the executive officers and certain other highly compensated employees an opportunity to defer compensation. Participants in the Plan may elect to defer annually (i) any bonus or incentive compensation and (ii) any amount of base salary in excess of \$3,000 per month. At the time of election to defer compensation, the participants must also elect a distribution date and a distribution method. Participants may elect to receive amounts payable to him or her in a lump sum or in annual installments over a designated period to not exceed ten years. The Bank pays the administrative costs of the Plan, but does not make contributions to the Plan aside from interest credited. The Plan requires the Bank to pay interest on the deferred balances at a rate equal to The Wall Street Journal Prime Rate on November 1 of the preceding year, set annually for each calendar year, subject to a floor of 0.00%. Participants were first eligible to contribute to the Plan on January 1, 2013. For 2019, the interest rate credited was 5.25%.

***Health and Welfare Benefits.*** The Bank offers health and welfare programs to all eligible employees. The executive officers generally are eligible for the same benefit programs on the same basis as the general employee base. The health and welfare programs are intended to protect employees against catastrophic loss and encourage a healthy lifestyle. The health and welfare programs include medical, pharmacy, dental, vision, life insurance, and accidental death and dismemberment benefits; flexible spending accounts for both health and dependent care costs; Health Savings Accounts, paid vacation; and paid sick time. Effective January 1, 2014, the Bank modified its life insurance benefit program to provide a consistent \$50,000 death benefit to all eligible employees. The Bank pays 100% of the premiums for the health and welfare programs for the executive officers.

The Bank offers a long-term disability program that provides income replacement to the executive officers and other eligible employees after a 180-day disability period at a rate of 66 2/3% of basic monthly earnings up to a maximum benefit of \$10,000 per month until age 65 or recovery per the terms and conditions of the program.

***Termination Severance Benefits.*** The Bank has entered into an employment agreement with the Chief Executive Officer and change in control agreements with its other executive officers under which termination severance benefits are provided to the executive officers as part of their overall compensation and benefits to promote long-term retention of the executives and provide security against early termination events. See "Employment Agreements and Potential Post-Employment Payments" in this Proxy Statement for a description of the employment agreement and change of control agreements.

## Short-Term Incentives

***Salary and Bonus Compensation.*** Base salary and bonus compensation are intended to reward short-term performance. Base salary is reviewed annually by the Board's Human Resource and Compensation Committee, and recommendations are made to the Board of Directors based on evaluation of compensation data from peer banks and financial and other performance factors reflected in the results of operations of the Bank. Effective January 1, 2013, the Board adopted a program under which bonus compensation may be paid based upon achievement of Bank-wide and individual performance criteria, with the Board of Directors approving the Bank-wide performance criteria and also retaining discretionary authority over the program and any bonus compensation paid. Effective beginning calendar year 2017, the Committee determined that any bonus compensation paid to executive officers may be paid in cash and/or shares of restricted stock, subject to the Board of Directors continuing to approve the Bank-wide performance criteria and also retaining the discretionary authority over the program and any bonus compensation paid to the executive officers. Each year, in consultation with management, the Board of Directors approves key Bank-wide metrics that may include operating results, growth, balance sheet composition, credit quality, and the execution of strategic initiatives, as well as other measures related to the executive's individual goals and responsibilities, which together form the basis for bonus compensation. See the "Summary Compensation Table" and footnotes thereto in this Proxy Statement for more information regarding the base salaries and other compensation and benefits applicable to the Bank's executive officers.

The following table reflects the compensation earned and paid to the Bank's executive officers for the fiscal years indicated. "EVP" represents "Executive Vice President."

### Summary Compensation Table

(In Whole Dollars)								
Name and Principal Positions	Year	Salary <sup>(1)</sup>	Bonus <sup>(2)</sup>	Restricted Share Awards <sup>(3)</sup>	Stock Option Awards <sup>(3)</sup>	Non-qualified Deferred Compensation Earnings <sup>(4)</sup>	All Other Compensation <sup>(5)</sup>	Total
Thomas E. Meyer President and Chief Executive Officer (retired)	2019	\$ 341,250	\$ 30,100	\$ 66,203	--	--	\$ 52,837	\$ 490,390
	2018	\$ 341,250	\$ 121,100	\$ 77,669	--	--	\$ 55,543	\$ 595,563
Dale R. Diederick EVP and Chief Credit Officer	2019	\$ 210,000	\$ 45,100	\$ 61,200	--	--	\$ 25,958	\$ 342,258
	2018	\$ 199,500	\$ 56,100	\$ 71,800	--	--	\$ 24,968	\$ 352,368
Jon D. Ditlevsen EVP and Chief Lending Officer	2019	\$ 227,500	\$ 45,100	\$ 61,200	--	--	\$ 32,664	\$ 366,464
	2018	\$ 215,000	\$ 56,100	\$ 71,800	--	--	\$ 30,498	\$ 373,398
Michael J. Winiarski EVP and Chief Financial Officer	2019	\$ 228,250	\$ 45,100	\$ 61,200	--	\$ 1,316	\$ 27,337	\$ 363,203
	2018	\$ 218,500	\$ 57,100	\$ 71,800	--	\$ 1,602	\$ 26,036	\$ 375,038

- (1) Amounts shown include cash and non-cash compensation earned and received by executive officers as well as amounts earned but deferred at the election of those officers under the 401(k) Plan and/or the Bank's Nonqualified Deferred Compensation Plan. The Bank entered into an employment agreement with Mr. Meyer dated as of August 10, 2015 and thereafter amended the agreement effective December 31, 2016. The Bank entered into change in control agreements with each of Messrs. Diederick, Ditlevsen and Winiarski dated between December 30 and 31, 2016, respectively. The employment agreement and change in control agreements are discussed hereafter in this Proxy Statement under the heading "Employment Agreements and Potential Post-Employment Payments."
- (2) Discretionary bonus payments were approved by the Board of Directors after evaluation of individual performance. Amounts indicated as bonus payments were earned for performance during the year indicated.
- (3) These columns show the grant date fair value of awards in accordance with stock-based compensation accounting rules (Financial Accounting Standards Board Accounting Standards Codification Topic 718). For more information concerning the assumptions used for these calculations, please refer to Notes 1 and 14 in the Bank's audited financial statements included in the Bank's Annual Report to Shareholders for the year ended December 31, 2019. The named executive officers received the following time-based awards during 2018 and 2019:

Name	Grant Date	Shares	Stock Dividend-Adjusted Shares	Vesting Date
Thomas E. Meyer	November 19, 2018	4,327	4,953	November 19, 2023
	December 19, 2019	4,327	4,327	December 19, 2024
Dale R. Diederick	November 19, 2018	4,000	4,579	November 19, 2022
	December 19, 2019	4,000	4,000	December 19, 2023
Jon D. Ditlevsen	November 19, 2018	4,000	4,579	November 19, 2023
	December 19, 2019	4,000	4,000	December 19, 2024
Michael J. Winiarski	November 19, 2018	4,000	4,579	November 19, 2023
	December 19, 2019	4,000	4,000	December 19, 2024

Amounts in the Stock Dividend-Adjusted Shares column above give effect to the 7% stock dividends payable December 14, 2018 and December 20, 2019 declared by the Board of Directors. See the "Outstanding Equity Awards at Fiscal Year-End" table for additional information regarding these awards.

- (4) Amounts represent interest credited by the Bank on amounts deferred under the Nonqualified Deferred Compensation Plan. See the "Nonqualified Deferred Compensation" table and footnotes thereto hereafter in this Proxy Statement for additional information regarding interest credited.

(footnotes continued on following page)

(5) Amounts in the “All Other Compensation” column for 2019 are composed of the benefits listed in the table below.

(In Whole Dollars)	Health & Welfare Benefits	Auto Allowance	Social Club Memberships	401(k) Plan Match	Total
Name					
Thomas E. Meyer	\$ 22,656	\$ 9,000	\$ 9,990	\$ 11,191	\$ 52,837
Dale R. Diederick	\$ 21,758	--	--	\$ 4,200	\$ 25,958
Jon D. Ditlevsen	\$ 10,240	\$ 6,000	\$ 8,370	\$ 8,054	\$ 32,664
Michael J. Winiarski	\$ 18,883	--	--	\$ 8,454	\$ 27,337

The following table shows contributions and interest credited during 2019 and account balances as of December 31, 2019 for participating executive officers named in the “Summary Compensation Table” under the Bank’s Nonqualified Deferred Compensation Plan. Interest credited was paid by the Bank.

### Nonqualified Deferred Compensation

(In Whole Dollars)	Executive Contributions During 2019 <sup>(1)</sup>	Bank Contributions During 2019	Aggregate Earnings During 2019 <sup>(1)(2)</sup>	Aggregate Withdrawals / Distributions During 2019	Aggregate Balance At 12/31/2019 <sup>(3)</sup>
Name					
Michael J. Winiarski	--	--	\$ 1,316	\$ 27,189	\$ 25,789

(1) This amount was reported for the year 2019 in the “Summary Compensation Table.”

(2) Earnings are credited to the accounts based upon the terms of the Plan. The earnings credit rate is equal to The Wall Street Journal Prime Rate on November 1 of the preceding year. The rate credited for 2019 was 5.25%.

(3) The Plan is an unfunded plan. For additional information regarding the Plan, please see “Long-Term Incentives – Nonqualified Deferred Compensation Plan” in this Proxy Statement.

The following table shows the outstanding stock option and restricted share awards under the Bank’s 2007 and 2016 Equity Incentive Plans held at the end of fiscal year 2019 by the executive officers named in the “Summary Compensation Table.”

### Outstanding Equity Awards at Fiscal Year-End

	Stock Option Awards				Restricted Share Awards	
	Number Of Securities Underlying Unexercised Options <sup>(1)</sup>	Number of Securities Underlying Unexercised Options <sup>(1)</sup>	Option Exercise Price <sup>(2)</sup>	Option Expiration Date	Number Of Shares That Have Not Vested	Market Value of Shares That Have Not Vested <sup>(3)</sup>
Name	Exercisable	Unexercisable				
Thomas E. Meyer <sup>(4)</sup>	--	--	--	--	25,421	\$ 387,924
Dale R. Diederick <sup>(5)</sup>	7,095	--	\$ 8.21	1/25/2022	18,195	\$ 277,656
Jon D. Ditlevsen <sup>(6)</sup>	--	--	--	--	23,003	\$ 351,026
Michael J. Winiarski <sup>(7)</sup>	--	--	--	--	23,003	\$ 351,026

(1) Reflects incentive stock options which vest ratably in arrears over the first three years following the award date. Each incentive stock option has a ten-year term from the award date to the stock option expiration date.

(2) The stock option exercise price equals the fair market value based on the closing price of the common stock on the award date.

*(footnotes continued on following page)*



- (3) Based upon a closing price of \$15.26 per share for the Bank's common stock on December 31, 2019.
- (4) For Mr. Meyer, 5,737 restricted shares (20% of the August 26, 2015 award) vest on August 26, 2020; 5,203 shares awarded February 22, 2017 vest on August 26, 2021; 5,201 shares awarded October 27, 2017 vest on October 27, 2022; 4,953 shares awarded November 19, 2018 vest on November 19, 2023; and 4,327 shares awarded December 19, 2019 vest on December 19, 2024.
- (5) For Mr. Diederick, 4,808 restricted shares awarded February 22, 2017 vest on July 27, 2020; 4,808 restricted shares awarded October 27, 2017 vest on October 27, 2021; 4,579 shares awarded November 19, 2018 vest on November 19, 2022; and 4,000 shares awarded December 19, 2019 vest on December 19, 2023.
- (6) For Mr. Ditlevsen, 4,808 shares awarded October 27, 2017 vest on each of October 27, 2020, 2021, and 2022; 4,579 shares awarded November 19, 2018 vest on November 19, 2023; and 4,000 shares awarded December 19, 2019 vest on December 19, 2024.
- (7) For Mr. Winiarski, 4,808 shares awarded February 22, 2017 vest on March 26, 2020; 4,808 shares awarded October 27, 2017 vest on each of October 27, 2021 and 2022; 4,579 shares awarded November 19, 2018 vest on November 19, 2023; and 4,000 shares awarded December 19, 2019 vest on December 19, 2024.

The following table lists stock option exercises and restricted stock vested during the year ended December 31, 2019.

### Stock Option Exercises and Restricted Stock Vested

(In Whole Dollars) Name	Stock Option Awards		Restricted Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting <sup>(1)</sup>
Thomas E. Meyer	--	--	5,362	\$ 86,864
Dale R. Diederick	--	--	4,718	\$ 79,121
Jon D. Ditlevsen	--	--	4,494	\$ 74,870
Michael J. Winiarski	--	--	5,202	\$ 84,012

- (1) Represents the product of the number of shares acquired on vesting and the closing price of the Bank's common stock on the vesting date.

### Equity Compensation Plan Information

The table below lists information regarding Bank common stock issuable under the 2016 and 2007 Equity Incentive Plans at December 31, 2019. The Bank has no other equity compensation plan, and there are no warrants or other rights outstanding that would result in the issuance of shares of the Bank's common stock.

Plan Category	Number of Securities To Be Issued upon Exercise of Outstanding Options, Warrants, and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	14,190	\$ 8.25	562,971
Equity compensation plans not approved by security holders	--	--	--
Total	14,190	\$ 8.25	562,971

## **Employment Agreements and Potential Post-Employment Payments**

**Employment Agreement with Mr. Jimenez.** The Bank entered into an employment agreement with Mr. Jimenez to be effective as of April 8, 2020 and terminate, unless extended, on December 31, 2022 (the “Agreement”). The Agreement includes payment of a base salary of \$250,000 per year, which is subject to an annual review by the Human Resource and Compensation Committee of the Board, and, subject to satisfactory evaluation of his performance, may increase to \$275,000 for 2021 and \$300,000 for 2022. The Agreement also provides that Mr. Jimenez is eligible to receive an annual incentive bonus of up to 35% of his base salary, with the final amount to be determined by the Board of Directors of the Bank based upon evaluation of Mr. Jimenez’s performance and that of the Bank. Within the cap of 35% of his base salary, the amount of bonus compensation payable to Mr. Jimenez is based upon the terms of the Bank’s incentive compensation plan, Mr. Jimenez’s performance, the Bank’s operating results, and the discretion of the Board of Directors. Any incentive compensation is subject to potential “claw-back” by the Bank for a two year period in certain circumstances. The Agreement provides for other incidental compensation and benefits, including group life, health, and disability insurance, the premiums for which are paid by the Bank, four weeks annual vacation, an automobile allowance, and reimbursement for business expenses. As required by the Agreement, on May 18, 2020, the Bank awarded Mr. Jimenez 25,000 restricted shares that vest 20% per year in arrears over five years.

The Agreement is an at-will contract that may be terminated by either party at any time. If the Bank terminates Mr. Jimenez’s employment for reasons that constitute cause as described in the Agreement, he will not be entitled to any further amounts except as earned through his last day of employment. If the Bank terminates Mr. Jimenez’s employment without cause, he will be entitled to (i) his earned compensation through his last day of employment and (ii) a lump sum severance payment equal to three months’ of his then annual base salary for each full year of service, with a maximum severance equal to twelve months of such base salary, less applicable deductions,. If Mr. Jimenez’s employment terminates in connection with or within twelve months after consummation of a change in control (as defined in the Agreement), including a resignation by Mr. Jimenez for good reason (as defined in the Agreement) during such twelve months, Mr. Jimenez is entitled to (i) his earned compensation through his last day of employment and (ii) a lump sum severance payment equal to his then annual base salary less applicable deductions. Amounts paid or payable to Mr. Jimenez under the Agreement in any annual period may be limited in order to eliminate taxes upon the payments to Mr. Jimenez and the Bank’s loss of deductibility of the amounts paid under Sections 280G and 4999 of the Internal Revenue Code of 1986, as amended. As part of the Agreement, Mr. Jimenez agreed to refrain from disclosing any confidential, trade secret, or proprietary information of the Bank and to refrain from using any such information to compete with the Bank or solicit its employees or customers for a period of one year following his termination of employment.

**Change in Control Agreements with Executive Officers.** The Bank has entered into a Change in Control Agreement with each of Messrs. Diederick, Ditlevsen and Winiarski (each an “Executive”). If the employment of an Executive is terminated in connection with or within twelve months after consummation of a change in control of the Bank (as defined in the Agreement), including a termination by the Executive for Good Reason (which may include a material diminution of the Executive’s base salary or other compensation, certain authorities, duties or responsibilities, or change in primary work location), the Executive is entitled to receive (i) his or her earned compensation through the last day of employment and (ii) a lump sum severance payment equal to twelve months of his or her base salary less applicable deductions, in effect immediately prior to termination, but without diminution or decrease in amount in contemplation of termination, payable seventy days following termination.

**Payments to Mr. Meyer upon Retirement.** Consistent with the employment agreement between the Bank and Mr. Meyer, upon his separation from the Bank and retirement, Mr. Meyer was paid a total of \$355,000, and provided a release of claims in favor of the Bank.

### **Change in Control**

Management is not aware of any arrangements, including the pledge by any person of shares of the Bank, the operation of which may at a subsequent date result in a change in control of the Bank.

### **Transactions with Related Persons**

There have been no material transactions (other than loans in the ordinary course of business described below) during the year ended December 31, 2019, nor are there any presently proposed transactions, to which the Bank was or is to be a party in which the amount involved exceeds the lesser of \$120,000 or 1% of the average of the Bank’s total assets for the two-year period ended December 31, 2019, and in which any director, executive officer, nominee for director, or 5% shareholder, or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest.

### **Indebtedness of Management and Directors**

Certain of the Bank’s directors and executive officers, as well as members of their immediate families, associates, and companies and organizations with which they are affiliated or associated, are also customers of, and have had banking transactions with, the Bank in the ordinary course of business. The Bank expects to continue to have such ordinary banking transactions with these persons and entities in the future. In the opinion of the management of the Bank, all loans and commitments to lend to the Bank’s directors, executive officers, and principal shareholders:

- have been made in the ordinary course of business and in compliance with applicable laws;
- were made on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the time for comparable transactions with the Bank’s other customers; and
- do not involve more than the normal risk of collectability or present other unfavorable features.

In addition, the Bank has policies regarding such loans to ensure that they are made using credit underwriting procedures that are no less stringent than those applicable for comparable transactions with persons outside the Bank. Loans to individual directors and executive officers must comply with certain statutory lending limits. In addition, prior approval of the Bank's Board of Directors is required for all such loans. At June 30, 2020, the Bank maintained \$9.30 million in credit commitments to directors and executive officers. These credit commitments had outstanding balances of approximately \$2.63 million at June 30, 2020, equivalent to 3.70% of shareholders' equity.

The Bank does not lease any property from its directors or executive officers.

### **Shareholder Communications**

A majority of the members of the Board of Directors, each of whom is "independent" as defined under NASDAQ Listing Rule 5605(a)(2), has established procedures for receipt and delivery of shareholder communications addressed to the Board of Directors. Any such shareholder communications, including communications by employees of the Bank solely in their capacity as shareholders, should be mailed or delivered to the Bank addressed as follows: Board of Directors, 1<sup>st</sup> Capital Bank, 150 Main Street, Suite 150, Salinas, California 93901.

## **PROPOSAL NUMBER 1 HOLDING COMPANY FORMATION**

### **Overview**

The Bank proposes that the shareholders approve the formation of a holding company. The proposed holding company formation is called the “Reorganization” and is governed by the “Reorganization Agreement.” **The full text of the Reorganization Agreement is attached as Appendix “B” to this Proxy Statement, and the discussion below is qualified in its entirety by reference thereto.**

In the Reorganization:

- 1<sup>st</sup> Capital Bancorp will become the parent bank holding company of the Bank; and
- all of the outstanding shares of Bank common stock will be converted into and exchanged for shares of Company common stock on a one-for-one basis.

Shareholder approval of the Reorganization and the Reorganization Agreement shall also constitute approval of such changes, if any, as may be required from time to time by any regulatory agency or department.

After the Reorganization,

- the Bank will continue its existing business operations and branches as a wholly-owned subsidiary of the Company under the name “1<sup>st</sup> Capital Bank”;
- the consolidated assets, liabilities, stockholders’ equity and income of the Company will be substantially identical to those of the Bank;
- the current members of the Bank’s Board of Directors are the Company’s Board of Directors and the executive officers of the Company are the current executive officers of the Bank;
- the Board of Directors and executive officers of the Bank will be unchanged as a result of the Reorganization;
- the Federal Deposit Insurance Corporation will continue as the Bank’s primary federal regulator and it will continue to insure the Bank’s deposit accounts to the maximum extent permitted by law; and
- shares of Company common stock will trade in the over-the-counter market.

If the Reorganization is not accomplished, the Bank will continue to operate without a bank holding company structure.

## **Recommendation of the Board of Directors**

The Bank's Board of Directors has unanimously approved the Reorganization Agreement and the Reorganization. It unanimously recommends that shareholders of the Bank approve the Reorganization Agreement and the Reorganization.

## **Reasons for the Reorganization**

In the opinion of the Bank's Board of Directors, the establishment of a holding company may provide flexibility for meeting the financing needs of the enterprise, including providing capital to the Bank, either through stock offerings, trust preferred securities issuances, debt offerings, or borrowing at terms and conditions otherwise unavailable to the Bank as a stand-alone entity. The continued expansion of the Bank's assets and/or the expansion of the Company into new endeavors, would require the issuance of equity, trust preferred securities and/or debt instruments in the future. The Company will be able to issue these instruments to raise funds without the approval of the shareholders of the Company.

The bank holding company structure may also permit greater flexibility in responding to evolving changes in the banking and financial services industries and meeting the competition of other financial institutions. The Bank's Board of Directors believes that a bank holding company is an entity that can provide greater operating and financial flexibility and will permit diversification into a broader range of financial services and other business activities.

The holding company structure will facilitate the acquisition of other financial institutions and companies engaged in other related activities.

There are no current agreements or understandings for either the acquisition of any financial institution or other company or for the diversification of operations through use of the Company. The Bank's Board of Directors believes, however, that the ability to act promptly to take advantage of any desirable opportunities in this regard that may arise in the future could be jeopardized if formation of the Company is deferred.

## **Description of the Reorganization**

The Bank had the Company incorporated under the laws of California for purposes of becoming the parent bank holding company of the Bank.

- each share of Bank common stock will be converted into and exchanged for one share of Company common stock;
- each outstanding share of Company common stock outstanding immediately prior to the consummation of the Reorganization will be repurchased by the Company for the amount paid for such shares;
- the Company, which owns all of the shares of Interim, will be the owner of all of the outstanding shares of 1<sup>st</sup> Capital Bank common stock; and

- each shareholder of the Bank will become the owner of one share of Company common stock for each share of Bank common stock held immediately prior to the Reorganization.

The Reorganization will become effective at the date and time that the Reorganization Agreement is filed with the California Secretary of State. Such date shall be the “Effective Date” of the Reorganization. The Bank expects that the Reorganization will close early in the fourth quarter of 2020.

Approval of the Reorganization and the Reorganization Agreement requires the affirmative vote of the holders of not less than a majority of the issued and outstanding shares of Bank common stock. The Bank’s directors and executive officers intend to vote all their shares in favor of this Proposal.

If the Bank completes the holding company formation, the Bank’s shareholders will become the shareholders of the Company. As shareholders of the Company, you:

- will only be entitled to vote with respect to matters affecting the Company, which will own 100% of the Bank; and
- will not be entitled to vote directly on matters affecting the Bank, such as the election of the Bank’s directors, but will vote on matters affecting the company including election of the Company’s directors.

### **Exchange of Share Certificates**

Upon consummation of the Reorganization, the outstanding stock certificates which prior thereto represented shares of the Bank will thereafter for all purposes represent an equal number of shares of Company common stock, and the holders of those certificates will have all the rights of shareholders of the Company. Shareholders will receive information on how to exchange their present stock certificates for shares of Company common stock in book-entry form, although shareholders may opt-out of holding their shares in book-entry form and instead receive physical certificates representing their shares of Company common stock. The Company will notify shareholders of record by mail promptly after the consummation of the Reorganization of the procedures to be followed in order to surrender their present share certificates in exchange for certificates in book-entry form, or how to opt out of this process and receive new certificates evidencing shares of Company common stock.

**UNTIL THE COMPANY NOTIFIES A SHAREHOLDER OF THE EXCHANGE PROCEDURES, EXISTING SHARE CERTIFICATES SHOULD NOT BE RETURNED TO THE BANK FOR EXCHANGE AND REISSUANCE EITHER ALONG WITH THE ENCLOSED PROXY OR OTHERWISE.**

## **Interests of Certain Persons in the Reorganization**

The Reorganization Agreement provides that the directors of the Bank will continue as directors after the Reorganization. Additionally, the officers of the Bank will all be employed in the same capacities after the Reorganization.

## **Employee Benefits**

At the effective time of the Reorganization, each share of Bank common stock, held in trust or otherwise in connection with any and all of the Bank's employee benefit plans, will be converted into one share of Company common stock.

The Company will adopt and assume the Bank's stock option plan and its other employee stock plans. The same terms and conditions will apply to these plans as existed prior to the effective time of the Reorganization.

The Company will assume all outstanding options to purchase shares of Bank common stock pursuant to the Bank's stock option plan and such options will be deemed options to purchase shares of Company common stock on the same terms and conditions and for the same number of shares and at the same price as have been agreed upon and set forth in such plans and the stock option agreements entered into pursuant thereto.

The Reorganization will not affect other employee benefits and benefit plans of the Bank.

## **Conditions to the Reorganization and Termination**

By the terms of the Reorganization Agreement, consummation of the Reorganization is conditioned upon the following:

- approval and ratification of the Reorganization Agreement and the Reorganization by the holders of not less than a majority of the outstanding shares of the Bank, Interim and the Company as required by applicable law;
- receipt of all other approvals and consents, and satisfaction of all other requirements as are prescribed by applicable law in connection with and in order to effectuate the Reorganization including, but not limited to, approval of the FDIC and of the DBO and a notice to the Federal Reserve pursuant to the BHCA, as amended and Section 225.17 of Regulation Y promulgated pursuant thereto;
- issuance (unless waived) of a favorable opinion, in form and substance satisfactory to the parties and their counsel, with respect to the tax consequences to the parties and their shareholders resulting from the Reorganization; and
- performance by each party to the Reorganization Agreement of all its obligations under the Reorganization Agreement.



It is currently contemplated that none of these conditions will be waived.

The Bank filed an application with the FDIC on August 27, 2020 for approval of the Reorganization. The Company filed a notice with the Federal Reserve on August 31, 2020. The Company also filed a request for approval of the DBO for the acquisition of the Bank pursuant to Financial Code Section 700 et. seq. on August 31, 2020 and received its permit and order withholding exemption in connection with the offer, sale and issuance of shares pursuant to Financial Code Section 697 on August 19, 2020. Although neither the Company nor the Bank is aware of any reason why the remaining requisite approvals would not be granted, there can be no assurances such approvals will be obtained or that, if obtained, such approvals will not include conditions which would be of a type that would relieve the Company and, the Bank from their obligation to consummate the Reorganization.

The Reorganization Agreement may be terminated if any of the following occurs:

- if any of the conditions are not fulfilled within a reasonable period of time;
- if any action, suit, proceeding or claim has been instituted, made or threatened, relating to the proposed Reorganization which makes consummation of the Reorganization inadvisable; or
- if for any reason consummation of the Reorganization is inadvisable.

Upon termination, the Reorganization Agreement shall be void and of no further effect. There shall be no liability by reason of the termination on the part of the parties or their respective directors, officers, employees, agents or shareholders.

### **Costs of the Reorganization**

The Company or the Bank, as applicable, will bear all of the expenses of the Reorganization, including filing fees, printing and mailing costs, accountants' fees and legal fees. In the event that the Reorganization is abandoned or terminated for any reason, the Bank will bear all expenses. Shareholders of the Bank will bear their own expenses, if any.

### **Income Tax Consequences**

The following discussion is limited to certain federal income tax consequences of the proposed Reorganization and does not discuss state, local or foreign tax consequences or other tax consequences that might be relevant to shareholders of the Bank entitled to different tax treatment. The discussion is based upon currently existing provisions of the Internal Revenue Code of 1986, as amended (the "Code"), existing Treasury Regulations thereunder, current administrative rulings and judicial decisions. All of the foregoing are subject to change, and any such change could affect the continuing validity of the conclusions set forth below.

Closing of the Reorganization is conditioned upon receipt of an opinion of Crowe LLP

indicating that the proposed Reorganization will qualify for tax purposes as a “reorganization” within the meaning of Section 368 of the Code. This opinion will be conditioned upon the accuracy of various customary representations to be made by the Bank and the Company, including that as of the effective time of the Reorganization, there will be no plan or intention on the part of the shareholders of the Bank to sell or otherwise dispose of more than 50% of the shares of the Company common stock received in the Reorganization, and that the sum of all amounts paid by the Bank to dissenters and for Reorganization expenses plus amounts (if any) paid or distributed by the Bank to Bank shareholders prior to the effective date of the Reorganization (except for regular normal dividends) will not exceed 10% of the fair market value of the Bank’s net assets and 30% of the fair market value of the Bank’s gross assets. Neither this summary nor the opinion to be received from Crowe LLP is binding on the Internal Revenue Service and no ruling has been sought or will be sought with respect to such tax consequences.

Based upon the qualification of the Reorganization as a “reorganization” within the meaning of Section 368 of the Code:

- Neither the Bank, Interim nor the Company will recognize gain or loss as a result of the Reorganization;
- No gain or loss will be recognized by the shareholders of the Bank upon their receipt of Company common stock in exchange for their shares of Bank common stock pursuant to the Reorganization; however, dissenters will be subject to taxation on any payment for their shares;
- The tax basis of Company common stock received by the shareholders of the Bank pursuant to the Reorganization will be the same as the tax basis of the shares of Bank common stock surrendered in exchange therefore; and
- The holding period of Company common stock received by the shareholders of the Bank pursuant to the Reorganization will include the holding period of the Bank common stock surrendered by them in exchange therefore, provided that the shareholder holds such Bank common stock as a capital asset at the effective time of the Reorganization.

Shareholders who dissent from the Reorganization and receive cash in exchange for their Bank common stock will recognize capital gain or loss in an amount equal to the difference between their tax basis in the shares and the amount of cash received assuming that the shareholder holds such Bank common stock as a capital asset at the effective time of the Reorganization. Such capital gain or loss will be long-term capital gain or loss if the Bank common stock has been held by the shareholder for more than one year at the effective time. Gain or loss must be calculated separately for each block of Bank common stock (i.e., shares of Bank common stock acquired by the shareholder at the same time in a single transaction).

**YOU ARE URGED TO CONSULT WITH YOUR OWN TAX ADVISERS AS TO SPECIFIC TAX CONSEQUENCES TO YOU OF THE REORGANIZATION, INCLUDING TAX RETURN REPORTING REQUIREMENTS AND THE APPLICABILITY AND EFFECT OF STATE, LOCAL AND FOREIGN TAX LAWS.**

### **Market for Company Common Stock and Dividends**

The Bank's common stock has been thinly traded in the over-the-counter market under the symbol "FISB." It is anticipated that the Company common stock will also trade in the over-the-counter market but it is not anticipated that an active trading market will develop as a result of the Reorganization or the issuance of Company common stock.

The Bank has never issued a cash dividend to shareholders but issued a 2.00% stock dividend that was paid in 2012, 5.00% stock dividends that were paid in 2014, 2015, 2016 and 2017, and 7.00% stock dividends that were paid in 2018 and 2019 and it is anticipated that the Company will take a similar approach to dividend policy; however, whether or not stock or cash dividends will be paid in the future by the Company will be determined by the Board of Directors after consideration of various factors, including key factors of the Bank's profitability and regulatory capital ratios.

If the Company borrows funds or issues trust preferred securities to provide capital to the Bank, it will be dependent on cash dividends from the Bank to pay principal and interest on such debt. There are regulatory restrictions on the amount of cash dividends that a state bank may pay. There may also be certain covenants within debt instruments or trust preferred securities that will restrict the payment of dividends. (See, "HOLDING COMPANY FORMATION - Reasons for the Reorganization").

### **Accounting Treatment**

Because the Reorganization is a reorganization with no change in ownership interests, the consolidated financial statements of the Company and the financial statements of the Bank will retain the former basis of accounting of the Bank and will be substantially identical to the Bank's financial statements prior to the Reorganization.

### **Dissenting Shareholders Rights**

Any shareholder who does not vote in favor of the proposed Reorganization and remains a holder of stock at the effective time of the Reorganization, can, by complying with the procedures set forth in Chapter 13 of the California General Corporation Law, be entitled to receive an amount in cash equal to the fair market value of his/her shares as of August 27, 2020, immediately prior to, the first public announcement of the merger.

The final closing price for Bank common stock on that day was \$9.43 per share. 1<sup>st</sup> Capital Bank's Board of Directors has determined \$9.43 was the fair market value of Bank common stock on August 27, 2020.

A copy of Chapter 13 of the California General Corporation Law is attached hereto as Appendix “A”. Please read it for more complete information concerning dissenters’ rights. The discussion in this section is qualified in its entirety by reference to Appendix “A”.

**THE REQUIRED PROCEDURE SET FORTH IN CHAPTER 13 OF THE CALIFORNIA GENERAL CORPORATION LAW MUST BE FOLLOWED EXACTLY OR ANY DISSENTERS’ RIGHTS MAY BE LOST.**

In order to be entitled to exercise dissenters’ rights, a shareholder must not vote in favor of the Reorganization. Thus, if a shareholder wishes to dissent they must either execute and return a proxy in the accompanying form, specifying that their shares are to be either voted “AGAINST” or “ABSTAIN”, vote similarly in person at the meeting, or not submit any vote regarding the Reorganization. If the shareholder returns a proxy without voting instructions or with instructions to vote “FOR”, his/her shares will automatically be voted in favor of the Reorganization and they will lose their dissenters’ rights.

If the Reorganization is approved by the shareholders, 1<sup>st</sup> Capital Bank will have 10 days after the approval to send to those shareholders who did not vote in favor of the Reorganization a written notice of such approval accompanied by:

- a copy of Chapter 13 of the California General Corporation Law,
- a statement of the price determined to represent the fair market value of the dissenting shares as of August 27, 2020, and
- a brief description of the procedure to be followed if a shareholder desires to exercise dissenters’ rights.

Within 30 days after the date on which the notice of the approval of the Reorganization is mailed, the dissenting shareholder who plans to exercise dissenters’ rights must make written demand upon 1<sup>st</sup> Capital Bank for the purchase of dissenting shares and payment to such shareholder of their fair market value. The written demand must specify the number of shares held of record by such shareholder and a statement of what the shareholder claims to be the fair market value of those shares as of August 27, 2020. At the same time, the shareholder must surrender, at the office designated in the notice of approval, the certificates representing the dissenting shares to be stamped or endorsed with a statement that they are dissenting shares or to be exchanged for certificates of appropriate denomination so stamped or endorsed. Any shares of stock that are transferred prior to their submission for endorsement lose their status as dissenting shares.

If the dissenting shareholder and Bank agree that the shares are dissenting shares and agree upon the price of the shares, the dissenting shareholder will be entitled to the agreed price with interest from the date of such agreement. The applicable interest rate will be the rate then set by law for the accrual of interest on judgments for money. That rate is currently 10% per annum simple interest (not compounded). Subject to the restrictions imposed under California law on the ability of a California corporation to repurchase its own shares, the company must pay the fair value of the dissenting shares within 30 days after the amount thereof has been agreed upon, or 30

days after any statutory or contractual conditions to the Reorganization have been satisfied, whichever is later. The obligation to pay for the dissenting shares is subject to receipt of the certificates representing them.

If the Bank denies that the shares surrendered are dissenting shares, or if the Bank and the dissenting shareholder fail to agree upon a fair market value of such shares, then the dissenting shareholder must, within six months after the notice of approval is mailed, file a complaint in the Superior Court of the proper county requesting the court to make such determination(s) or intervene in any pending action brought by any other dissenting shareholder. If the complaint is not filed or intervention in a pending action is not made within the specified six-month period, the dissenter's rights are lost. If the fair market value of the dissenting shares is at issue, the court will determine, or will appoint one or more impartial appraisers to determine, such fair market value.

A dissenting shareholder may not withdraw his or her dissent or demand for payment unless the Bank consents to such withdrawal.

### **Description of Company Stock**

The Company's Articles of Incorporation authorize the issuance of up to 20,000,000 shares of Company common stock, no par value and 10,000,000 shares of Company preferred stock, no par value. Only the 100 shares of common stock issued to initially capitalize the Company are currently outstanding.

Holders of Company common stock are entitled to one vote, in person or by proxy, for each share of Company common stock held of record in the shareholder's name on the books of the Company as of the record date on any matter submitted to the vote of the shareholders except that, for the election of directors, each shareholder has cumulative voting rights and is entitled to as many votes as shall equal the number of shares held by such shareholder multiplied by the number of directors to be elected. Each shareholder may cast all his or her votes for a single candidate or distribute such votes among any or all of the candidates as he or she chooses. However, no shareholder shall be entitled to cumulate votes (in other words, cast for any candidate a number of votes greater than the number of shares of stock held by such shareholder) unless such candidate's name has been placed in nomination prior to the voting and the shareholder has given notice at the meeting prior to the voting of the shareholder's intention to cumulate his or her votes. If any shareholder has given such notice, all shareholders may cumulate their votes for candidates in nomination.

Each share of Company common stock has the same rights, privileges and preferences as every other share and will share equally in the Company's net assets upon liquidation or dissolution. Company common stock has no preemptive, conversion or redemption rights or sinking fund provisions and all of the issued and outstanding shares of Company common stock, when issued, will be fully paid and nonassessable.

The preferred stock may be issued from time to time in one or more series without action by the shareholders. The Board of Directors is authorized to designate and to fix the number of shares of any such series of preferred stock and to determine and alter the rights, preferences,

privileges and restrictions granted to or imposed upon any wholly unissued series of preferred stock, including, but not limited to, dividend rate, voting, liquidation preference and conversion rights. The Board of Directors, within the limits stated in any resolution of the Board of Directors originally fixing the number of shares constituting any series, may increase or decrease the number of shares in such series (but not below the number of shares of any series subsequent to the issue of shares of that series). The preferred stock has no preemptive rights.

The Company's shareholders are entitled to dividends when, as and if declared by Company's Board of Directors out of funds legally available therefor (subject to certain restrictions on payment of dividends imposed by the laws of California).

### **Comparison of the Rights of Holders of Company Common Stock and Bank Common Stock**

As a result of the Reorganization, the holders of Bank common stock will become shareholders of the Company, a California corporation. As a holder of Company Stock, you will have substantially the same rights that you currently have with your shares of Bank common stock.

The discussion below is a summary of various rights of shareholders, it is not intended to be a complete statement of all rights. The discussion is qualified in its entirety by reference to the Articles of Incorporation of the Company, the Company's Bylaws and the Articles of Incorporation and Bylaws of the Bank as well as the provisions of California and federal law.

***Authorized Capital Stock.*** The Bank's Articles of Incorporation provide for 20,000,000 authorized shares of common stock, no par value. 5,542,593 shares of such common stock will be outstanding immediately prior to the effective date of the Reorganization. The Bank's Articles of Incorporation also provide for 10,000,000 authorized shares of preferred stock, no par value. There are no outstanding shares of preferred stock.

The Company's Articles of Incorporation provide for 20,000,000 shares of authorized common stock, no par value and 10,000,000 shares of preferred stock, no par value. There are currently only 100 shares of Company common stock outstanding that will be repurchased by the Company immediately after the consummation of the Reorganization. 5,542,593 shares of Company will be outstanding immediately after the consummation of the Reorganization.

***Issuance of Stock.*** Under the Company's Articles of Incorporation and the Bank's Articles of Incorporation shares of common stock or preferred stock may be issued from time to time by their boards of directors without the approval of the shareholders.

***Liquidation Rights.*** In the event of liquidation, holders of common stock of the Company and the Bank are entitled to similar rights to assets distributable to shareholders on a pro rata basis after satisfaction of liabilities and rights of holders of preferred stock, if any.

***Redemption Rights.*** The Bank has limited ability to buy its outstanding shares from its shareholders. The Company is empowered by California law to buy its shares of stock from its shareholders at the mutual accord of the shareholder and the Company, although certain restrictions may apply.

***Preemptive Rights.*** Neither the Company's Articles of Incorporation nor the Bank's Articles of Incorporation provide for preemptive rights.

***Voting Rights.*** Each share of Bank common stock and each share of Company common stock is entitled to one vote per share.

Similar to the Bank, cumulative voting in the election of directors of the Company will apply by virtue of California law. Cumulative voting entitles a shareholder to vote as many votes as equals the number of shares the shareholder owns multiplied by the number of directors to be elected. A shareholder may cast all his votes for a single candidate or distribute such votes among any or all of the candidates.

***Shareholder Action without a Meeting.*** The Bank's Bylaws provide that any action that is required or permitted to be taken by shareholders at an annual or special meeting may be taken by a written consent signed by the same number of shareholders that would be required to approve a measure presented at an annual or special meeting. The Company's Bylaws contain the same provision.

***Shareholder Vote on Business Combinations.*** In general, approval of a business combination (a merger or sale of assets) involving the Bank requires the approval of a majority of the Board of Directors and a favorable vote of a majority of the outstanding shares. A business combination involving the Company will likewise require the approval of a majority of the Board of Directors and a favorable vote of a majority of the outstanding shares.

***Special Meetings of Shareholders.*** The Bank's Bylaws provide that a special meeting of the shareholders may be called by, among others, holders of 10% or more of the outstanding voting shares.

The Company's Bylaws provide that a special meeting of the shareholders may be called by, among others, holders of 10% or more of the outstanding voting shares.

***Dividends.*** Under California law, the directors of California state-licensed banks may declare distributions to shareholders (which include cash dividends), subject to the restriction that the amount available for the payment of cash dividends shall be the lesser of retained earnings of the bank or the bank's net income for its last three fiscal years (less the amount of any distributions to shareholders made during such period). If the above test is not met, distributions to shareholders may be made only with the prior approval of the Commissioner in an amount not exceeding the greatest of a bank's retained earnings, a bank's net income for its last fiscal year, or a bank's net income for its current fiscal year. If the Commissioner finds that the shareholders' equity of a bank is not adequate, or that the making by a bank of a distribution to shareholders would be unsafe or unsound for the bank, the Commissioner can order a bank not to make any distribution to shareholders.

The Company may pay cash dividends out of funds legally available therefor, subject to the restrictions set forth in the California General Corporation Law (the "Corporation Law"). The

Corporation Law provides that a corporation may make a distribution to its shareholders if the corporation's retained earnings equal at least the amount of the proposed distribution. The Corporation Law also provides that, in the event that sufficient retained earnings are not available for the proposed distribution, a corporation may nevertheless make a distribution to its shareholders if it meets two conditions, which generally stated are as follows: (i) the corporation's assets equal at least 1-1/4 times its liabilities, and (ii) the corporation's current assets equal at least its current liabilities or, if the average of the corporation's earnings before taxes on income and before interest expenses for the two preceding fiscal years was less than the average of the corporation's interest expenses for such fiscal years, then the corporation's current assets must equal at least 1-1/4 times its current liabilities.

***Amendment to Charter and Bylaws.*** In general, the Bank's Articles of Incorporation and Bylaws may be amended by a favorable vote of the majority of the outstanding voting stock. Under most circumstances, the Bylaws of a bank may also be amended by the Board of Directors.

Amendments to the Company's Articles of Incorporation generally require the approval of a majority vote of the Company's Board of Directors and also by a majority of the outstanding shares of the Company's voting stock. The Company's Bylaws may be amended by a majority vote of the Board of Directors or the affirmative vote of a majority of the total votes eligible to be voted by shareholders.

***Board of Directors.*** The Bank's Bylaws provide that the number of directors shall not be less than seven (7) nor more than thirteen (13) with the exact number fixed by a resolution of the board or shareholders. The number of directors has been fixed at eight (8).

The Company's Bylaws provide that the number of directors shall be not less than seven (7) nor more than thirteen (13) with the exact number fixed by a resolution of the board or shareholders. The number of directors has been fixed at eight (8).

Directors of the Company will also be elected annually for a one year term.

In general, the removal of a director in a bank or the removal of a director of the Company requires a vote of a majority of the shareholders at a meeting.

***Nomination to the Board of Directors.*** The Banks' Bylaws require shareholders to comply with certain prior notice provisions in connection with the nomination of persons to become directors of the Bank. Failure to comply with these provisions may result in the nomination being disregarded.

The Company's Bylaws contain similar prior notice provisions. Failure to comply with these provisions will result in the nomination being disregarded.

***Dissenters' Rights.*** Dissenters' rights available to shareholders of a California state bank are governed by Chapter 13 of the California General Corporation Law. For a description of Chapter 13 see "HOLDING COMPANY REORGANIZATION - Dissenting Shareholders Rights."



Because the Company is a California corporation, the dissenters' rights available to Company shareholders also will be governed by Chapter 13 of the California General Corporations Law.

### **Certain Anti-Takeover Provisions**

Attempts to acquire control of financial institutions have recently become increasingly common. Takeover attempts which have not been negotiated with and approved by the Board of Directors present to shareholders the risks of a takeover on terms that may be less favorable than might otherwise be available. A transaction which is negotiated and approved by the Board of Directors, on the other hand, can be carefully planned and undertaken at an opportune time in order to obtain maximum value of the Company and its shareholders, with due consideration given to matters such as the management and business of the acquiring corporation and maximum strategic development of the Company's assets.

An unsolicited takeover proposal can seriously disrupt the business and management of a corporation and cause it to incur great expense. Although a tender offer or other takeover attempt may be made at a price substantially above the current market prices, such offers are sometimes made for less than all of the outstanding shares of a target company. As a result, shareholders may be presented with the alternative of partially liquidating their investment at a time that may be disadvantageous, or retaining their investment in an enterprise which is under different management and whose objectives may not be similar to those of the remaining shareholders.

Certain provisions of the Company's Articles of Incorporation and Bylaws, as well as certain provisions of California law, could have the effect of deterring takeover offers. The Board of Directors believes that the provisions of the Company's Articles of Incorporation and Bylaws described below are prudent and in the best interests of the Company and its shareholders. Although these provisions may discourage a future takeover attempt in which shareholders might receive a premium for their shares over the then current market price and may make removal of incumbent management more difficult, the Board of Directors believes that the benefits of these provisions outweigh their possible disadvantages. Management is not aware of any current effort to effect a change in control of the Company or the Bank.

The following discussion is a general summary of material provisions of the Company's Articles of Incorporation and Bylaws, and certain other regulatory provisions, which may be deemed to have an "anti-takeover" effect.

**Directors.** Certain provisions of the Articles of Incorporation and Bylaws will impede changes in majority control of the Board of Directors. The Company's Articles of Incorporation and/or Bylaws provides that:

- the size of the Board of Directors may be increased or decreased only by a majority vote of the whole Board;
- any vacancy occurring in the Board of Directors, including a vacancy created by an

increase in the number of directors, shall be filled for the remainder of the unexpired term by a majority vote of the directors then in office;

- a director, in general, may only be removed by the affirmative vote of a majority of the shares eligible to vote; and
- there be a procedure for the nomination of directors.

***Restrictions on Call of Special Meetings.*** The Bylaws provide that a special meeting of shareholders may be called only by the Board of Directors, the Chairman of the Board, the President or by holders of 10% or more of the voting stock of the Company.

***Authorization of Stock.*** The Articles of Incorporation authorize 20,000,000 shares of Company no par value common stock and 10,000,000 shares of Company no par value preferred stock. The Company is authorized to issue common or preferred stock from time to time. In the event of a proposed merger, tender offer or other attempt to gain control of the Company that the Board of Directors does not approve, it might be possible for the Board of Directors to authorize the issuance of shares of common stock that would impede the completion of such a transaction. An effect of the possible issuance of common stock, therefore, may be to deter a future takeover attempt. Except as otherwise discussed herein, the Board of Directors has no present plans or understandings for the issuance of any common stock.

## **Description of 1<sup>st</sup> Capital Bancorp**

***Organization.*** The Company has been organized under the laws of California. In order to effect the Reorganization, Samuel D. Jimenez purchased 100 shares of Company Common stock at \$1.00 per share. This purchase provided the Company's initial capitalization of \$100. Upon consummation of the Reorganization, these 100 shares will be repurchased by the Company for the same aggregate \$100.

The Company has not yet engaged in any business activity.

***Management.*** The current officers of the Company are:

Kurt J. Gollnick	Chairperson of the Board
Samuel D. Jimenez	Chief Executive Officer
Michael J. Winiarski	Chief Financial Officer
Michael J. Winiarski	Corporate Secretary

Initially, no officer will receive any direct remuneration from the Company. They will continue to serve as in their current capacities with the Bank, which initially will be solely responsible for their direct remuneration, if any.

It is anticipated in the future that the Company will add additional officers and employees and that the Bank and other subsidiaries of the Company, if any, will pay cash dividends and management fees to support the expenses of the Company. There are presently no specific plans,

arrangements or understandings with respect to such matters.

Each of the Bank's current directors is a director of the Company. It is anticipated that directors of the Company initially will not receive fees for their attendance at Board meetings and for attendance at committee meetings when such committees are formed. However, these persons will continue to receive directors' fees for serving on the Board of Directors of the Bank.

***Supervision and Regulation.*** The Company will be a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the "BHCA"), and will be registered as such with, and subject to the supervision of, the Federal Reserve. The Company will be required to file with the Federal Reserve quarterly and annual reports and such additional information as the Federal Reserve may require pursuant to the BHCA. The Federal Reserve may conduct examinations of bank holding companies and their subsidiaries.

The Company will be required to obtain the approval of the Federal Reserve before it may acquire all or substantially all of the assets of any bank, or ownership or control of the voting shares of any bank if, after giving effect to such acquisition of shares, the Company would own or control more than 5% of the voting shares of such bank. Prior approval of the Federal Reserve is also required for the merger or consolidation of the Company and another bank holding company.

The Company will be prohibited by the BHCA, except in certain statutorily prescribed instances, from acquiring direct or indirect ownership or control of more than 5% of the outstanding voting shares of any company that is not a bank or bank holding company and from engaging, directly or indirectly, in activities other than those of banking, managing or controlling banks or furnishing services to its subsidiaries. However, the Company may, subject to the prior approval of the Federal Reserve, engage in any, or acquire shares of companies engaged in, activities that are deemed by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

Under the Federal Reserve's regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe and unsound manner. In addition, it is the Federal Reserve's policy that in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice or a violation of the Federal Reserve's regulations or both.

For a further discussion of supervision and regulation to which both the Bank and Company will be subject, see "– Description of 1<sup>st</sup> Capital Bank – Supervision and Regulation."

### **Description of 1<sup>st</sup> Capital Merger Corp.**

At the direction of the Bank's Board of Directors, 1<sup>st</sup> Capital Merger Corp. ("Interim") is

being organized as a corporation under the laws of California. Prior to the consummation of the Reorganization, Interim will conduct no business with the public.

### **Description of 1<sup>st</sup> Capital Bank**

**Bank Organization.** 1<sup>st</sup> Capital Bank is a California banking corporation that commenced operations in 2007. It currently maintains its headquarters banking office and five (5) additional branches. At June 30, 2020, the Bank had total assets of \$737 million, total deposits of \$651 million and total shareholder's equity of \$71 million.

**Employees.** As of June 30, 2020, the Bank had a total of 85 full-time equivalent employees. The management of the Bank believes that its employee relations are satisfactory.

**Competition.** The banking and financial services business in California generally, and in the Bank's service area specifically, is highly competitive. The increasingly competitive environment is a result primarily of changes in regulation, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial services providers.

Headquartered in Monterey County, the Bank's business is concentrated in its service area, which encompasses primarily the Central Coast of California. In order to compete with other financial institutions in its service area, the Bank relies principally upon local advertising programs; direct personal contact by officers, directors, employees, and shareholders; and specialized services such as courier pick-up and delivery of non-cash banking items. The Bank emphasizes to its customers the advantages of dealing with a locally owned and community oriented institution. The Bank also seeks to provide special services and programs for individuals in its primary service area who are employed in the agricultural, professional and business fields, such as loans for equipment, furniture, tools of the trade or expansion of practices or businesses. Larger banks may have a competitive advantage because of higher lending limits and major advertising and marketing campaigns. They also perform services, such as trust services, international banking, discount brokerage and insurance services, that the Bank is not authorized or prepared to offer currently. The Bank has made arrangements with its correspondent banks and with others to provide some of these equivalent services for its customers.

Commercial banks compete with savings and loan associations, credit unions, securities brokerage firms, other financial institutions, and other entities for funds. For instance, yields on corporate and government debt securities and other commercial paper affect the ability of commercial banks to attract and hold deposits. Commercial banks also compete for loans with savings and loan associations, credit unions, consumer finance companies, mortgage companies and other lending institutions.

The Bank competes for loans, deposits and customers for financial services with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions, and other non-bank financial service providers. Major banks dominate the commercial banking industry in California and, more specifically, in the Bank's service areas.

Many of the Bank's competitors are much larger in total assets and capitalization, have greater access to capital markets and offer a broader array of financial services than us. In order to compete with these financial services providers, the Bank principally relies upon local promotional activities, personal relationships established by officers, directors and employees with its customers, and specialized services tailored to meet its customers' needs.

No assurance can be given that the Bank's efforts to compete with other banks and financial institutions will be successful.

**Litigation.** There are no pending legal proceedings to which we are a party that we anticipate will have a material impact on our results of operations. There are no material proceedings known to us to be contemplated by any governmental authority. The Bank is from time to time involved in a variety of litigation matters in the ordinary course of its business and anticipates that it will become involved in new litigation matters in the future.

There are no material proceedings adverse to us to which any of our directors, Executive Officers, affiliates or 5% shareholders, or any associate of any such director, officer, affiliate or 5% shareholder is a party, and none of the above persons has a material interest adverse to us.

**Premises.** The Bank leases the premises in which its administrative offices and City Center Branch are located in Salinas, California, as well as the other branch locations in Monterey, Salinas, King City, San Luis Obispo, and Santa Cruz.

For further information concerning the Bank's leases and related costs, please see the notes to the Bank's audited financial statements included in the Bank's 2019 Annual Report.

**Effect of Government Policies and Recent Legislation.** Banking is a business that depends on rate differentials. In general, the difference between the interest rate paid by the Bank on its deposits and its other borrowings and the interest rate received by the Bank on loans extended to its customers and securities held in the Bank's portfolio comprise the major portion of the Bank's earnings. These rates are highly sensitive to many factors that are beyond the control of the Bank. Accordingly, the earnings and growth of the Bank are subject to the influence of domestic and foreign economic conditions, including inflation, recession and unemployment.

The commercial banking business is not only affected by general economic conditions but is also influenced by the monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the Federal Reserve. The Federal Reserve implements national monetary policies (with objectives such as controlling inflation and unemployment) by its open-market operations in United States Government and mortgage-related securities, by adjusting the required level of reserves for financial institutions subject to its reserve requirements and by varying the discount rates applicable to borrowings by depository institutions. The actions of the Federal Reserve in these areas influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. The nature and impact on the Bank of any future changes in monetary policies cannot be predicted.

From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial institutions are frequently made in Congress, in the California legislature and before various bank regulatory and other professional agencies. See “Supervision and Regulation” below.

### **Supervision and Regulation**

*General.* The Bank is extensively regulated under both federal and state law. Set forth below is a summary description of certain laws that relate to the regulation of the Bank. The description does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

*The Bank.* The Bank is chartered under the laws of the State of California and its deposits are insured by the FDIC to the extent provided by law. The Bank is subject to the supervision of, and is regularly examined by, the DBO and the FDIC. Such supervision and regulation include comprehensive reviews of all major aspects of the Bank’s business and condition. Various requirements and restrictions under the laws of the United States and the State of California affect the operations of the Bank. Federal and California statutes relate to many aspects of the Bank’s operations, including reserves against deposits, interest rates payable on deposits, loans, investments, mergers and acquisitions, borrowings, dividends and locations of branch offices. Further, the Bank is required to maintain certain levels of capital.

If, as a result of an examination of a bank, the DBO or FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank’s operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, various remedies are available to these regulatory agencies. Such remedies include the power to enjoin “unsafe or unsound” practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the growth of the Bank, to assess civil monetary penalties, to remove officers and directors, and ultimately to terminate the Bank’s deposit insurance, which for a California chartered bank would result in a revocation of the bank’s charter.

The deposits of the Bank are insured by the FDIC in the manner and to the extent provided by law. For this protection, the Bank pays a semiannual statutory assessment. The Bank is also subject to certain regulations of the FDIC and applicable provisions of California law, insofar as they do not conflict with or are not preempted by federal banking law. Various other requirements and restrictions under the laws of the United States and the State of California affect the operations of the Bank. Federal and California statutes and regulations relate to many aspects of the Bank's operations, including reserves against deposits, interest rates payable on deposits, loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices, capital requirements and disclosure obligations to depositors and borrowers. Further, the Bank is required to maintain certain levels of capital.

Prompt Corrective Action and Other Enforcement Mechanisms. Federal banking agencies possess broad powers to take corrective and other supervisory action to resolve the problems of insured depository institutions, including, but not limited to, those institutions that fall below one or more prescribed minimum capital ratios described above. An institution that, based upon its capital levels, is classified as well capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. The federal banking agencies, however, may not treat a significantly undercapitalized institution as critically undercapitalized unless its capital ratio actually warrants such treatment.

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation, or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include:

- the imposition of a conservator or receiver;
- the issuance of a cease-and-desist order that can be judicially enforced;
- the termination of insurance of deposits (in the case of a depository institution);
- the imposition of civil money penalties;
- the issuance of directives to increase capital;
- the issuance of formal and informal agreements;
- the issuance of removal and prohibition orders against institution-affiliated parties; and
- the enforcement of such actions through injunctions or restraining orders based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

Safety and Soundness Standards. The Federal Deposit Insurance Corporation Improvement Act (“FDICIA”) imposes certain specific restrictions on transactions and requires federal banking regulators to adopt overall safety and soundness standards for depository institutions related to internal control, loan underwriting and documentation and asset growth. Among other things, FDICIA limits the interest rates paid on deposits by undercapitalized institutions, restricts the use of brokered deposits, limits the aggregate extensions of credit by a depository institution to an executive officer, director, principal shareholder or related interest, and reduces deposit insurance coverage for deposits offered by undercapitalized institutions for deposits by certain employee benefits accounts. The federal banking agencies have the

flexibility to pursue appropriate or effective courses of action given the specific circumstances and severity of an institution's non-compliance with one or more standards, including requiring an institution to submit an acceptable compliance plan.

*Premiums for Deposit Insurance.* The FDIC insures our customer deposits through the Deposit Insurance Fund up to prescribed limits for each depositor. Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the maximum deposit insurance amount has been permanently increased to \$250,000. The amount of FDIC assessments paid by each Deposit Insurance Fund member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. Due to the greatly increased rate of bank failures experienced in the current period of financial stress, as well as the extraordinary programs in which the FDIC has been involved to support the banking industry generally, the FDIC's Deposit Insurance Fund was substantially depleted and the FDIC has incurred substantially increased operating costs.

As required by the Dodd-Frank Act, the FDIC adopted a new Deposit Insurance Fund restoration plan which became effective on January 1, 2011. Among other things, the plan: (1) raises the minimum designated reserve ratio, which the FDIC is required to set each year, to 1.35 percent (from the former minimum of 1.15 percent) and removes the upper limit on the designated reserve ratio (which was formerly capped at 1.5 percent) and consequently on the size of the fund; (2) requires that the fund reserve ratio reach 1.35 percent by September 30, 2020; (3) requires that, in setting assessments, the FDIC offset the effect of requiring that the reserve ratio reach 1.35 percent by September 30, 2020, rather than 1.15 percent by the end of 2016 on insured depository institutions with total consolidated assets of less than \$10 billion; (4) eliminates the requirement that the FDIC provide dividends from the fund when the reserve ratio is between 1.35 percent and 1.5 percent; and (5) continues the FDIC's authority to declare dividends when the reserve ratio at the end of a calendar year is at least 1.5 percent, but grants the FDIC sole discretion in determining whether to suspend or limit the declaration or payment of dividends. The Federal Deposit Insurance Act continues to require that the FDIC's Board of Directors consider the appropriate level for the designated reserve ratio annually and, if changing the designated reserve ratio, engage in notice-and-comment rulemaking before the beginning of the calendar year. The FDIC has set a long-term goal of increasing its reserve ratio to 2% of insured deposits by 2027.

On February 7, 2011, the FDIC approved a final rule, as mandated by the Dodd-Frank Act, changing the deposit insurance assessment system from one that is based on total domestic deposits to one that is based on average consolidated total assets minus average tangible equity. In addition, the final rule creates a scorecard-based assessment system for larger banks (those with more than \$10 billion in assets) and suspends dividend payments if the Deposit Insurance Fund reserve ratio exceeds 1.5 percent, but provides for decreasing assessment rates when the Deposit Insurance Fund reserve ratio reaches certain thresholds. Larger insured depository institutions will likely pay higher assessments to the Deposit Insurance Fund than under the old system. Additionally, the final rule includes a new adjustment for depository institution debt whereby an institution would pay an additional premium equal to 50 basis points on every dollar of long-term, unsecured debt held as an asset that was issued by another insured depository institution (excluding debt guaranteed under the FDIC's Temporary Liquidity



Guarantee Program) to the extent that all such debt exceeds 3 percent of the other insured depository institution's tier 1 capital. The Bank does not expect the rule to have a material effect on its financial condition.

The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the Deposit Insurance Fund or that may prejudice the interest of the bank's depositors. The termination of deposit insurance for a bank would also result in the revocation of the bank's charter by the DBO.

All FDIC-insured institutions are also required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the Federal government established to recapitalize the predecessor to the Deposit Insurance Fund.

*Financial Institutions Capital Rules.* Federal regulations require FDIC-insured depository institutions, including Bank, to meet several minimum capital standards: a common equity tier 1 capital to risk-based assets ratio; a tier 1 capital to risk-based assets ratio; a total capital to risk-based assets ratio; and a tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015 and are the result of a final rule implementing regulatory amendments based on recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act.

The capital standards require the maintenance of common equity tier 1 capital, tier 1 capital and total capital to risk-weighted assets of at least 4.5%, 6% and 8%, respectively. The regulations also establish a minimum required leverage ratio of at least 4%. Common equity tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity tier 1 capital and additional tier 1 capital. Additional tier 1 capital generally includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes tier 1 capital (common equity tier 1 capital plus additional tier 1 capital) and tier 2 capital. Tier 2 capital comprises capital instruments and related surplus meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of accumulated other comprehensive income ("AOCI"), up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into common equity tier 1 capital (including unrealized gains and losses on available-for-sale securities). Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, an institution's assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests), are multiplied by a risk weight factor assigned by the regulations based on the risk deemed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk

weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one- to four-family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

The federal banking agencies recently adopted a final rule that became effective April 1, 2020, designed to simplify several of the requirements of the regulatory capital rules, such as simplifying the treatment of mortgage servicing assets and certain deferred tax assets.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. Institutions that do not maintain the required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to executive management.

The following table sets forth the regulatory capital for 1<sup>st</sup> Capital Bank at June 30, 2020:

	<b>Adequately Capitalized</b>	<b>Well Capitalized</b>	<b>1<sup>st</sup> Capital Bank</b>
Total risk-based capital	8.00%	10.00%	15.37%
Tier 1 risk-based capital ratio	6.00%	8.00%	14.12%
Common equity tier 1	4.50%	6.50%	14.12%
Tier 1 leverage capital ratio	4.00%	5.00%	9.66%

*Prompt Corrective Action Authority.* The federal banking agencies possess broad powers to take prompt corrective action to resolve the problems of insured banks. Each federal banking agency has issued regulations defining five capital categories: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” and “critically undercapitalized.” Under the regulations, a bank shall be deemed to be:

“well capitalized” if it has a total risk-based capital ratio of 10% or more, has a tier 1 risk-based capital ratio of 8% or more, has a common equity tier 1 capital ratio of 6.5% or more, has a tier 1 leverage capital ratio of 5% or more, and is not subject to specified requirements to meet and maintain a specific capital level for any capital measure;

“adequately capitalized” if it has a total risk-based capital ratio of 8% or more, a tier 1 risk-based capital ratio of 6% or more and a leverage capital ratio of 4% or more (3% under certain circumstances) and does not meet the definition of “well capitalized”;

“undercapitalized” if it has a total risk-based capital ratio that is less than 8%, a tier 1 risk-based capital ratio that is less than 4%, or a leverage capital ratio that is less than 4% (3% under certain circumstances);

“significantly undercapitalized” if it has a total risk-based capital ratio that is less than 6%, a tier 1 risk-based capital ratio that is less than 3% or a leverage capital ratio that is less than 3%; and

“critically undercapitalized” if it has a ratio of tangible equity to total assets that is equal to or less than 2%.

While these benchmarks have not changed, due to market turbulence the regulators have strongly encouraged and, in many instances, required banks and bank holding companies to achieve and maintain higher ratios as a matter of safety and soundness.

Banks are prohibited from paying dividends or management fees to controlling persons or entities if, after making the payment, the bank would be “undercapitalized,” that is, the bank fails to meet the required minimum level for any relevant capital measure. Asset growth and branching restrictions apply to “undercapitalized” banks. Banks classified as “undercapitalized” are required to submit acceptable capital plans guaranteed by its holding company, if any. Broad regulatory authority was granted with respect to “significantly undercapitalized” banks, including forced mergers, growth restrictions, ordering new elections for directors, forcing divestiture by its holding company, if any, requiring management changes and prohibiting the payment of bonuses to senior management. Even more severe restrictions are applicable to “critically undercapitalized” banks. Restrictions for these banks include the appointment of a receiver or conservator. All of the federal banking agencies have promulgated substantially similar regulations to implement this system of prompt corrective action.

A bank, based upon its capital levels, that is classified as “well capitalized,” “adequately capitalized” or “undercapitalized” may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for a hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment. Further, a bank that otherwise meets the capital levels to be categorized as “well capitalized,” will be deemed to be “adequately capitalized,” if the bank is subject to a written agreement requiring that the bank maintain specific capital levels. At each successive lower capital category, an insured bank is subject to more restrictions. The federal banking agencies, however, may not treat an institution as “critically undercapitalized” unless its capital ratios actually warrant such treatment.

In addition to measures taken under the prompt corrective action provisions, insured banks may be subject to potential enforcement actions by the federal banking agencies for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, the issuance of a cease-and-desist order that can be judicially enforced, the termination of insurance of deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, and the issuance of removal and prohibition orders against institution-affiliated parties.

The FDIC, as the primary federal banking regulator of state non-member banks, such as Bank, have a broad range of enforcement measures, from cease and desist powers and the

imposition of monetary penalties to the ability to take possession of a bank, including causing its liquidation. The DBO, as the primary regulator for state-chartered banks such as Bank, also has a broad range of enforcement measures, from cease and desist powers and the imposition of monetary penalties to the ability to take possession of a bank, including causing its liquidation.

*Dodd-Frank Act.* On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, significantly revised and expanded the rulemaking, supervisory and enforcement authority of the federal bank regulatory agencies. The numerous rules and regulations being promulgated pursuant to the Dodd-Frank Act are impacting banks' operations and compliance costs. Certain provisions of the Dodd-Frank Act include: revisions in the deposit insurance assessment base for FDIC insurance and the permanent increase in deposit insurance coverage to \$250,000; the permissibility of paying interest on business checking accounts; the removal of barriers to interstate branching; and required disclosure and shareholder advisory votes on executive compensation. Some of the other provisions of the Dodd-Frank Act that affect banks are the following:

*Capital Requirements.* The Dodd-Frank Act: increased in the minimum tier 1 capital ratio from 4.00% to 6.00% of risk-weighted assets; created a new category and required 4.50% of risk-weighted assets ratio for "common equity tier 1" as a subset of tier 1 capital limited to common equity; established a minimum non-risk-based leverage ratio set at 4.00%, eliminating a 3.00% exception for higher rated banks; changed the permitted composition of Tier 1 capital to exclude trust preferred securities (unless issued prior to May 19, 2010 by a bank holding company with less than \$15 billion in assets), mortgage servicing rights and certain deferred tax assets and included unrealized gains and losses on available for sale debt and equity securities; added an additional capital conservation buffer of 2.5% of risk-weighted assets over each of the required capital ratios, which must be met to avoid limitations on the ability to pay dividends, repurchase shares or pay discretionary bonuses; changed the risk weights of certain assets for purposes of calculating the risk-based capital ratios for high volatility commercial real estate acquisition, development and construction loans, certain past due non-residential mortgage loans and certain mortgage-backed and other securities exposures.

*Deposit Insurance.* The Dodd-Frank Act broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds.

*Corporate Governance.* The Dodd-Frank Act directed the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of \$1.0 billion.

*Interstate Branching.* The Dodd-Frank Act authorized national and state banks to establish branches in other states to the same extent as a bank chartered by that state would be permitted to branch.

*Consumer Financial Protection Bureau.* The Dodd-Frank Act created an independent federal agency called the Consumer Financial Protection Bureau (the "CFPB"), which has been granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Practices Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act ("GLBA") and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with \$10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB but are still examined and supervised by their federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act authorized the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, the Dodd-Frank Act allows borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

*Final Volcker Rule.* In December 2013, the federal bank regulatory agencies adopted final rules that implement a part of the Dodd-Frank Act commonly referred to as the "Volcker Rule." The final rules were amended in August 2019. Under these rules and subject to certain exceptions, banking entities, including Bank, will be restricted from engaging in activities that are considered proprietary trading and from sponsoring or investing in certain entities, including hedge or private equity funds that are considered "covered funds." Banks that do not have significant trading activities, such as Bank, will be assumed to operate under a presumption of compliance.

The Dodd-Frank Act was enacted under the administration of former President Barack Obama and many of the rules and regulations implementing the provisions of the Dodd-Frank Act were enacted during that administration. The current administration under President Trump has sought to roll-back key pieces of the Dodd-Frank Act in an effort to loosen regulatory restrictions on financial institutions including, but not limited to, easing the "Volcker Rule," stress tests and other constraints on financial institutions. Federal banking regulators are currently seeking public input on revisions to key provisions of the Dodd-Frank Act and its implementing regulations in order to effectuate the current Administration's initiatives of continued financial deregulation. In light of the current administration's continuing efforts in this regard, neither Company nor Bank can predict which provisions of the Dodd-Frank Act will be repealed, put in to effect, delayed or enforced under the current administration and, therefore, cannot predict the effect, if any, that the Dodd-Frank Act will have on their respective future operations and financial condition.

*Sarbanes-Oxley Act of 2002.* On July 30, 2002, the Sarbanes-Oxley Act of 2002 ("SOX"), was signed into law to address corporate and accounting fraud. SOX established a new Public Company Accounting Oversight Board that enforces auditing standards and restricts the scope of services that accounting firms may provide to their public company audit clients. Among other things, SOX also (i) requires chief executive officers and chief financial officers to certify to the accuracy of periodic reports filed with the Securities Exchange Commission ("SEC"); (ii) imposes

new disclosure requirements regarding internal controls, off-balance-sheet transactions, and pro forma (non-GAAP) disclosures; (iii) accelerates the time frame for reporting of insider transactions and periodic disclosures by public companies; and (iv) requires companies to disclose whether or not they have adopted a code of ethics for senior financial officers and whether the audit committee includes at least one “audit committee financial expert.”

Under SOX, the SEC is required to regularly and systematically review corporate filings, based on certain enumerated factors. To deter wrongdoing, SOX: (i) subjects bonuses issued to top executives to disgorgement if a restatement of a company’s financial statements was due to corporate misconduct; (ii) prohibits an officer or director from misleading or coercing an auditor; (iii) prohibits insider trades during “blackout periods”; (iv) imposes new criminal penalties for fraud and other wrongful acts; and (v) extends the period during which certain securities fraud lawsuits can be brought against a company or its officers.

While we are not a public reporting company, and therefore not technically subject to SOX, many of the requirements of that Act are being adopted as “best practices” in corporate governance and banking regulators have discussed from time to time applying the requirements of such Act to banks and bank holding companies such as ours, assuming the Reorganization is completed.

*Community Reinvestment Act.* The Bank is subject to certain fair lending requirements and reporting obligations involving home mortgage lending operations and Community Reinvestment Act (“CRA”) activities. The CRA generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of their local communities, including low- and moderate-income neighborhoods. In addition to substantial penalties and corrective measures that may be required for a violation of certain fair lending laws, the federal banking agencies may take compliance with such laws and CRA into account when regulating and supervising other activities, particularly mergers and acquisitions.

When a bank applies for approval to open a branch office, the FDIC will review the assessment of each such bank, and such records may be the basis for denying the application. A bank's compliance with its CRA obligations is based on a performance-based evaluation system which bases CRA ratings on an institution's lending service and investment performance, resulting in a rating by the appropriate bank regulatory agency of “outstanding,” “satisfactory,” “needs to improve,” or “substantial non-compliance.” In its last examination by the FDIC, the Bank received a CRA rating of “satisfactory.”

*Anti Money-Laundering Regulations.* A series of banking laws and regulations beginning with the Bank Secrecy Act in 1970 requires banks to prevent, detect, and report illicit or illegal financial activities to the federal government to prevent money laundering, international drug trafficking, and terrorism. Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, financial institutions are subject to prohibitions against specified financial transactions and account relationships, requirements regarding the Customer Identification Program, as well as enhanced due diligence and “know your customer” standards in their dealings with high risk customers, foreign financial institutions, and foreign individuals and entities.

Transactions between Affiliates. Bank holding companies and any subsidiaries which they may acquire or organize are deemed to be “affiliates” of their bank subsidiaries within the meaning of the Federal Reserve Act. Under Sections 23A and 23B of the Federal Reserve Act and the Federal Reserve’s Regulation W, loans by a bank holding company’s bank subsidiary to affiliates, investments by them in affiliates’ stock, and taking affiliates’ stock as collateral for loans to any borrower is limited to 10 percent of the bank’s capital, in the case of any one affiliate, and is limited to 20 percent of the bank’s capital, in the case of all affiliates. In addition, transactions between a bank subsidiary and the bank holding company or any affiliate must be on terms and conditions that are consistent with safe and sound banking practices; in particular, a bank and its subsidiaries generally may not purchase from an affiliate a low-quality asset, as defined in the Federal Reserve Act. These restrictions also prevent a bank holding company and its affiliates from borrowing from a banking subsidiary unless the loans are secured by marketable collateral of designated amounts. Bank holding companies and their subsidiary banks are also subject to certain restrictions with respect to engaging in the underwriting, public sale and distribution of securities.

Anti-Tying Restrictions. Bank holding companies and their subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, sale or lease of property or furnishing of services. For example, with certain exceptions a subsidiary bank may not condition an extension of credit on a customer’s obtaining other services provided by it, by its holding company or by any other subsidiary, or on a promise from its customer not to obtain other services from a competitor.

Liquidity. A bank holding company is a legal entity that is separate and distinct from its bank subsidiary. As a result, the bank holding company will be dependent on the performance of the bank for funds which may be received as dividends from the bank for use in its operations and to pay dividends to its shareholders. California law restricts the amount available for cash dividends the Company will be able to pay to the Bank. (For more detail on the California dividend rules applicable to the Company, see “PROPOSAL NO. 1 – HOLDING COMPANY FORMATION - Comparison of the Rights of Holders of Company Common Stock and Bank Common Stock – *Dividends*” herein.)

Consumer Compliance and Fair Lending Laws. The Bank is subject to a number of federal and state laws designed to protect borrowers and promote lending to various sectors of the economy and population. These laws include the CRA, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, various state law counterparts, and the Consumer Financial Protection Act of 2010, which constitutes part of the Dodd-Frank Act. The enforcement of Fair Lending laws has been an increasing area of focus for regulators, including the FDIC and CFPB.

Fair Lending laws related to extensions of credit are included in the Equal Credit Opportunity Act and the Fair Housing Act, which prohibit discrimination in residential real estate and credit transactions based on race, color, national origin, sex, marital status, familial status, religion, age, physical ability, the fact that all or part of the applicant’s income derives from a public assistance program or the fact that the applicant has exercised any right under the Consumer

Credit Protection Act. Under the Fair Lending laws, lenders can also be liable for policies which have a disparate impact on, or result in disparate treatment of, a protected class of applicants or borrowers. Lenders are required to have a Fair Lending program that is of sufficient scope to monitor the inherent Fair Lending risk of the institution and that appropriately remediates any issues which are identified. Generally, regulatory agencies are required to refer fair lending violations to the Department of Justice for investigation.

*Consumer Information Security and Privacy.* Federal law and certain state laws (including California) currently contain consumer privacy protection provisions. These provisions limit the ability of banks and other financial institutions to disclose non-public information about consumers to affiliated companies and non-affiliated third parties. These rules require disclosure of privacy policies to consumers and, in some circumstance, allow consumers to prevent disclosure of certain personal information to affiliates or non-affiliated third parties by means of “opt out” or “opt in” authorizations. Pursuant to the GLBA and certain state laws (including California), companies are required to notify clients of security breaches resulting in unauthorized access to their personal information. The Bank has implemented privacy policies addressing these restrictions which are distributed regularly to their existing and new customers.

The Federal Reserve and other bank regulatory agencies have adopted final guidelines for safeguarding confidential, personal customer information. These guidelines require each financial institution, under the supervision and ongoing oversight of its board of directors or an appropriate committee thereof, to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazard to the security or integrity of such information and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. The Bank has adopted a customer information security program to comply with such requirements.

*Monetary Policy.* The Bank’s profitability, like most financial institutions, is primarily dependent on interest rate differentials. In general, the difference between the interest rates paid by a bank on its interest-bearing liabilities, such as deposits and other borrowings, and the interest rates received on its interest-earning assets, such as loans extended to customers and securities held in its investment portfolio, will comprise the major portion of its earnings. These rates are highly sensitive to many factors that are beyond the Bank’s control, such as inflation, recession and unemployment, and the impact which future changes in domestic and foreign economic conditions might have on the Bank cannot be predicted.

The Bank’s business is also influenced by the monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the Federal Reserve. The Federal Reserve implements national monetary policies through its open-market operations in U.S. Government and mortgage-related securities, by adjusting the required level of reserves for depository institutions subject to its reserve requirements, and by varying the target federal funds and discount rates applicable to borrowings by depository institutions. The monetary policies of the Federal Reserve in these areas influence the growth of loans, investments, and deposits and also affect interest earned on interest-earning assets and paid on interest-bearing liabilities. The



nature and impact of any future changes in monetary and fiscal policies on the Bank's operations and financial condition cannot be predicted.

*Other Aspects of Banking Law.* The Bank is also subject to state and federal statutory and regulatory provisions covering, among other things, security procedures, insider and affiliated party transactions, management interlocks, electronic funds transfers, funds availability, and truth-in-savings.

Banks are subject to certain Federal Reserve restrictions on extensions of credit to Executive Officers, directors, principal shareholders or any related interests of such persons (i.e., insiders). Extensions of credit (1) must be made on substantially the same terms and pursuant to the same credit underwriting procedures as those for comparable transactions with persons who are neither insiders nor employees, and (2) must not involve more than the normal risk of repayment or present other unfavorable features. Banks are also subject to certain lending limits and restrictions on overdrafts to insiders. A violation of these restrictions may result in regulatory sanctions on the bank or its insiders.

Moreover, additional initiatives may be proposed or introduced before Congress, the California Legislature, and other government bodies in the future which, if enacted, may further alter the structure, regulation, and competitive relationship among financial institutions and may subject the bank holding companies and banks to increased supervision and disclosure, compliance costs and reporting requirements. In addition, the various bank regulatory agencies often adopt new rules and regulations and policies to implement and enforce existing legislation. Bank regulatory agencies have been very aggressive in responding to concerns and trends identified in examinations, and this has resulted in the increased issuance of enforcement actions to financial institutions requiring action to address credit quality, liquidity and risk management, capital adequacy, compliance with Bank Secrecy Act, as well as other safety and soundness concerns.

It cannot be predicted whether, or in what form, any such legislation or regulatory changes in policy may be enacted or the extent to which the Bank's businesses would be affected thereby. In addition, the outcome of examinations, any litigation, or any investigations initiated by state or federal authorities may result in necessary changes in their respective operations and increased compliance costs.

**THE BANK'S BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE PROPOSAL TO APPROVE THE REORGANIZATION AGREEMENT AND THE REORGANIZATION.**

## **PROPOSAL NO. 2**

### **DISCRETIONARY AUTHORITY TO ADJOURN**

#### **General**

If, at the Special Meeting, the number of shares of Bank common stock present in person or by proxy is insufficient to constitute a quorum or the number of shares of common stock voting in favor of approval of the principal terms of the Plan of Reorganization and Agreement of Merger (Proposal No. 1) is insufficient to approve that proposal, the Bank's management intends to move to adjourn the Special Meeting in order to enable the Bank's Board of Directors to solicit additional proxies. In that event, we will ask our shareholders to vote upon the adjournment proposal.

In this proposal, we are asking our shareholders to grant discretionary authority to the holder of any proxy solicited by our Board of Directors so that such holder can vote in favor of the proposal to adjourn the Special Meeting to solicit additional proxies. If shareholders approve the adjournment proposal, our Board could adjourn the Special Meeting and any adjourned session of the meeting, and use the additional time to solicit additional proxies, including the solicitation of proxies from shareholders that have previously voted. Among other things, approval of the adjournment proposal could mean that, even if we have received proxies representing a sufficient number of votes against approval of the Plan of Reorganization and Agreement of Merger, our Board of Directors could adjourn the Special Meeting without a vote on the Reorganization proposal and seek to convince the holders of those shares to change their votes to votes in favor of the approval of the Plan of Reorganization and Agreement of Merger.

If the Special Meeting is adjourned, no notice of the adjourned meeting is required to be given to shareholders, other than an announcement at the Special Meeting of the place, date and time to which the Special Meeting is adjourned.

#### **Vote Required**

The affirmative vote of a majority of the shares represented and voting at the Special Meeting, either in person or by proxy, on this proposal, with affirmative votes constituting at least a majority of the required quorum is required to approve, if necessary, the proposal allowing the executive officers of the Bank to adjourn the Special Meeting and reschedule it for a later date. This would be done if necessary to solicit further votes in favor of the Reorganization and any other matters to be voted upon at the Special Meeting.

Abstentions will have no effect unless there are insufficient votes in favor of the proposal, such that the affirmative votes constitute less than a majority of the required quorum. In such case, abstentions will have the same effect as a vote against the proposal. Broker non-votes will not be counted as votes and will have no effect on the voting of this proposal.

## **Recommendation of the Board of Directors**

The Board of Directors believes that if the number of shares of Bank common stock present in person or by proxy is insufficient to constitute a quorum or the number of shares of common stock voting in favor of approval of the principal terms of the Plan of Reorganization and Agreement of Merger (Proposal 1 – HOLDING COMPANY FORMATION) is insufficient to approve that proposal, it is in the best interests of the Bank’s shareholders to enable the Bank’s Board to continue to seek to additional proxies to constitute a quorum and to obtain a sufficient number of additional votes in favor of the Plan of Reorganization and Agreement of Merger. **Therefore, the Bank’s Board unanimously recommends that you vote “FOR” the proposal to grant discretionary authority to adjourn the Special Meeting for the purpose of soliciting additional proxies.**

## **LEGAL MATTERS**

Certain legal matters in connection with the Reorganization, including the validity of Company common stock to be issued in the Reorganization, will be passed upon for the Bank and the Company by Stuart | Moore | Staub, 641 Higuera St., Suite 302, San Luis Obispo, California 93401.

## **TAX MATTERS**

Prior to closing, Crowe LLP, tax counsel to the Bank, will give an opinion regarding the material U.S. federal income tax consequences of the Reorganization. See “HOLDING COMPANY FORMATION - Income Tax Consequences,” herein.

## **WEBSITE ACCESS**

The Bank maintains a website at [www.1stCapital.Bank](http://www.1stCapital.Bank) where additional information regarding the Bank may be obtained.

## **ANNUAL REPORTS; INTERIM UNAUDITED FINANCIALS**

The 2019 Annual Reports to Shareholders, incorporating financial statements for the years ended December 31, 2019 and 2018 are available on the Bank’s website.

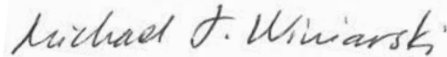
The Bank’s unaudited financial statements for the six months ended June 30, 2020 are attached hereto as Appendix “C” and incorporated herein by reference. You should read the unaudited financial statements for the six months ended June 30, 2020 in conjunction with the above referenced Annual Reports and other information contained in this prospectus. The interim financial data may not be indicative of possible future performance, and the results of operations for the six months ended June 30, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020.

## **OTHER MATTERS**

The Board of Directors does not know of any matters to be presented at the Special Meeting other than those presented in this Proxy Statement. However, if other matters properly come before the Special Meeting, it is the intention of the persons named in the accompanying proxy to vote the proxy in accordance with the recommendations of the Bank's Board of Directors on such matters, and discretionary authority to do so is included in the proxy.

September 11, 2020

By Order of the Board of Directors:

A handwritten signature in dark ink, reading "Michael J. Winiarski", is centered on a light gray rectangular background.

Michael J. Winiarski  
*Corporate Secretary*

**YOU ARE CORDIALLY INVITED TO ATTEND THE SPECIAL MEETING IN PERSON. WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING, YOU ARE REQUESTED TO COMPLETE, SIGN, DATE, AND PROMPTLY RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED POSTAGE-PAID ENVELOPE.**

## **Appendix A**

### **Chapter 13 of the California General Corporation Law**

**CALIFORNIA GENERAL CORPORATION LAW**  
**CHAPTER 13: DISSENTERS' RIGHTS**

**1300. Shareholder in short-form merger; Purchase at fair market value; “Dissenting shares”; “Dissenting shareholder”**

(a) If the approval of the outstanding shares (Section 152) of a corporation is required for a reorganization under subdivisions (a) and (b) or subdivision (e) or (f) of Section 1201, each shareholder of the corporation entitled to vote on the transaction and each shareholder of a subsidiary corporation in a short-form merger may, by complying with this chapter, require the corporation in which the shareholder holds shares to purchase for cash at their fair market value the shares owned by the shareholder which are dissenting shares as defined in subdivision (b). The fair market value shall be determined as of the day of, and immediately prior to, the first announcement of the terms of the proposed reorganization or short-form merger, excluding any appreciation or depreciation in consequence of the proposed reorganization or short-form merger, as adjusted for any stock split, reverse stock split, or share dividend that becomes effective thereafter.

(b) As used in this chapter, “dissenting shares” means shares to which all of the following apply:

(1) That were not, immediately prior to the reorganization or short-form merger, listed on any national securities exchange certified by the Commissioner of Corporations under subdivision (o) of Section 25100, and the notice of meeting of shareholders to act upon the reorganization summarizes this section and Sections 1301, 1302, 1303 and 1304; provided, however, that this provision does not apply to any shares with respect to which there exists any restriction on transfer imposed by the corporation or by any law or regulation; and provided, further, that this provision does not apply to any shares where the holder of those shares is required, by the terms of the reorganization or short-form merger, to accept for the shares anything except: (A) shares of any other corporation, which shares, at the time the reorganization or short-form merger is effective, are listed on any national securities exchange certified by the Commissioner of Corporations under subdivision (o) of Section 25100; (B) cash in lieu of fractional shares described in the foregoing subparagraph (A); or (C) any combination of the shares and cash in lieu of fractional shares described in the foregoing subparagraphs (A) and (B).

(2) That were outstanding on the date for the determination of shareholders entitled to vote on the reorganization and (A) were not voted in favor of the reorganization or, (B) if described in paragraph (1), were voted against the reorganization, or were held of record on the effective date of a short-form merger; provided, however, that subparagraph (A) rather than subparagraph (B) of this paragraph applies in any case where the approval required by Section 1201 is sought by written consent rather than at a meeting.

(3) That the dissenting shareholder has demanded that the corporation purchase at their fair market value, in accordance with Section 1301.

(4) That the dissenting shareholder has submitted for endorsement, in accordance with Section 1302.

(c) As used in this chapter, “dissenting shareholder” means the recordholder of dissenting shares and includes a transferee of record.

**§ 1301. Notice to holder of dissenting shares of reorganization approval; Demand for purchase of shares; Contents of demand**

(a) If, in the case of a reorganization, any shareholders of a corporation have a right under Section 1300, subject to compliance with paragraphs (3) and (4) of subdivision (b) thereof, to require the corporation to purchase their shares for cash, that corporation shall mail to each of those shareholders a notice of the approval of the reorganization by its outstanding shares (Section 152) within 10 days after the date of that approval, accompanied by a copy of Sections 1300, 1302, 1303, and 1304 and this section, a statement of the price determined by the corporation to represent the

fair market value of the dissenting shares, and a brief description of the procedure to be followed if the shareholder desires to exercise the shareholder's right under those sections. The statement of price constitutes an offer by the corporation to purchase at the price stated any dissenting shares as defined in subdivision (b) of Section 1300, unless they lose their status as dissenting shares under Section 1309.

(b) Any shareholder who has a right to require the corporation to purchase the shareholder's shares for cash under Section 1300, subject to compliance with paragraphs (3) and (4) of subdivision (b) thereof, and who desires the corporation to purchase shares shall make written demand upon the corporation for the purchase of those shares and payment to the shareholder in cash of their fair market value. The demand is not effective for any purpose unless it is received by the corporation or any transfer agent thereof (1) in the case of shares described in subdivision (b) of Section 1300, not later than the date of the shareholders' meeting to vote upon the reorganization, or (2) in any other case, within 30 days after the date on which the notice of the approval by the outstanding shares pursuant to subdivision (a) or the notice pursuant to subdivision (h) of Section 1110 was mailed to the shareholder.

(c) The demand shall state the number and class of the shares held of record by the shareholder which the shareholder demands that the corporation purchase and shall contain a statement of what the shareholder claims to be the fair market value of those shares as determined pursuant to subdivision (a) of Section 1300. The statement of fair market value constitutes an offer by the shareholder to sell the shares at that price.

#### **§ 1302. Stamping or endorsing dissenting shares**

Within 30 days after the date on which notice of the approval by the outstanding shares or the notice pursuant to subdivision (h) of Section 1110 was mailed to the shareholder, the shareholder shall submit to the corporation at its principal office or at the office of any transfer agent thereof, (a) if the shares are certificated securities, the shareholder's certificates representing any shares which the shareholder demands that the corporation purchase, to be stamped or endorsed with a statement that the shares are dissenting shares or to be exchanged for certificates of appropriate denomination so stamped or endorsed or (b) if the shares are uncertificated securities, written notice of the number of shares which the shareholder demands that the corporation purchase. Upon subsequent transfers of the dissenting shares on the books of the corporation, the new certificates, initial transaction statement, and other written statements issued therefor shall bear a like statement, together with the name of the original dissenting holder of the shares.

#### **§ 1303. Dissenting shareholder entitled to agreed price with interest thereon; When price to be paid**

(a) If the corporation and the shareholder agree that the shares are dissenting shares and agree upon the price of the shares, the dissenting shareholder is entitled to the agreed price with interest thereon at the legal rate on judgments from the date of the agreement. Any agreements fixing the fair market value of any dissenting shares as between the corporation and the holders thereof shall be filed with the secretary of the corporation.

(b) Subject to the provisions of Section 1306, payment of the fair market value of dissenting shares shall be made within 30 days after the amount thereof has been agreed or within 30 days after any statutory or contractual conditions to the reorganization are satisfied, whichever is later, and in the case of certificated securities, subject to surrender of the certificates therefor, unless provided otherwise by agreement.

**§ 1304. Action by dissenters to determine whether shares are dissenting shares or fair market value of dissenting shares or both; Joinder of shareholders; Consolidation of actions; Determination of issues; Appointment of appraisers**

(a) If the corporation denies that the shares are dissenting shares, or the corporation and the shareholder fail to agree upon the fair market value of the shares, then the shareholder demanding purchase of such shares as dissenting shares or any interested corporation, within six months after the date on which notice of the approval by the outstanding shares (Section 152) or notice pursuant to subdivision (h) of Section 1110 was mailed to the shareholder, but not thereafter, may file a complaint in the superior court of the proper county praying the court to determine whether the shares are dissenting shares or the fair market value of the dissenting shares or both or may intervene in any action pending on such a complaint.

(b) Two or more dissenting shareholders may join as plaintiffs or be joined as defendants in any such action and two or more such actions may be consolidated.

(c) On the trial of the action, the court shall determine the issues. If the status of the shares as dissenting shares is in issue, the court shall first determine that issue. If the fair market value of the dissenting shares is in issue, the court shall determine, or shall appoint one or more impartial appraisers to determine, the fair market value of the shares.



## **Appendix B**

### **Plan of Reorganization and Agreement of Merger**

**PLAN OF REORGANIZATION  
AND  
AGREEMENT OF MERGER**

**THIS PLAN OF REORGANIZATION AND AGREEMENT OF MERGER** (“Agreement”) is made and entered into as of the 22 day of July, 2020, among 1<sup>st</sup> Capital Bank (“Bank”), 1<sup>st</sup> Capital Bancorp (“Company”) and 1<sup>st</sup> Capital Merger Corp. (“Interim”).

**RECITALS**

A. Bank is a banking corporation duly organized, validly existing and doing business in good standing under the laws of the State of California, and has authorized capital of 20,000,000 shares of no par value Common Stock of which, at the date hereof, there are 5,535,804 shares issued and 10,000,000 shares of no par value Preferred Stock of which, at the date hereof, there is no Preferred Stock issued and outstanding; and

B. Interim is a corporation duly organized, validly existing and doing business in good standing under the laws of the State of California, and has 100 shares of common stock issued and outstanding which are owned by the Company.

C. Company is a corporation duly organized, validly existing and doing business in good standing under the laws of the State of California, and has authorized capital of 20,000,000 shares of no par value Common Stock of which, there are 100 shares of Common Stock issued and outstanding, and 10,000,000 shares of no par value Preferred Stock, and at the date hereof, there are no shares of Preferred Stock issued or outstanding; and

D. A majority of the entire Boards of Directors of Bank, Company, and Interim, have approved this Agreement and authorized its execution.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein set forth and for the purpose of prescribing the terms and conditions of the merger of Interim with Bank, the parties hereto agree as follows:

**Article I  
Terms of Merger**

1.1. **Merger.** On the Effective Date, as defined in Article III, Interim shall be merged with and into Bank (“Merger”), which shall be the surviving corporation (for purposes of this Agreement, the combined Bank and the Interim after the Effective Date of the Merger are sometimes referred to as the “Surviving Bank”) and shall be the wholly owned subsidiary of Company. Surviving Bank's name shall be “1<sup>st</sup> Capital Bank.” The Merger shall be in accordance with the provisions of California state law. The business of the Surviving Bank shall be that of a California state banking corporation. This business shall be conducted by the Surviving Bank at

its main office to be located at 150 Main Street, Suite 150, Salinas, California, and at the legally established offices of the Bank prior to the Merger.

1.2. **Articles of Incorporation and Bylaws.** The Articles of Incorporation of Bank as in effect immediately prior to the Effective Date shall, at and after the Effective Date, be the Articles of Incorporation of the Surviving Bank, without change or amendment (until amended or repealed as provided by law) and the Bylaws of Bank as in effect immediately prior to the Effective Date shall, at and after the Effective Date, be the Bylaws of the Surviving Bank, without change or amendment (until amended or repealed as provided by law).

1.3. **Officers and Directors.** On and after the Effective Date, the directors and officers of Bank immediately prior to the Effective Date shall be the directors and officers of the Surviving Bank. Directors of the Surviving Bank shall serve until the next annual meeting of shareholders of the Surviving Bank and until such time as their successors are elected and have qualified.

1.4. **Rights and Privileges.** On and after the Effective Date, all the rights, privileges, powers, franchises, facilities and immunities, as well as all the properties, real, personal and mixed, tangible and intangible, of Bank shall continue unaffected and unimpaired by the Merger. On and after the Effective Date, the Surviving Bank shall without further transfer, possess all of the rights, privileges, powers, franchises, facilities, and immunities, as well as all the properties, real, personal and mixed, tangible and intangible, of Bank and Interim.

1.5. **Assumption of Liabilities.** On and after the Effective Date, the Surviving Bank shall succeed to and be liable for all debts, liabilities and other obligations, known or unknown, contingent or otherwise, of Interim and Bank, of any nature whatsoever, existing on the Effective Date or attributable to the operations of Interim or Bank as though the Surviving Bank had incurred them.

1.6. **Further Cooperation.** If at any time after the Effective Date any further conveyance, assignment or other documents, or any further action is necessary or desirable to further effectuate the transactions set forth herein or contemplated hereby, the officers and directors of the parties hereto shall execute and deliver, or cause to be executed and delivered, all such documents as may be reasonably required to effectuate such transactions.

1.7. **Offices.** Upon the Effective Date, all offices of Bank shall be offices of the Surviving Bank and the principal office of Bank shall be the principal office of the Surviving Bank.

## **Article II Capital Stock**

2.1 **Stock of Interim.** The shares of stock of Interim issued and outstanding immediately prior to the Effective Date shall be converted into a number of shares of Common

Stock of Surviving Bank equal to the number of shares of Common Stock of the Bank outstanding immediately prior to the Effective Date.

2.2. **Common Stock of Bank.** Subject to the provisions of Section 2.8 hereof, each share of Common Stock of Bank issued and outstanding immediately prior to the Effective Date shall be converted into one share of Common Stock of Company.

2.3. **Exchange of Company Common Stock for Bank Common Stock.** On the Effective Date, each Bank shareholder of record of Common Stock at that date shall be entitled to receive one share of Common Stock of Company for each share of Common Stock of Bank held on that date and Company shall issue that number of shares which shareholders are entitled to receive. On and after the Effective Date, certificates, whether physical or electronic, representing the issued and outstanding Common Stock of Bank shall thereafter represent shares of Common Stock of Company, and such certificates, whether physical or electronic, may be exchanged by the holders thereof, after the Merger becomes effective, for new certificates, whether physical or electronic, for the appropriate number of shares bearing the name of Company. On and after the Effective Date, there shall be no registration of transfers on the stock transfer books of Surviving Bank of shares of Bank Common Stock which were outstanding immediately prior to the Effective Date.

2.4. **Rights to Stock Options and Awards.** On and after the Effective Date, all outstanding options to purchase shares of Common Stock of Bank and all awards granted pursuant to Bank's 2016 Equity Incentive Plan and the Bank's 2007 Equity Incentive Plan shall be assumed by and shall be deemed options to purchase shares of Common Stock of Company or awards relating to the Common Stock of Company, as the case may be, on the same terms and conditions, subject to the requirements of the Securities Act of 1933, as amended, and the California Blue Sky Law, and for the same number of shares as have been agreed upon and set forth in agreements entered into pursuant to such plans.

2.5. **Employee Benefit Plans Relating to Stock.** On and after the Effective Date, each share of Common Stock of Bank held in trust or otherwise in connection with any and all of Bank's employee benefit plans, if any, shall be converted into one share of Common Stock of Company. The 2016 Equity Incentive Plan, the 2007 Equity Incentive Plan, and the Bank's obligations thereunder, shall be assumed by the Company at the Effective Date and shall be subject to the same terms and conditions as existed prior to the Effective Date, subject to the requirements or the Securities Act of 1933, as amended, and the California Blue Sky Law.

2.6. **Dissenting Shares.** Holders of shares of Bank Common Stock shall have dissenters' rights in connection with the Merger pursuant to the provisions of Chapter 13 of the California General Corporation Law.

### **Article III Effective Date**

Following the filing of this Agreement together with such certificates or other documents executed as may be required by the California General Corporation Law, with the California Secretary of State, the Merger shall be effective on October 8, 2020 (such date and time being herein referred to as the “Effective Time”).

### **Article IV Approvals**

4.1. **Shareholder Approval.** This Agreement shall be submitted to the shareholders of Bank, Interim and Company who are entitled to vote thereon for approval and ratification, as provided by the applicable laws of the State of California and in accordance with other applicable law.

4.2 **Regulatory Approvals.** The parties hereto agree that each shall proceed to and cooperate fully to obtain the regulatory approvals and consents and to satisfy the requirements prescribed by applicable law and/or regulation or which are otherwise necessary or desirable in connection with the completion of the Merger as outlined herein. Such regulatory approvals, consents and requirements shall include, but shall not be limited to the approvals and consents set forth in Article V herein.

### **Article V Conditions Precedent**

This Agreement will not be submitted to the California Secretary of State for filing until all of the following conditions have been satisfied or waived:

(a) Approval and ratification of this Agreement by the holders of a majority of the outstanding shares of Bank, Interim and Company entitled to vote and as required by applicable law;

(b) Receipt of all other approvals and consents, and satisfaction of all other requirements as are prescribed by applicable law in connection with the Merger including, but not limited to, approval of the Federal Deposit Insurance Corporation pursuant to 12 U.S.C. 1828(c), approval of the California Department of Business Oversight Division of Financial Institutions for the acquisition of the Bank by the Company pursuant to Financial Code Section 1250 et. seq., and the granting of an order of exemption in connection with the offer, sale and issuance of shares by the California Department of Business Oversight Division of Financial Institutions pursuant to Financial Code Section 1210, approval of the California Department of Business Oversight Division of Corporations of an Application for qualification pursuant to Section 25121 of the Corporations Code and Notice to the Board of Governors of the Federal

Reserve System pursuant to the Bank Holding Company Act of 1956, as amended and Section 225.17 of Regulation Y promulgated pursuant thereto;

(c) Issuance (unless the same is waived by the parties hereto) of a favorable opinion, in form and substance satisfactory to the parties and their counsel, with respect to the tax consequences to the parties and their shareholders resulting from the Merger; and

(d) Performance by each party hereto of all its obligations under this Agreement.

## **Article VI Termination**

The Agreement may be terminated at any time before the Effective Date upon the occurrence of any of the following events:

(a) If any of the conditions set forth in Article V are not fulfilled within a reasonable period of time, such reasonable period of time to be determined by a majority of the Board of Directors of any of the parties, in their sole and absolute discretion; or

(b) If any action, suit, proceeding or claim has been instituted, made or threatened, relating to the proposed Merger which makes consummation of the Merger inadvisable in the opinion of a majority of the Board of Directors of any of the parties; or

(c) If for any reason consummation of the Merger is inadvisable in the opinion of a majority of the Board of Directors of any of the parties.

Upon termination, this Agreement shall be void and of no further effect, and there shall be no liability by reason of this Agreement or the termination thereof on the part of the parties hereto or their respective directors, officers, employees, agents or shareholders.

## **Article VII Expenses**

All of the expenses of the Merger, including filing fees, printing and mailing costs, and accountants' fees and legal fees (except for expenses, if any, incurred by the shareholders of Bank or Company) shall be borne by Bank or the Company, as applicable. In the event that the Merger is abandoned or terminated for any reason, all such expenses shall be borne by Bank.

## **Article VIII Amendment, Modification, Etc.**

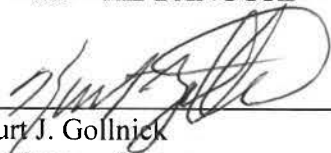
8.1 **Amendment, Modification, Etc.** Bank, Interim and Company, by mutual consent of their respective Boards of Directors, to the extent permitted by law, may amend, modify, supplement and interpret this Agreement in such manner as may be mutually agreed upon by them in writing at any time following adoption thereof by shareholders of Bank, Interim and Company, but before the Effective Date; provided, however, that no such amendment, modification or supplement shall change any principal term hereof or the number or kind of shares to be issued by Company in exchange for each share of Bank Common Stock, except by the affirmative action of such shareholders as required by law.

8.2 **Counterparts.** This Agreement may be executed in one or more counterparts.

8.3 **Governing Laws.** This Agreement shall be governed by and construed in accordance with the laws of California and the performance of the parties hereto and their respective duties and obligations hereunder shall be governed by such laws except as required by applicable provisions of federal law.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in counterparts by their duly authorized officers as of the date first above written, pursuant to a resolution of its board of directors, acting by a majority.


**1<sup>st</sup> CAPITAL BANCORP**

By:   
Kurt J. Gollnick  
Chairman of the Board

By:   
Samuel D. Jimenez  
Chief Executive Officer

**1<sup>st</sup> CAPITAL BANK**

By:   
Samuel D. Jimenez  
Chief Executive Officer

By:   
Michael J. Winiarski  
Corporate Secretary

**1<sup>st</sup> CAPITAL MERGER CORP.**

By:   
Kurt J. Gollnick  
Chairman of the Board

By:   
Samuel D. Jimenez  
Chief Executive Officer



## **Appendix C**

**Bank's Unaudited Financial Statements for the Six Months ended June 30, 2020**

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

<b><u>Financial Condition Data</u></b> <sup>1</sup>	June 30, <u>2020</u>	December 31, <u>2019</u>	June 30, <u>2019</u>
Assets			
Cash and due from banks	\$ 6,719	\$ 6,198	\$ 5,994
Funds held at the Federal Reserve Bank <sup>2</sup>	29,056	46,155	56,057
Available-for-sale securities, at fair value	62,473	66,095	70,396
Loans held for sale	488	-	-
Loans receivable held for investment:			
Construction / land (including farmland)	16,372	19,457	18,014
Residential 1 to 4 units	127,192	140,623	144,336
Home equity lines of credit	6,630	6,964	7,920
Multifamily	71,795	59,830	53,561
Owner occupied commercial real estate	70,478	70,622	61,242
Investor commercial real estate	172,219	159,350	142,533
Commercial and industrial	47,717	41,100	39,603
Paycheck Protection Program	100,652	-	-
Other loans	10,638	12,943	14,468
Total loans	623,693	510,889	481,677
Allowance for loan losses	(8,093)	(6,594)	(6,572)
Net loans	615,600	504,295	475,105
Premises and equipment, net	2,541	2,102	2,192
Bank owned life insurance	8,167	8,071	7,968
Investment in FHLB <sup>3</sup> stock, at cost	3,534	3,501	3,501
Accrued interest receivable and other assets	8,113	8,930	9,577
Total assets	<u>\$ 736,691</u>	<u>\$ 645,347</u>	<u>\$ 630,790</u>
Liabilities and shareholders' equity			
Deposits:			
Noninterest-bearing demand deposits	\$ 343,042	\$ 280,634	\$ 270,939
Interest-bearing checking accounts	46,774	35,804	36,721
Money market deposits	138,796	128,559	134,108
Savings deposits	103,152	107,677	100,049
Time deposits	19,031	19,395	19,694
Total deposits	650,795	572,069	561,511
Borrowings	10,000	-	-
Accrued interest payable and other liabilities	4,856	5,263	5,305
Shareholders' equity	71,040	68,015	63,974
Total liabilities and shareholders' equity	<u>\$ 736,691</u>	<u>\$ 645,347</u>	<u>\$ 630,790</u>
Shares outstanding	5,535,804	5,520,179	5,483,634
Nominal and tangible book value per share	\$12.83	\$12.32	\$11.67

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

4 = Some items in prior periods have been reclassified to conform to the current presentation.

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

	Six Months Ended	
	June 30, 2020	June 30, 2019
<b><u>Operating Results Data</u><sup>1</sup></b>		
Interest and dividend income		
Loans	\$ 11,917	\$ 11,251
Investment securities	671	913
Other	162	540
Total interest and dividend income	12,750	12,704
Interest expense		
Interest-bearing checking	6	6
Money market deposits	291	269
Savings deposits	157	176
Time deposits	109	103
Total interest expense on deposits	563	554
Net interest income	12,187	12,150
Provision for loan losses	1,475	-
Net interest income after provision for loan losses	10,712	12,150
Noninterest income		
Service charges on deposits	158	158
BOLI dividend income	96	103
Gain on sale of loans	-	8
Other	215	773
Total noninterest income	469	1,002
Noninterest expenses		
Salaries and benefits	5,217	5,374
Occupancy	716	632
Data and item processing	427	499
Furniture and equipment	380	299
Professional services	328	238
Provision for unfunded loan commitments	(17)	(23)
Other	1,397	1,484
Total noninterest expenses	8,448	8,503
Income before provision for income taxes	2,733	4,649
Provision for income taxes	775	1,235
Net income	\$ 1,958	\$ 3,414
<b><u>Common Share Data</u><sup>1</sup></b>		
Earnings per common share		
Basic	\$0.35	\$0.62
Diluted	\$0.35	\$0.61
Weighted average common shares outstanding		
Basic	5,526,430	5,473,312
Diluted	5,573,039	5,560,864

<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 22, 2019 and paid December 20, 2019.

