1st Capital Bancorp Announces Second Quarter 2023 Financial Results

Salinas, California – July 31, 2023. **1st Capital Bancorp** (the "Company"), (OTCQX: FISB), the $960.9 million asset bank holding company and parent company of 1st Capital Bank (the "Bank"), today reported unaudited net income of $609 thousand for the quarter ended June 30, 2023, a decrease of 42.5% compared to net income of $1.06 million for the quarter ended March 31, 2023, and a decrease of 75.9% compared to net income of $2.52 million for the quarter ended June 30, 2022.

Deposit balances have increased significantly with growth of $62.0 million, or 7.6%, in the quarter ended June 30, 2023 compared to March 31, 2023. As a result of this substantial increase in liquidity, the Company paid off the entire $55.0 million of other borrowings outstanding at March 31, 2023. Loan demand remained strong in the second quarter as the Company's core loans increased $22.3 million, or 4.8%, at June 30, 2023 compared to March 31, 2023. This growth was partially offset by a $10 million decline in wholesale loan balances. Loan yields expanded 0.18 basis points (bps) to 4.95% for the quarter ended June 30, 2023 compared to 4.77% for the quarter ended March 31, 2023. Core loan asset quality remained strong and stable with nonperforming assets to total assets of 0.07% and 0.16% at June 30, 2023 and March 31, 2023, respectively.

"Our bankers remain focused on serving the growing needs of our clients despite the current macro-economic conditions, including elevated interest rates and the recent market disruptions," stated Sam Jimenez, Chief Executive Officer. "Their efforts resulted in robust organic deposit and loan growth in the period which will further position the Company to improve on our second quarter's operating performance. The Bank's financial strength including a strong and stable core deposit base, ample and diverse sources of liquidity, and a solid capital position will continue to allow the team to remain focused on building long-term value for our shareholders."

Financial Highlights

Performance highlights for the quarter ended June 30, 2023, as compared to the quarter ended March 31, 2023, and the quarter ended June 30, 2022:

- Earnings per share (diluted) were $0.11 for the second quarter of 2023, as compared to $0.19 and $0.45 for the quarters ended March 31, 2023, and June 30, 2022, respectively.

- For the quarter ended June 30, 2023, the Company's return on average equity was 4.13%, as compared to 7.51% and 14.82% for the quarters ended March 31, 2023, and June 30, 2022, respectively.

- For the quarter ended June 30, 2023, the Company's return on average assets was 0.25% as compared to 0.45% and 0.98% for the quarters ended March 31, 2023, and June 30, 2022, respectively.

- For the quarter ended June 30, 2023, the Company's net interest margin was 3.20% as compared to 3.39% and 3.58% for the quarters ended March 31, 2023, and June 30, 2022, respectively.

- Pretax, pre-provision income for the quarter ended June 30, 2023 totaled $1.8 million, as compared to $2.1 million and $3.5 million for the quarters ended March 31, 2023, and June 30, 2022, respectively.

- For the quarter ended June 30, 2023, the Company's efficiency ratio was 77.32%, as compared to 74.38% and 61.89% for the quarters ended March 31, 2023 and June 30, 2022, respectively.

- The Company recorded $1.05 million and $690 thousand of provision expense for the quarters ended June 30, 2023, and March 31, 2023, respectively. There was no provision expense recorded for the quarter ended June 30, 2022.

- As of June 30, 2023, the Company's nonperforming assets to total assets was 0.07%, as compared to 0.16% and 0.01% for March 31, 2023, and June 30, 2022, respectively.

- As of June 30, 2023, the Company reported total assets, total deposits, and total loans of $960.9 million, $879.4 million, and $585.1 million, respectively.

- Federal regulatory capital ratios for the quarters ended June 30, 2023, March 31, 2023, and June 30, 2022, exceed well capitalized thresholds.

- At June 30, 2023, the Company has $394.2 million in available liquidity from secured and unsecured borrowing lines, which represents 41.0% of total assets.

Net Interest Income and Net Interest Margin

The Company's second quarter 2023 net interest income decreased $226 thousand, or 2.9%, to $7.63 million as compared with $7.86 million for the quarter ended March 31, 2023, as funding costs outpaced expansion in earning asset yields. Loan interest income increased $504 thousand, or 7.50%, to $7.22 million for the quarter ended June 30, 2023, compared to $6.72 million for the quarter ended March 31, 2023. Interest income on investment securities remained consistent at $1.93 million and $1.94 million, respectively, for the quarters ended June 30, 2023 and March 31, 2023. Other interest income increased $131 thousand, or 42.1%, to $442 thousand for the quarter ended June 30, 2023 compared to $311 thousand for the quarter ended March 31, 2023, due to increases in average cash balances. Interest expense increased $854 thousand, or 71.8%, to $2.04 million for the quarter ended June 30, 2023, compared to $1.19 million for the quarter ended March 31, 2023, due to the cost of wholesale borrowings and brokered CD's in the second quarter and a change in deposit mix to higher yielding money market and time deposit products. Interest expense for each of the quarters presented includes $169 thousand related to subordinated debt.

The Company's net interest margin declined by 19 basis points (bps) to 3.20% for the quarter ended June 30, 2023 from 3.39% when compared to the quarter ended March 31, 2023. This decrease was primarily driven by the increase in funding costs. The 0.18 bps expansion of loan yields from 4.77% for the quarter ended March 31, 2023 to 4.95% for the quarter ended June 30, 2023 was outpaced by the increased funding costs. The Company's cost of funds increased 37 bps from 0.55% for the quarter ended March 31, 2023 to 0.92% for the quarter ended June 30, 2023.

Allowance for Credit Losses

The Company adopted Accounting Standards Update (ASU) 2016-13, more commonly referred to as the Current Expected Credit Loss (CECL) method on January 1, 2023, using the modified retrospective method with no adjustments to prior period comparative financial statements for all financial assets measured at amortized cost and off-balance sheet credit exposure as well as held to maturity securities, which resulted in a $127 thousand increase to the allowance for credit losses, a $3 thousand reserve for held-to-maturity securities and a $26 thousand increase to the reserve for unfunded commitments. The impact to retained earnings, net of taxes, was $111 thousand. Reporting periods beginning after January 1, 2023 are presented under ASU 2016-13 while prior period amounts continue to be reported in accordance with previously applicable Generally Accepted Accounting Principles in the United States.

Provision expense of $1.05 million was recorded in the quarter ended June 30, 2023, compared to $690 thousand in the quarter ended March 31, 2023. The provision expense was driven by loan growth, charge offs in the lease and consumer pools, and increased allocations to the wholesale loan pool portfolios.

Noninterest Expenses

The Company's total non-interest expense increased $108 thousand, or 1.79%, to $6.1 million in the quarter ended June 30, 2023, compared to $6.0 million for the quarter ended March 31, 2023. This increase is primarily due to an increase in FDIC insurance assessment.

Balance Sheet Summary

The Company's total assets at June 30, 2023 increased $6.4 million, or 0.7%, to $960.9 million as compared to $954.5 million at March 31, 2023.

Cash and due from banks decreased $1.3 million, or 2.7%, to $44.3 million at June 30, 2023 compared to $45.6 million at March 31, 2023.

Total loans outstanding were $585.1 million as of June 30, 2023, representing a $12.3 million, or 2.1%, increase from the March 31, 2023 outstanding balance of $572.8 million. Growth in owner occupied commercial real estate loan originations comprised the majority of loan growth in the second quarter, partially offset by declines in wholesale consumer and lease pools which continue to pay down. The Company has not purchased any wholesale loan pools in 2023.

Loan type (dollars in thousands)	6/30/2023	% of Total Loans	3/31/2023	% of Total Loans	6/30/2022	% of Total Loans
Construction / land (including farmland)	$ 24,212	4.1%	$ 21,605	3.8%	$ 18,502	3.2%
Residential 1 to 4 units	58,952	10.1%	60,754	10.6%	57,381	9.8%
Home equity lines of credit	3,643	0.6%	4,214	0.7%	5,392	0.9%
Multifamily	80,796	13.8%	78,103	13.6%	76,168	13.0%
Owner occupied commercial real estate	123,545	21.1%	112,600	19.7%	111,283	19.0%
Investor commercial real estate	189,216	32.3%	188,220	32.9%	186,448	31.8%
Commercial and industrial	42,949	7.3%	40,498	7.1%	43,652	7.4%
Paycheck Protection Program	--	0.0%	--	0.0%	1,986	0.3%
Leases	33,618	5.7%	38,059	6.6%	34,095	5.8%
Consumer	18,882	3.2%	22,410	3.9%	36,372	6.2%
Other loans	9,258	1.6%	6,347	1.1%	14,784	2.6%
Total loans	585,071	100.0%	572,810	100.0%	586,063	100.0%
Allowance for credit losses	(6,746)		(7,374)		(8,066)	
Net loans held for investment	$ 578,325		$ 565,436		$ 577,997	

The investment portfolio decreased $6.6 million to $293.1 million from a balance of $299.7 million at March 31, 2023. The decline is reflective of paydowns and a $3.1 million increase in unrealized losses associated with the Company's available-for-sale investment security portfolio; unrealized losses totaled $38.6 million at June 30, 2023 compared to $35.5 million at March 31, 2023. The increase in unrealized losses was driven by changes in the treasury yield curve that negatively impacted the portfolio's valuation. At June 30, 2023 and March 31, 2023, $70.5 million and $71.0 million, respectively, or approximately 24%, of the investment portfolio is classified as held-to-maturity.

Total deposits were $879.4 million at June 30, 2023 representing a $62.0 million, or 7.6%, increase compared to total deposits of $817.4 million at March 31, 2023. Second quarter deposit growth benefitted from industry stabilization and represents growth in both new and existing relationships. Noninterest-bearing balances continue to comprise nearly half of total deposits at June 30, 2023.

Deposit type (dollars in thousands)	6/30/2023	% of Total Deposits	3/31/2023	% of Total Deposits	6/30/2022	% of Total Deposits
Interest- bearing checking accounts	$ 47,483	5.4%	$ 51,631	6.3%	$ 62,779	6.8%
Money market	287,148	32.7%	233,666	28.6%	290,106	31.3%
Savings	116,582	13.3%	126,513	15.5%	143,215	15.4%
Time	33,044	3.8%	15,937	1.9%	13,509	1.5%
Total interest-bearing deposits	484,257	55.1%	427,747	52.3%	509,609	54.9%
Noninterest-bearing	395,132	44.9%	389,623	47.7%	418,692	45.1%
Total deposits	$ 879,389	100.0%	$ 817,370	100.0%	$ 928,301	100.0%

Uninsured deposits represent $314.2 million, or 47%, of total deposits at June 30, 2023. The Company maintains borrowing capacity of $394.2 million in secured and unsecured funding sources at June 30, 2023 covering 125.4% of uninsured balances.

Subordinated debt balances totaled $14.8 at June 30, 2023 and March 31, 2023. Other borrowings totaled $0 and $55.0 million at June 30, 2023 and March 31, 2023, respectively as deposit growth and cash flows generated by the loan and bond portfolios provided liquidity to pay off $55.0 million in other borrowings outstanding at March 31, 2023.

Shareholder's equity totaled $57.8 million at June 30, 2023, a decrease of $500 thousand, or 0.9%, compared to $58.3 million at March 31, 2023. The decrease is reflective of the increase in unrealized losses on the available-for-sale investment security portfolio, the impact of which flows through accumulated other comprehensive income (AOCI), a component of equity, partially offset by an increase in the fair value of the cap corridor hedge which positively impacted AOCI. The negative AOCI impact in second quarter was partially offset by $609 thousand in net income contribution. The unrealized loss position on the held-to-maturity investment securities was captured at the date of transfer and amortizes over the remaining life of the bonds with market value movements having no future impact on the unrealized loss position of these bonds.

Asset Quality

At June 30, 2023, nonperforming assets were 0.07% of the Company's total assets, compared with 0.16% at March 31, 2023. The allowance for credit losses was 1.15% of outstanding loans at June 30, 2023, compared to 1.29% at March 31, 2023. The Company had $138 thousand and $665 thousand in nonaccrual loans at June 30, 2023 and March 31, 2023, respectively, representing .02% and .12% of total loans, respectively. The Company recorded net charge-offs of $1.7 million in the quarter ended June 30, 2023, compared to $789 thousand in the quarter ended March 31, 2023. Charge-offs for the periods ended June 30, 2023 and March 31, 2023 were virtually all within the purchased consumer and lease pools, with the exception of a $46 thousand charge off of the unguaranteed portion of an SBA loan in the second quarter.

Asset Quality (dollars in thousands)	**6/30/2023**	**3/31/2023**	**6/30/2022**
Loans past due 90 days or more and accruing interest	$ 487	$ 891	$ 145
Other nonaccrual loans	138	665	--
Other real estate owned	--	--	--
Total nonperforming assets	**$ 625**	**$ 1,556**	**$ 145**
Allowance for credit losses to total loans	1.15%	1.29%	1.38%
Allowance for credit losses to nonperforming loans	1079.36%	474.01%	5562.76%
Nonaccrual loans to total loans	0.02%	0.12%	0.00%
Nonperforming assets to total assets	0.07%	0.16%	0.01%

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

Assets	**6/30/2023**	**3/31/2023**	**6/30/2022**
Cash and due from banks	$ 44,320	$ 45,567	$ 35,450
Investment securities available-for-sale	222,662	228,711	298,483
Investment securities held-to-maturity	70,468	70,977	45,223
Loans and leases held for investment	585,071	572,810	586,063
Allowance for credit losses	(6,746)	(7,374)	(8,066)
Net loans and leases held for investment	578,325	565,436	577,997
Other Assets	45,129	43,829	32,926
Total assets	$ 960,904	$ 954,520	$ 990,079
Liabilities and Shareholders' Equity			
Deposits:			
Noninterest-bearing	$ 395,132	$ 389,623	$ 418,692
Interest-bearing	484,257	427,747	509,609
Total deposits	879,389	817,370	928,301
Subordinated debentures	14,776	14,757	14,701
Other borrowings	--	55,000	--
Other liabilities	8,915	9,044	8,386
Shareholders' equity	57,824	58,349	38,691
Total liabilities and shareholders' equity	$ 960,904	$ 954,520	$ 990,079
Shares outstanding	5,518,996	5,509,429	5,467,966
Earnings per share basic	$0.11	$0.19	$0.46
Earnings per share diluted	$0.11	$0.19	$0.45
Nominal and tangible book value per share	$10.48	$10.59	$7.08

1ST CAPITAL BANCORP
CONDENSED FINANCIAL DATA – UNAUDITED
($ in 000s)

	Three Months Ended		
Operating Results Data	**6/30/2023**	**3/31/2023**	**6/30/2022**
Interest and dividend income			
Loans	$ 7,222	$ 6,718	$ 7,258
Investment securities	1,929	1,944	2,038
Federal Home Loan Bank stock	78	70	59
Other income	442	311	56
Total interest and dividend income	9,671	9,043	9,411
Interest expense	2,042	1,188	573
Net interest income	7,629	7,855	8,838
Provision for credit losses	1,052	690	-
Net interest income after provision for credit losses	6,577	7,165	8,838
Noninterest income	297	373	290
Net (loss) on sales/calls of investment securities	--	(134)	--
Noninterest expenses			
Salaries and benefits expense	3,615	3,747	3,457
Occupancy expense	463	414	463
Data and item processing	328	308	265
Furniture and equipment	101	117	150
Professional services	279	268	114
Other	1,342	1,167	1,201
Total noninterest expenses	6,128	6,021	5,650
Income before provision for income taxes	746	1,383	3,478
Provision for income taxes	137	325	958
Net income	$ 609	$ 1,058	$ 2,520

	Three Months Ended		
Selected Average Balances	**6/30/2023**	**3/31/2023**	**6/30/2022**
Gross loans	$ 584,939	$ 571,144	$ 593,990
Investment securities	333,844	303,034	373,853
Federal Home Loan Bank stock	4,314	4,058	4,024
Other interest earning assets	43,581	34,996	31,158
Total interest earning assets	966,678	913,232	1,003,025
Total assets	962,808	947,453	1,027,269
Interest-bearing checking accounts	49,082	66,480	64,988
Money market	260,482	238,012	278,646
Savings	124,088	138,031	149,930
Time deposits	28,375	10,897	12,350
Total interest- bearing deposits	462,027	453,420	505,914
Noninterest bearing demand deposits	386,503	405,436	427,351
Total deposits	848,530	858,856	933,265
Subordinated debentures and other borrowings	45,308	21,261	17,546
Shareholders' equity	$ 59,145	$ 57,148	$ 68,227

1ST CAPITAL BANCORP
CONDENSED FINANCIAL DATA – UNAUDITED
($ in 000s)

	Three Months Ended		
Selected Financial Ratios	**6/30/2023**	**3/31/2023**	**6/30/2022**
Return on average total assets	0.25%	0.45%	0.98%
Return on average shareholders' equity	4.13%	7.51%	14.82%
Net interest margin	3.20%	3.39%	3.58%
Net interest income to average total assets	3.18%	3.36%	3.56%
Efficiency ratio	77.32%	74.38%	61.89%

1ST CAPITAL BANCORP
CONDENSED FINANCIAL DATA – UNAUDITED
($ in 000s)

	Six Months Ended	
Operating Results Data	**6/30/2023**	**6/30/2022**
Interest and dividend income		
Loans	$ 13,940	$ 14,154
Investment securities	3,873	3,595
Federal Home Loan Bank stock	148	117
Other income	753	69
Total interest and dividend income	18,714	17,935
Interest expense	3,230	1,103
Net interest income	15,484	16,832
Provision for credit losses	1,742	--
Net interest income after provision for credit losses	13,742	16,832
Noninterest income	670	609
Net (loss) on sales/calls of investment securities	(134)	--
Noninterest expenses		
Salaries and benefits expense	7,363	6,902
Occupancy expense	877	897
Data and item processing	636	528
Furniture and equipment	218	290
Professional services	547	283
Other	2,508	2,215
Total noninterest expenses	12,149	11,115
Income before provision for income taxes	2,129	6,326
Provision for income taxes	462	1,714
Net income	$ 1,667	$ 4,612

	Six Months Ended	
Selected Average Balances	**6/30/2023**	**6/30/2022**
Gross loans	$ 578,080	$ 582,060
Investment securities	336,772	368,123
Federal Home Loan Bank stock	4,187	3,987
Other interest earning assets	39,312	35,207
Total interest earning assets	958,351	989,377
Total assets	955,173	1,012,035
Interest bearing checking accounts	57,733	65,368
Money market	217,762	250,017
Savings	131,021	154,434
Time deposits	19,684	11,963
Total interest-bearing deposits	426,200	481,782
Noninterest-bearing demand deposits	427,464	432,842
Total deposits	853,664	914,624
Subordinated debentures and other borrowings	33,351	16,116
Shareholders' equity	$ 58,152	$ 74,152

1ST CAPITAL BANCORP
CONDENSED FINANCIAL DATA – UNAUDITED
($ in 000s)

	Six Months Ended	
Selected Financial Ratios	**6/30/2023**	**6/30/2022**
Return on average total assets	0.35%	0.92%
Return on average shareholders' equity	5.78%	12.54%
Net interest margin	3.30%	3.51%
Net interest income to average total assets	3.27%	3.35%
Efficiency ratio	75.84%	63.73%

Regulatory Capital and Ratios	**6/30/2023**	**3/31/2023**	**6/30/2022**
Common equity tier 1 capital	$ 103,412	$ 102,724	$ 97,226
Tier 1 regulatory capital	$ 103,412	$ 102,724	$ 97,226
Total regulatory capital	$ 110,312	$ 110,295	$ 105,418
Tier 1 leverage ratio	10.36%	10.45%	9.62%
Common equity tier 1 risk-based capital ratio	15.26%	15.32%	13.27%
Tier 1 capital ratio	15.26%	15.32%	13.27%
Total risk-based capital ratio	16.28%	16.45%	14.39%

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.
Member FDIC / Equal Opportunity Lender / SBA Preferred Lender

Forward-Looking Statements
Certain of the statements contained herein that are not historical facts are "forward-looking statements" within the meaning of and subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may contain words or phrases including, but not limited, to: "believe," "expect," "anticipate," "intend," "estimate," "target," "plans," "may increase," "may fluctuate," "may result in," "are projected," and variations of those words and similar expressions. All such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. Factors that might cause such a difference include, among other matters, changes in interest rates; economic conditions including inflation and real estate values in California and the Bank's market areas; governmental regulation and legislation; credit quality; competition affecting the Bank's businesses generally; the risk of natural disasters and future catastrophic events including 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.

This news release is available at the www.1stCapital.bank internet site for no charge.

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