

# 1st Century Bancshrs, Inc. FCTY (NAS)

Last Close	Industry	Sector
4.11 USD	Banks - Regional - US	Financial Services

## Profile

Pricing data through 10 Feb 2012

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1st Century Bancshares, Inc., a Delaware corporation. The Company operates as a bank holding company for 1st Century Bank, N.A., a National Association (the Bank). The Bank is a full service commercial bank. The bank's main focus is relationship banking to family and closely held middle market businesses, professional service firms, and high net worth individuals, real estate investors and entrepreneurs. The Bank also provides a range of banking services to meet the financial needs of the local residential community, with an orientation mainly directed toward owners and employees of its business client base. The Bank's goal is to deliver the most responsive and adaptive depository and lending products and services to its clientele. The Bank's product offerings are organized into the following lines: Loans - Business and personal lines of credit and term loans; Tenant improvement and equipment financing; Bridge and/or specific purpose loans; Commercial, industrial and multi-family real estate lending; Personal home equity loans and lines of credit; and Credit cards for business and personal use; Deposits - Business checking, money market and certificates of deposit; Personal checking, money market and certificates of deposits; Attorney-Client trust accounts; Trust accounts; Cash management and on-line banking; and Debit cards. The general market area it serves is loosely defined as La Cienega Boulevard to the east, the Santa Monica Mountains to the north, the Pacific Ocean to the west and the Los Angeles International Airport to the south. The Bank competes with other banks and financial institutions to attract deposits. The Bank faces competition from established local and regional banks and savings and loan institutions. The Company is regulated under both federal and certain state laws.

# 1st Century Bancshrs, Inc. FCTY

**Sales USD Mil** 12    **Mkt Cap USD Mil** 37    **Industry** Banks  
- Regional - US    **Sector** Financial Services

1st Century Bancshares, Inc. is a holding company for 1st Century Bank, N.A. The bank offers commercial banking services in California. It offers standard deposit and lending products for individual, corporate, entrepreneurial, and real estate investors.

1875 Century Park East Suite 1400    **Employees:** 41  
Los Angeles, CA 90067  
Phone: 1 310 270-9500  
Website: <http://www.1stcenturybank.com>

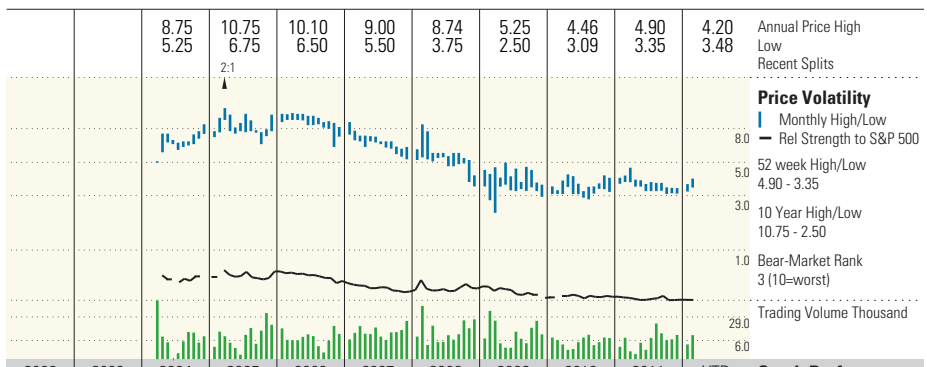
Growth Rates Compound Annual					
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	-5.3	1.4	16.8	—	
Operating Income %	—	—	—	—	
Earnings/Share %	—	—	—	—	
Dividends %	—	—	—	—	
Book Value/Share %	-5.1	—	—	—	
Stock Total Return %	0.2	0.9	-11.9	—	
+/- Industry	14.0	-16.6	0.4	—	
+/- Market	-1.4	-16.6	-10.5	—	

Profitability Analysis				
	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	-3.8	-3.3	—	22.6
Return on Assets %	-0.5	-0.6	—	9.5
Revenue/Employee USD K	285.6	270.2	—	1049.9
Compensation Exp/Rev	0.5	0.5	—	—
Operating Margin %	—	—	33.3	16.7
Net Margin %	-15.1	-13.9	29.9	11.2
Free Cash Flow/Rev %	0.6	—	—	0.1

Financial Position		
	12-10 USD Mil	09-11 USD Mil
Loans (Gross)	179	185
Less: Allowances	5	5
Net Loans	174	180
Securities	58	103
Trading Assets	—	—
Intangibles	—	—
Other	76	101
Total Assets	308	384
Deposits	258	326
Short-Term Debt	—	—
Long-Term Debt	2	10
Other	4	3
Total Liabilities	264	339
Preferred Stock	—	0
Total Equity	44	45

Valuation Analysis				
	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	—	—	18.8	14.5
Forward P/E	16.8	—	—	13.5
Price/Free Cash Flow	—	—	18.7	16.9
Dividend Yield %	—	—	1.5	2.0
Price/Book	0.8	—	0.9	2.0
Price/Sales	3.1	3.7	1.8	1.2
PEG Ratio	—	—	—	1.4

**Morningstar Rating** —    **Last Price** 4.11    **Fair Value** —    **Uncertainty** —    **Economic Moat™** —    **Stewardship Grade** —  
per share prices in USD



2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD	Stock Performance
—	—	—	23.2	-13.5	-28.5	-30.8	-16.9	18.8	-13.7	16.1	Total Return %
—	—	—	20.2	-27.1	-32.0	7.7	-40.3	6.0	-13.7	9.3	+/- Market
—	—	—	23.0	-30.2	-8.8	1.3	-11.2	8.0	6.2	2.9	+/- Industry
—	—	83	94	82	59	41	32	38	32	37	Dividend Yield %
—	—	—	—	—	—	—	—	—	—	—	Market Cap USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Financials
—	—	—	1	5	9	10	11	10	10	11	11	Net Interest Inc USD Mil
—	—	—	0	0	0	1	1	1	1	1	1	Fee Income
—	—	—	—	—	—	—	—	—	—	—	—	Oper Income USD Mil
—	—	—	-3	-2	0	3	-2	-8	-2	-2	-2	Net Income USD Mil
—	—	—	-0.53	-0.31	0.01	0.28	-0.15	-0.86	-0.22	-0.20	-0.20	Earnings Per Share USD
—	—	—	—	—	—	—	—	—	—	—	—	Dividends USD
—	—	—	5	10	10	10	10	9	9	9	9	Shares Mil
—	—	—	—	—	—	5.84	5.02	4.77	5.01	5.01	5.01	Book Value Per Share USD
—	—	—	86	162	201	224	259	272	308	384	384	Assets USD Mil
—	—	—	22	53	54	59	57	46	44	45	45	Total Equity USD Mil
—	—	—	—	-34	-1	-2	0	3	0	0	0	Free Cash Flow

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Profitability
—	—	—	-3.3	-1.8	0.1	1.4	-0.6	-2.9	-0.7	-0.5	-0.5	Return on Assets %
—	—	—	-13.1	-5.9	0.3	5.2	-2.6	-15.1	-4.3	-3.8	-3.8	Return on Equity %
—	—	—	—	-44.5	1.7	28.0	-12.9	-68.2	-18.1	-15.1	-15.1	Net Margin %
—	—	—	0.01	0.04	0.05	0.05	0.05	0.04	0.04	0.03	0.03	Asset Turnover
—	—	—	4.0	3.0	3.7	3.8	4.5	5.9	7.0	8.5	8.5	Financial Leverage

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	09-11	Financial Health
—	—	—	33	85	126	170	195	176	174	180	180	Net Loans USD Mil
—	—	—	—	—	—	2	47	17	2	10	10	Long-Term Debt USD Mil
—	—	—	64	107	145	161	154	207	258	326	326	Deposits USD Mil

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Valuation	
—	—	—	—	—	21.4	—	—	—	—	—	—	Price/Earnings
—	—	—	—	—	—	—	—	—	—	—	—	P/E vs. Market
—	—	36.5	16.7	11.6	6.0	3.5	2.7	3.4	2.7	3.1	3.1	Price/Sales
—	—	—	—	—	—	0.7	0.7	0.9	0.7	0.8	0.8	Price/Book

Quarterly Results						
Revenue USD Mil	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	2.9	2.9	2.9	3.0		
Prior Year Period	2.7	2.7	2.6	2.7		
Rev Growth %	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	4.4	7.8	10.7	14.3		
Prior Year Period	-8.7	-8.8	-9.9	-6.0		
Earnings Per Share USD	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	-0.27	0.01	0.01	0.04		
Prior Year Period	-0.39	0.01	0.01	0.02		

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
1st Century Bancshrs	37	12	—	-3.8
Wells Fargo & Co	159577	81837	10.6	11.9
Bank of America Corp	81796	90964	—	-1.5

Major Fund Holders		% of shares
		—
		—
		—

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

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## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. ALAN I. ROTHENBERG	CEO/Chairman of the Board/ Director/Chairman of the Board, Subsidiary,Director	283,866	17 Nov 2011	2,000
JASON P. DINAPOLI	CEO, Subsidiary/COO/Director/ Other Corporate Officer/President/ President, Subsidiary/Secretary, Direc	212,028	17 Nov 2011	-
DAVE BROOKS	Director	124,041	17 Nov 2011	-
DR. BARRY D. PRESSMAN, M.D.	Director	90,725	17 Nov 2011	-
LEWIS N. WOLFF	Director	74,191	17 Nov 2011	-
ALAN D. LEVY	Director	48,333	17 Nov 2011	-

\*Report date represents the date on which the owner's common shares held was audited.

### Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Vanguard Extended Market Idx Inv	QQQQ	0.06	0.00	0	30 Sep 2011
Scotia Nasdaq Index	QQQQ	0.00	0.00	0	28 Feb 2011

#### Concentrated Holders

Vanguard Extended Market Idx Inv	QQQQ	0.06	0.00	0	30 Sep 2011
Scotia Nasdaq Index	QQQQ	0.00	0.00	0	28 Feb 2011

### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Scotia Nasdaq Index	QQQQ	0.00	0.00	0	28 Feb 2011

#### Top 5 Sellers

NA	NA	NA	NA	NA	NA
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## Industry Focus: Banks

### Wilshire Will Reward Those Banking on Its Turnaround

08 February 2012

Michael Kon, CFA  
Senior Stock Analyst

The market is discounting this firm's improving credit quality and attractive business model.

Wilshire Bancorp (WIBC) is one of our favorite turnaround plays in regional banking. With a new management team at the helm, plenty of reserves for loan losses, and a record level of capital, Wilshire is positioned to return to high profitability. While its focus on the Korean-American market isolates it from the competitive pressures of mainstream banks, its low-cost operating model serves it well when competing with other ethnic banks. The stock trades nearly 40% below our fair value estimate, an unwarranted discount considering Wilshire's successful turnaround and the quality of its franchise.

Wilshire entered the financial crisis and the Great Recession in a slightly better shape than most California banks of a similar size. The bank had more capital and fewer problem loans than many peers and in June 2009 was even chosen by the FDIC to acquire the failed Mirae Bank, a privilege reserved only for banks that score high on periodic regulatory reviews.

However, in early 2009, the bank's nonperforming loans began to creep up and by 2010, the level of nonperforming loans exceeded that of most peers. While Mirae Bank came with a sizable portfolio of nonperforming loans, Wilshire's legacy loans also started to weaken, becoming a major cause for concern. What exacerbated the problem, in our view, was management's lack of action in light of the worsening credit quality. While Wilshire's peers were selling bad credit and jettisoning weak assets at market prices, management stayed put and failed to introduce a credible loan workout plan.

As a result of management's neglect to address the bank's problem loans, during the second half of 2009 and through 2010 nonperforming loans trended well above its ethnic peers and other California banks. Even more troubling was management's failure in managing the bank's capital. Despite the mounting credit problems, Wilshire's

management ignored the bank's growing need to raise capital and continued to argue that capital wasn't an issue because regulatory capital ratios were still above the official requirements. While nonperforming loans were rising, the bank's common equity plunged almost 40%.

To make matters worse, Wilshire was bleeding capital when most of its California peers were building their own. By the first quarter of 2011, Wilshire's tangible common equity deteriorated to half of the level reported by most peers, reaching 3.9% of total tangible assets--a troubling level, in our view. The bank's regulators noticed the deterioration in Wilshire's financial health and slapped it with a memorandum of understanding, a regulatory action reserved for banks that exhibit financial weakness.

Despite Credit Woes, Wilshire's Business Model Was Never Broken

Despite its credit woes, we think Wilshire still has a viable and attractive business model. Underwriting practices aside, Wilshire's focus on the Korean-American population in Southern California provides it with several advantages over mainstream banks: Unlike the general population, the bank's clients value the relationship with an ethnic bank and usually don't shop around for the best available rate. Wilshire's clients tend to be more entrepreneurial than the general population; the rate of small-business owners among the bank's clients is double the U.S. average. Most of the bank's clients live in proximity to one another, reducing the need to build many branches. The Korean-American population is more educated than the general U.S. population, which leads to a higher saving rate (double the U.S. average) among the bank's clients; since clients tend to keep a sizable portion of their savings in CDs, the bank benefits from a stable deposit base. Serving the Korean-American population enables Wilshire to benefit from trade with South Korea, America's sixth-largest trading partner. We think these advantages led Wilshire to earn higher returns on assets during the period that preceded the financial crisis and could help it return to profitability once credit issues are fully resolved.

Turnaround Efforts Bear Fruit

After sitting on its hands during 2010, Wilshire's board

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## Industry Focus: Banks

finally woke up in early 2011 and launched an aggressive turnaround program to resolve its credit issues. In February, Wilshire replaced its CEO. Jae Whan Yoo joined Wilshire after successfully leading one of its largest competitors through a similar credit turnaround. In May, the bank raised \$100 million by issuing new shares to the public. This doubled the bank's common equity and boosted its capital ratios to record levels. In September, the bank appointed Jack Choi as its new chief credit officer.

Also during 2011, Wilshire changed its credit risk management: It separated the loan production and underwriting functions, established an enterprise risk management department, created a cross-team credit task force to improve credit quality and reduce problem assets, and increased its in-house lending limit to single borrowers. With these actions, Wilshire scrapped its previous underwriting practices and adopted a more robust credit culture. We think this had an immediate impact on the bank's performance. Nonperforming loans in the following quarters declined and the flow of new problem loans began to ebb.

While nonperforming loans dropped 50% from their peak, reserves for loan losses actually increased 33% during the same period and exceeded the level reported by peer ethnic banks and other competitors in California in the second half of 2011. Thanks to management's turnaround efforts, Wilshire ended the third quarter of 2011 with more capital, more reserves, and fewer problem loans than most of its main peers.

Wilshire still has work to do, as its nonperforming assets remain above 3%, higher than its historical levels, and returns on assets and equity still trend below past levels. That said, we believe the bank's comeback in 2011 will make the hurdles ahead of it seem not as hard to overcome.

While bank stocks came under pressure on fears of another recession and a spillover from the European sovereign debt crisis, Wilshire's stock cratered more than 50%. Ironically, this sell-off occurred as the bank's financial health strengthened and performance started to improve. We believe the market is ignoring Wilshire's successful turnaround and prospects. We value the stock at \$6 per share, while it trades around \$3.80--a decent discount,

especially given the successful credit turnaround and the quality of the bank's franchise.