



1st Capital Bancorp Announces Fourth Quarter 2022 Financial Results

Salinas, California – January 27, 2023. **1st Capital Bancorp** (the “Company”), (OTCQX: FISB), the \$942.2 million asset bank holding company and parent company of 1st Capital Bank (the “Bank”), today reported unaudited net income of \$1.31 million for the quarter ended December 31, 2022, a 51.0% decrease compared to net income of \$2.66 million for the quarter ended September 30, 2022, and a 31.0% decrease compared to net income of \$1.89 million for the quarter ended December 31, 2021.

Financial Highlights

Performance highlights for the quarter ended December 31, 2022, as compared to the quarter ended September 30, 2022, and the quarter ended December 31, 2021:

- Earnings per share (diluted) were \$0.24 for the fourth quarter of 2022, as compared to \$0.48 and \$0.33 for the quarters ended September 30, 2022, and December 31, 2021, respectively.
- For the quarter ended December 31, 2022, the Company's return on average equity was 10.47%, as compared to 16.44% and 9.39% for the quarters ended September 30, 2022, and December 31, 2021, respectively.
- For the quarter ended December 31, 2022, the Company's return on average assets was 0.53%, as compared to 1.04% and 0.75% for the quarters ended September 30, 2022, and December 31, 2021, respectively.
- For the quarter ended December 31, 2022, the Company's net interest margin was 3.63%, as compared to 3.46% and 3.17% for the quarters ended September 30, 2022, and December 31, 2021, respectively.
- Pretax, pre-provision income for the quarter ended December 31, 2022, totaled \$2.2 million, as compared to \$3.7 million and \$2.5 million for the quarters ended September 30, 2022, and December 31, 2021, respectively.
- For the quarter ended December 31, 2022, the Company's efficiency ratio was 72.26%, as compared to 59.54% and 68.01% for the quarters ended September 30, 2022, and December 31, 2021, respectively.
- The Company recorded provision expense of \$523 thousand for the quarter ended December 31, 2022, and \$0 for the quarters ended September 30, 2022 and December 31, 2021.
- As of December 31, 2022, the Company's nonperforming assets to total assets was 0.06%, as compared to 0.04% and 0.10% for the quarters ended September 30, 2022, and December 31, 2021, respectively.
- As of December 31, 2022, the Company reported total assets, total deposits, and total loans of \$942.2 million, \$862.7 million, and \$564.4 million, respectively.
- Federal regulatory capital ratios for the quarters ended December 31, 2022, September 30, 2022, and December 31, 2021, exceed well capitalized thresholds.

Financial Highlights

Performance highlights for the year ended December 31, 2022, as compared to the year ended December 31, 2021:

- Earnings per share (diluted) were \$1.54 in 2022, as compared to \$1.34 in 2021.
- The Company's return on average equity was 13.11% for the year ended December 31, 2022, as compared to 9.93% for the year ended December 31, 2021.
- The Company's return on average assets was 0.86% for the year ended December 31, 2022, as compared to 0.83% for the year ended December 31, 2021.
- The Company's net interest margin was 3.51%, for the year ended December 31, 2022, as compared to 3.35% for the year ended December 31, 2021.
- Pretax, pre-provision income for the year ended December 31, 2022, totaled \$12.2 million, as compared to \$10.5 million for the year ended December 31, 2021.
- For the year ended December 31, 2022, the Company's efficiency ratio was 64.59%, as compared to 65.65% for the year ended December 31, 2021.
- The Company recorded provision expense of \$523 thousand for the year ended December 31, 2022, and \$0 for the year ended December 31, 2021.

“We are exceedingly pleased with 2022 operating performance,” stated chief executive officer Sam Jimenez. “The team was highly effective in managing through the dynamic and historic pace of rising interest rates. We will continue to actively manage the Company's balance sheet with a focus on creating current and future earnings growth.”

Net Interest Income and Net Interest Margin

The Company's fourth quarter 2022 net interest income decreased \$110 thousand, or 1.28%, to \$8.48 million as compared with \$8.59 million for the quarter ended September 30, 2022. Loan interest income, excluding PPP income, remained flat at \$6.96 million in both the third and fourth quarters of 2022. Interest and fee income related to PPP loans decreased \$52 thousand to \$0 for the quarter ended December 31, 2022. PPP loans were fully forgiven in the third quarter 2022. Interest expense increased \$205 thousand, or 30.7%, to \$874 thousand for the quarter ended December 31, 2022, compared to \$669 thousand for the quarter ended September 30, 2022 as the result of deposit rate increases concentrated on higher tier money market and savings accounts. The Company's cost of funds increased from 0.28% in the third quarter 2022 to 0.39% in the fourth quarter of 2022.

The Company's net interest margin increased by 17 basis points (bps), or 4.78%, to 3.63% for the quarter ended December 31, 2022, when compared to 3.46% for the quarter ended September 30, 2022. The increase was primarily driven by higher yields on cash and loans with loan yields increasing 12 bps, or 2.58%, from 4.68% in third quarter of 2022 to 4.80% in fourth quarter 2022. Funding mix also contributed to the expansion as average balances on noninterest-bearing deposits increased from 45.5% of total deposits in third quarter 2022 to 47.8% in fourth quarter 2022.

The Company's net interest income for the year ended December 31, 2022, increased \$4.1 million, or 13.9%, to \$33.9 million in 2022 compared to \$29.8 million in 2021. PPP interest and fee income decreased \$3.06 million, or 80%, to \$765 thousand for the year ended December 31, 2022, compared to \$3.82 million for the year ended

December 31, 2021, as the majority of PPP loans were forgiven in 2021. Loan interest income, excluding PPP income, increased \$3.63 million, or 15.29%, for the year ended December 31, 2022, compared to the year ending December 31, 2021. Interest expense increased \$1.1 million, or 69.3%, to \$2.65 million for the year ended December 31, 2022, compared to \$1.56 million for the year ended December 31, 2021. The increase is primarily due to increased deposit rates on higher tiered money market and savings balances in fourth quarter 2022, a full year of interest expense on the subordinated debt in 2022, equating to \$600 thousand in 2022 compared to \$300 thousand in 2021, and interest expense associated with the cap corridor hedge of \$195 thousand.

The Company's net interest margin expanded 16 bps, or 4.91%, to 3.51% for the year ended December 31, 2022, compared to 3.35% for the year ended December 31, 2021. The change in earning asset mix contributed to the expansion as average balances held in lower yielding cash and investment securities decreased while average balances on higher-yielding loans increased. Loan yields expanded 20 bps, or 4.24% to 4.82% in 2022 compared to 4.62% in 2021. The yield on investment securities increased 69 bps, or 46.0%, to 2.18% for the year ended December 31, 2022, compared to 1.49% for the year ended December 31, 2021, largely due to decreasing prepayment speeds on mortgage-backed securities which slowed premium amortization, an offset to interest income.

Provision for Loan Losses

Provision expense of \$523 thousand was booked in the year ended December 31, 2022, compared to \$0 for the year ended December 31, 2021. The credit quality of the core loan book remains strong and stable with low levels of nonperforming assets.

Noninterest Expenses

The Company's total non-interest expenses increased \$328 thousand, or 6.10%, to \$5.70 million in the quarter ended December 31, 2022, compared to \$5.38 million for the quarter ended September 30, 2022. Salary and benefit costs increased \$102 thousand in the fourth quarter, or 3.14%, due to vacant positions being filled in fourth quarter and increased equity compensation quarter over quarter. Professional services costs increased \$76 thousand, or 45.35%, to \$244 thousand in the quarter ended December 31, 2022, compared to \$168 thousand in the quarter ended September 30, 2022, related to consulting and recruiting costs. Other non-interest expenses increased \$161 thousand, or 14.56%, to \$1.27 million in fourth quarter compared to \$1.11 million in third quarter 2022 related to software and advertising costs.

The Company's total non-interest expenses increased \$2.06 million, or 10.2%, to \$22.2 million for the year ended December 31, 2022, compared to \$20.1 million for the year ended December 31, 2021, with increases across all non-interest expense categories excluding professional services which declined \$40 thousand, or 5.5%, year over year.

Balance Sheet Summary

The Company's total assets decreased \$57.2 million, or 5.7%, to \$942.2 million at December 31, 2022, as compared to \$999.4 million at December 31, 2021.

Total loans outstanding were \$564.4 million as of December 31, 2022, and December 31, 2021. PPP loans declined from \$25.2 million at December 31, 2021 to \$0 at December 31, 2022. The Company purchased three lease pools in 2022 with outstanding balances of \$41.4 million at December 31, 2022 representing 7.3% of the total loan portfolio. Principal balances on purchased consumer loan pools total \$26.4 million, or 4.7% of the total loan portfolio at December 31, 2022, and are performing consistently within modeled expectations.

Loan type (dollars in thousands)	12/31/2022	% of Total Loans	9/30/2022	% of Total Loans	12/31/2021	% of Total Loans
Construction / land (including farmland)	\$ 14,290	2.5%	\$ 12,403	2.1%	\$ 28,260	5.0%
Residential 1 to 4 units	54,608	9.7%	56,592	9.6%	61,209	10.8%
Home equity lines of credit	4,690	0.8%	4,909	0.8%	6,087	1.1%
Multifamily	79,227	14.0%	82,936	14.1%	82,231	14.6%
Owner occupied commercial real estate	108,140	19.2%	111,097	18.9%	89,087	15.8%
Investor commercial real estate	188,374	33.4%	188,930	32.3%	185,939	33.0%
Commercial and industrial	39,247	7.0%	39,804	6.8%	40,298	7.1%
Paycheck Protection Program	-	0.0%	-	0.0%	25,203	4.5%
Leases	41,380	7.3%	45,049	7.7%	-	0.0%
Consumer	26,423	4.7%	30,902	5.3%	-	0.0%
Other loans	8,059	1.4%	14,176	2.4%	45,927	8.1%
Total loans	564,438	100.0%	586,798	100.0%	564,241	100.0%
Allowance for loan losses	(7,347)		(7,560)		(8,578)	
Net loans held for investment	<u>\$ 557,091</u>		<u>\$ 579,238</u>		<u>\$ 555,663</u>	

The investment portfolio decreased \$26.5 million, or 7.99%, to \$305.8 million at December 31, 2022 from \$332.3 million at September 30, 2022. In the fourth quarter, \$25.4 million of available-for-sale investment securities were sold at a pre-tax loss of \$1.2 million. The transaction bolstered liquidity, mitigates a portion of future portfolio valuation risk to the available-for-sale investment security portfolio in a rising rate environment and prospectively benefits net interest margin and net income.

The unrealized loss associated with the Company's available-for-sale investment security portfolio decreased from \$40.1 million at September 30, 2022 to \$36.7 million at December 31, 2022, as market yield movements positively benefitted portfolio valuation, and to a lesser extent, due to the bond sale executed in the fourth quarter of 2022.

Total deposits were \$862.7 million as of December 31, 2022. This represents a \$36.5 million, or 4.1% decrease from the December 31, 2021, balance of \$899.2 million. Interest-bearing deposits grew \$12.3 million, or 2.8%, driven by growth in money market balances of \$55.3 million partially offset by a \$48.9 million decline in savings balances. Noninterest-bearing balances declined \$48.7 million, or 10.5% from \$464.0 million at December 31, 2021 to \$415.3 million at December 31, 2022. Non-interest bearing accounts comprised 48.1% and 51.6% of total deposit balances at December 31, 2022 and December 31, 2021, respectively.

Deposit type (dollars in thousands)	12/31/2022	% of Total Deposits	9/30/22	% of Total Deposits	12/31/2021	% of Total Deposits
Interest bearing checking accounts	\$ 75,242	8.7%	\$ 69,258	7.5%	\$ 68,575	7.6%
Money market	253,036	29.4%	308,722	33.5%	197,703	22.0%
Savings	108,418	12.6%	109,653	11.9%	157,332	17.5%
Time	10,745	1.2%	10,256	1.1%	11,559	1.3%
Total interest-bearing deposits	447,441	51.9%	497,889	54.0%	435,169	48.4%
Noninterest-bearing	415,256	48.1%	424,312	46.0%	463,990	51.6%
Total deposits	<u>\$ 862,697</u>	100.0%	<u>\$ 922,201</u>	100.0%	<u>\$ 899,159</u>	100.0%

Shareholder's equity totaled \$55.3 million at December 31, 2022, a decline of \$24.7 million, or 30.9%, compared to \$80.0 million at December 31, 2021. This is reflective of the increase in unrealized losses on the investment security portfolio in 2022, the impact of which flows through accumulated other comprehensive income, a component of equity. At December 31, 2022 bonds classified as held-to-maturity total \$72.2 million, approximately 24% of the total investment portfolio compared to \$0 at December 31, 2021. The unrealized losses on these held-to-maturity bonds are captured in AOCI at the transfer date and amortize over the life of the bonds, with interest rate environment changes having no further impact on the unrealized loss position of these bonds.

In the second quarter of 2022, the Company entered into a cap corridor transaction with a \$100 million notional amount designed to hedge a portion of deposit interest expense and to partially mitigate the future investment portfolio valuation impact of increasing interest rates. The corridor qualifies for hedge accounting and is carried at

fair value on the balance sheet with changes in fair value flowing through AOCI. The fair value of the hedge increased \$921 thousand in 2022, positively impacting AOCI, and is carried on the balance sheet at a fair value of \$3.2 million at December 31, 2022.

Stock Repurchase Activity

The Company announced a Stock Repurchase Program on December 3, 2021, and subsequently repurchased a total of 181,589 shares to date at a weighted average price of \$15.19 in 2022.

Asset Quality

At December 31, 2022, non-performing assets were 0.06% of the Company's total assets, compared with 0.10% at December 31, 2021. The allowance for loan losses was 1.30% of outstanding loans at December 31, 2022, compared to 1.52% at December 31, 2021. The Company had \$0 and \$899 thousand in nonaccrual loans at December 31, 2022 and December 31, 2021, respectively. The Company recorded net charge-offs of \$1.75 million in the year ended December 31, 2022 compared to \$239 thousand in the year ended December 31, 2021. Charge-offs were entirely within the purchased consumer loan pools in 2022 and 2021.

Asset Quality (dollars in thousands)	12/31/2022	9/30/2022	12/31/2021
Loans past due 90 days or more and accruing interest	\$ 539	\$ 409	\$ 59
Other nonaccrual loans	-	-	899
Other real estate owned	-	-	-
Total nonperforming assets	\$ 539	\$ 409	\$ 958
Allowance for loan losses to total loans	1.30%	1.29%	1.52%
Allowance for loan losses to nonperforming loans	1363.08%	1848.34%	895.41%
Nonaccrual loans to total loans	0.00%	0.00%	0.16%
Nonperforming assets to total assets	0.06%	0.04%	0.10%

1ST CAPITAL BANCORP
CONDENSED FINANCIAL DATA - UNAUDITED
(\$ in 000s except per share data)

Assets	<u>12/31/2022</u>	<u>9/30/2022</u>	<u>12/31/2021</u>
Cash and due from banks	\$ 38,015	\$ 41,842	\$ 84,079
Investment securities available-for-sale	233,529	259,472	333,869
Investment securities held-to-maturity	72,225	72,818	--
Loans and leases held for investment	564,438	586,798	564,241
Allowance for loan and lease losses	(7,347)	(7,560)	(8,578)
Net loans and leases held for investment	557,091	579,238	555,663
Other Assets	41,344	41,241	25,749
Total assets	\$ 942,204	\$ 994,611	\$ 999,360
Liabilities and Shareholders' Equity			
Deposits:			
Noninterest bearing demand deposits	\$ 415,256	\$ 424,312	\$ 463,990
Interest-bearing accounts	447,441	497,889	435,169
Total deposits	862,697	922,201	899,159
Subordinated debentures	14,738	14,719	14,663
Other borrowings	--	--	--
Other liabilities	9,457	9,415	5,540
Shareholders' equity	55,312	48,276	79,998
Total liabilities and shareholders' equity	\$ 942,204	\$ 994,611	\$ 999,360
Shares outstanding	5,511,937	5,476,092	5,609,141
Earnings per share basic	\$0.24	\$0.49	\$0.34
Earnings per share diluted	\$0.24	\$0.48	\$0.33
Nominal and tangible book value per share	\$10.03	\$8.82	\$14.26

1ST CAPITAL BANCORP
CONDENSED FINANCIAL DATA - UNAUDITED
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Operating Results Data	Three Months Ended		
	12/31/2022	9/30/2022	12/31/2021
Interest and dividend income			
Loans	\$ 6,963	\$ 7,011	\$ 6,857
Investment securities	2,054	2,055	1,247
Federal Home Loan Bank stock	82	62	60
Other income	250	126	39
Total interest and dividend income	9,349	9,254	8,203
Interest expense	874	669	530
Net interest income	8,475	8,585	7,673
Provision for loan losses	523	-	-
Net interest income after provision for loan losses	7,952	8,585	7,673
Noninterest income	620	446	238
Net (loss) on sales/calls of investment securities	(1,201)	-	-
Noninterest expenses			
Salaries and benefits expense	3,345	3,243	3,306
Occupancy expense	432	451	413
Data and item processing	278	279	260
Furniture and equipment	135	127	117
Professional services	244	168	248
Other	1,270	1,109	1,036
Total noninterest expenses	5,704	5,377	5,380
Income before provision for income taxes	1,667	3,654	2,531
Provision for income taxes	362	992	640
Net income	\$ 1,305	\$ 2,662	\$ 1,891

Selected Average Balances	Three Months Ended		
	12/31/2022	9/30/2022	12/31/2021
Gross loans	\$ 575,696	\$ 594,624	\$ 561,207
Investment securities	326,875	352,564	317,032
Federal Home Loan Bank stock	4,058	4,058	3,948
Other interest earning assets	32,942	34,162	92,112
Total interest earning assets	939,571	985,408	974,299
Total assets	970,167	1,018,730	999,508
Interest-bearing checking accounts	68,216	65,171	60,106
Money market	238,255	303,802	232,730
Savings	151,478	126,511	141,290
Time deposits	10,157	12,376	11,965
Total interest-bearing deposits	468,106	507,860	446,091
Noninterest bearing demand deposits	428,227	423,166	468,459
Total deposits	896,333	931,026	914,550
Subordinated debentures and other borrowings	14,733	15,055	14,651
Shareholders' equity	\$ 49,477	\$ 64,227	\$ 79,312

1ST CAPITAL BANCORP
CONDENSED FINANCIAL DATA - UNAUDITED
(\$ in 000s except per share data)

Three Months Ended

Selected Financial Ratios	<u>12/31/2022</u>	<u>9/30/2022</u>	<u>12/31/2021</u>
Return on average total assets	0.53%	1.04%	0.75%
Return on average shareholders' equity	10.47%	16.44%	9.46%
Net interest margin	3.63%	3.46%	3.17%
Net interest income to average total assets	3.47%	3.34%	3.05%
Efficiency ratio	72.26%	59.54%	68.01%

Year Ended

Operating Results Data	<u>12/31/2022</u>	<u>12/31/2021</u>
Interest and dividend income		
Loans	\$ 28,128	\$ 27,555
Investment securities	7,704	3,452
Federal Home Loan Bank stock	261	230
Other income	444	85
Total interest and dividend income	36,537	31,322
Interest expense	2,645	1,563
Net interest income	33,892	29,759
Provision for loan losses	523	-
Net interest income after provision for loan losses	33,369	29,759
Noninterest income	1,624	913
Net gain/(loss) on sales/calls of investment securities	(1,150)	-
Noninterest expenses		
Salaries and benefits expense	13,489	12,408
Occupancy expense	1,780	1,643
Data and item processing	1,085	1,064
Furniture and equipment	552	466
Professional services	696	736
Other	4,594	3,818
Total noninterest expenses	22,196	20,135
Income before provision for income taxes	11,647	10,537
Provision for income taxes	3,067	2,904
Net income	\$ 8,580	\$ 7,633

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CONDENSED FINANCIAL DATA - UNAUDITED
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Selected Average Balances	Year Ended	
	12/31/2022	12/31/2021
Gross loans	\$ 583,623	\$ 595,961
Investment securities	353,804	231,420
Federal Home Loan Bank stock	4,023	3,818
Other interest earning assets	35,820	58,474
Total interest earning assets	977,270	889,673
Total assets	1,003,169	891,136
Interest bearing checking accounts	66,001	60,738
Money market	253,047	206,320
Savings	154,248	131,905
Time deposits	11,612	13,609
Total interest-bearing deposits	484,908	412,572
Noninterest bearing demand deposits	429,240	422,417
Total deposits	914,148	834,989
Subordinated debentures and other borrowings	14,700	7,657
Shareholders' equity	\$ 65,431	\$ 76,892

Selected Financial Ratios	Year Ended	
	12/31/2022	12/31/2021
Return on average total assets	0.86%	0.83%
Return on average shareholders' equity	13.11%	9.93%
Net interest margin	3.51%	3.35%
Net interest income to average total assets	3.38%	3.24%
Efficiency ratio	64.59%	65.65%

Regulatory Capital and Ratios	12/31/2022	9/30/2022	12/31/2021
Common equity tier 1 capital	\$ 101,410	\$ 100,148	\$ 80,819
Tier 1 regulatory capital	\$ 101,410	\$ 100,148	\$ 80,819
Total regulatory capital	\$ 108,912	\$ 107,855	\$ 88,798
Tier 1 leverage ratio	10.04%	9.70%	8.09%
Common equity tier 1 risk-based capital ratio	15.27%	14.44%	12.82%
Tier 1 capital ratio	15.27%	14.44%	12.82%
Total risk-based capital ratio	16.40%	15.55%	14.07%

About 1st Capital Bancorp

1st Capital Bancorp is the holding company for 1st Capital Bank. The Bank's primary target markets are commercial enterprises, professionals, real estate investors, family business entities, and residents along the Central Coast region of California. The Bank provides a wide range of credit products, including loans under various government programs such as those provided through the U.S. Small Business Administration and the U.S. Department of Agriculture. A full suite of deposit accounts also is furnished, complemented by robust cash management services. The Bank operates full service branch offices in Monterey, Salinas, King City, San Luis Obispo and Santa Cruz. The Bank's corporate offices are located at 150 Main Street, Suite 150, Salinas, California 93901. The Bank's website is www.1stCapital.bank. The main telephone number is 831.264.4000.

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Forward-Looking Statements

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

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