



November 4, 2013

**FOR IMMEDIATE RELEASE**

**1st Capital Bank Announces:  
Third Quarter and Year To Date 2013 Financial Results;  
Resignation of Director**

*Monterey, California* – November 4, 2013. **1<sup>st</sup> Capital Bank** (OTCQB: FISB) (the “Bank”) today announced third quarter and year to date financial results through September 30, 2013. Net income during the third quarter of 2013 was \$457 thousand, equivalent to \$0.13 per diluted common share, down from \$540 thousand, equivalent to \$0.16 per diluted common share, during the third quarter of 2012; but up from \$359 thousand, equivalent to \$0.11 per diluted common share, for the second quarter of 2013 (the immediately preceding quarter). The reduction in net income from the third quarter of 2012 to the third quarter of 2013 was primarily due to increased non-interest expense, which stemmed from new hires to support the Bank’s growth, increased processing and servicing costs for a greater number of client accounts, enhancement of the Monterey and King City branch offices, and the Bank’s recording \$120 thousand in severance expense during the third quarter of 2013. The third quarter of 2013 represented the second consecutive increase in quarterly earnings.

Net income for the first nine months of 2013 and 2012 was almost identical at \$1.1 million, equivalent to \$0.32 per diluted common share for both time periods.

The Bank’s total assets expanded by 21.6% during the twelve months ended September 30, 2013; and average interest earning assets were 20.2% higher during the third quarter of 2013 compared to the third quarter of 2012.

Commenting on the third quarter of 2013 financial performance, Mark Andino, the Bank’s President and Chief Executive Officer, stated: “We are pleased to report a second consecutive quarter of increased earnings and a growth rate over the past year in excess of 20.0%, all of which was organic. The Bank concluded the third quarter of 2013 with a favorable credit profile, a record level of capital, a well positioned loan loss reserve relative to non-performing loans, and a strong pipeline of potential new business. Third quarter results would have been even more favorable if not for severance costs, the continuation of a historically low interest rate environment, and continued aggressive loan pricing competition from the very large banks. Looking forward, one of the challenges facing the Bank is balancing the growth opportunities before us with the desire to provide a competitive current return on equity to shareholders. The Bank continues to attract a broad range of local businesses and professionals who are seeking the combination of client service, technology, customization, timeliness, and experienced bankers offered by 1st Capital Bank. We have worked diligently throughout 2013 to implement multiple initiatives aimed at improving the Bank’s efficiency ratio, thereby providing increased resources for investment into new markets, technologies, and products.”

William G. Dorey resigned from the Bank's Board of Directors effective October 30, 2013. Mr. Dorey became a Bank director in April 2012, and resigned in light of competing requirements for his time. Mr. Dorey is a retired Chief Executive Officer of Granite Construction who continues to serve on that entity's Board of Directors. In addition, Mr. Dorey is a director of another company and is involved with a significant number of other organizations, including the California Chamber of Commerce, the California Business Roundtable, and various construction industry related groups.

Kurt Gollnick, the Bank's Chairman of the Board, stated: "The Board of Directors would like to thank Bill Dorey for his service and contributions. It was with regret that I accepted Bill's resignation, but I appreciate the extensive time commitment now required of bank directors. We are currently evaluating a number of well qualified candidates to potentially be added to the Board in coming months."

### Performance Highlights

- The Bank presented a high quality credit profile at September 30, 2013, with a nonperforming asset ratio of 0.23% and a ratio of allowance for loan losses to nonperforming loans of 546.15%.
- Non-accrual loans totaled \$0.9 million at September 30, 2013, equivalent to 0.34% of loans outstanding. No new loans were transferred to non-accrual status during the third quarter of 2013, and the inventory of non-accrual loans at June 30, 2013 continued to pay down.
- By September 30, 2013, the Bank received the first two scheduled monthly recovery payments associated with the \$500 thousand commercial loan charged off during the first quarter of 2013. In addition, the third monthly recovery payment of \$4 thousand was received in October 2013. The Bank recorded \$4 thousand in net recoveries during the third quarter of 2013.
- The Bank commenced a new source of revenue during the third quarter of 2013 via the initial sale of the guaranteed portion of an SBA loan, generating a pre-tax gain on sale of \$21 thousand. The Bank has installed new technology to support this line of business and intends to pursue additional SBA lending and loan sales in the future.
- At September 30, 2013, the Bank maintained a regulatory total risk-based capital ratio of 15.04%, substantially in excess of the 10.00% threshold to be categorized in the highest regulatory capital classification of "well capitalized." The Bank's regulatory capital ratios at September 30, 2013 benefited from \$680 thousand in new Tier 1 Regulatory Capital from payments received for the exercise of vested stock options during the third quarter of 2013. An additional \$316 thousand in Tier 1 Regulatory Capital from the exercise of vested stock options was obtained during October 2013.

- Tangible book value per share rose to a record \$10.71 as of September 30, 2013, as compared to \$10.27 per share at December 31, 2012.

### Financial Condition Analysis

Funds held at the Federal Reserve Bank of San Francisco (“FRB-SF”) decreased from \$26.7 million at December 31, 2012 to \$18.5 million at September 30, 2013. This reduction resulted from the Bank’s decision to invest excess on-balance sheet liquidity primarily into higher yielding variable rate mortgage backed securities (“MBS”) and floating rate tranches of collateralized mortgage obligations (“CMO”) issued by the Federal National Mortgage Association (“FNMA”), the Government National Mortgage Association (“GNMA”), or the Federal Home Loan Mortgage Corporation (“FHLMC”) (collectively, “U.S. Agencies”) in order to augment interest income.

Time deposits at other financial institutions declined from \$9.3 million at December 31, 2012 to \$4.6 million at September 30, 2013, as funds from maturing time deposits were reinvested into securities.

Securities categorized as available for sale increased from \$41.8 million at December 31, 2012 to \$86.6 million at September 30, 2013. During the first nine months of 2013, the Bank invested deposit inflows in excess of loan portfolio growth, maturing time deposit funds, plus some of its balances at the FRB-SF into securities, resulting in the following security portfolio profile at September 30, 2013:

\$ In Thousands	September 30, 2013 Fair Value (Unaudited)
Type of Security	
SBA fixed rate loan pools	\$ 3,026
Municipal fixed rate securities	2,154
Agency variable rate residential MBS	3,306
Agency fixed rate residential MBS	6,428
Agency variable rate commercial MBS	18,307
Agency variable rate residential CMO	44,885
Agency variable rate commercial CMO	8,517
Total	<u>\$ 86,623</u>

The municipal securities were all rated at least AA by a nationally recognized ratings agency. The majority of the Bank’s security purchases during 2013 were adjustable rate assets, as the Bank has allocated most of its balance sheet duration to loans in response to client demand for fixed rate financing in the current interest rate environment. The fair value of the Bank’s \$86.6 million in securities at September 30, 2013 exceeded its amortized cost basis by \$37 thousand.

At September 30, 2013, the Bank maintained a strong liquidity profile, consisting of a significant volume of on-balance sheet assets (including cash & cash equivalents and securities available for sale) and over \$100 million in off-balance sheet borrowing capacity. The increase in the Bank's liquidity profile during the first nine months of 2013 is reflected in the ratio of net loans to deposits, which decreased from 81.1% at December 31, 2012 to 76.0% at September 30, 2013. Commenting on the Bank's liquidity, Jon Ditlevsen, the Bank's Chief Lending Officer, stated: "The Bank concluded the third quarter of 2013 with ample funds for lending. We continue to extensively market to local businesses and professionals throughout the Central Coast of California. We recognize that increasing the Bank's ratio of net loans to deposits via quality lending is a key objective for the Bank for the remainder of 2013 and into next year; as we aim to build a greater stream of net interest income."

Net loans increased from \$238.9 million at December 31, 2012 to \$246.2 million at September 30, 2013. While the Bank originated or purchased an aggregate \$65.5 million in new credit commitments during the first nine months of 2013, loan payoffs and curtailments, principal reductions on lines of credit, and scheduled principal amortization combined to limit net portfolio growth. Commenting in this regard, Dale Diederick, the Bank's Chief Credit Officer stated: "The Bank has recently enjoyed strong levels of loan production. However, during the third quarter of 2013, we had a number of owner occupied residential construction loans reach project completion and obtain long term, traditional mortgage financing. That led to a \$7.0 million decline in the Bank's construction and land loan portfolio during the quarter."

The Bank's allowance for loan losses increased from \$4.3 million, or 1.77% of total loans, at December 31, 2012 to \$4.7 million, or 1.87% of total loans, at September 30, 2013. The allowance was increased by \$868 thousand in loan loss provision during the first nine months of 2013, and decreased by year to date net charge-offs of \$496 thousand, almost all of which occurred during the first quarter of 2013 in conjunction with a \$500 thousand impaired commercial loan.

Non-accrual loans decreased by \$583 thousand from December 31, 2012 to September 30, 2013, reflective of the charge-off of the \$500 thousand commercial loan described above, one other charge-off for \$4 thousand, and payments received on non-accrual loans. All but one of the non-accrual loans were current or less than 30 days delinquent in scheduled payments as of September 30, 2013.

Loans graded Substandard increased from \$5.1 million at December 31, 2012 to \$8.2 million at September 30, 2013 primarily due to the downgrade of one credit relationship from Special Mention. Loans graded as Special Mention increased from \$4.2 million at December 31, 2012 to \$6.0 million at September 30, 2013, primarily due to the downgrade of one credit relationship in response to weaker farming results over the past two years. Both of the aforementioned downgraded credit relationships were current in their scheduled payments at September 30, 2013 and the borrowers have continued to be cooperative with the Bank.

The ratio of the Bank's allowance for loan losses to non-performing loans rose from 299.38% at December 31, 2012 to 546.15% at September 30, 2013. The Bank has never owned any foreclosed real estate.

Premises and equipment, net of accumulated depreciation, increased from \$1.3 million at December 31, 2012 to \$1.4 million at September 30, 2013. The majority of this increase was due to a minor remodeling of the Salinas branch office and the purchase of new hardware in support of the Bank's technology platform.

The Bank's investment in the capital stock of the Federal Home Loan Bank ("FHLB") increased from \$1.0 million at December 31, 2012 to \$1.5 million at September 30, 2013 due to the standard asset-based investment requirement applicable to FHLB members.

Commenting on the Bank's asset profile at September 30, 2013, Clay Larson, the Bank's Regional President, stated: "We continue to seek to increase loans as a percentage of total assets as a means to augment net interest income and even better support the credit needs of our local communities. We plan to further enhance the Bank's visibility throughout Monterey County during the fourth quarter of 2013 via our Organizers Reception, Advisory Board meetings, Local Stockbroker Event, and ongoing sponsorship of a wide variety of non-profit and community organizations." Mr. Larson then added: "We've enjoyed great success in emphasizing the difference that 1st Capital Bank represents; where clients can reach their banker virtually 24 / 7. That commitment to providing a concierge level of service continues to differentiate us from the large banks."

Total deposits increased from \$294.7 million at December 31, 2012 to \$323.9 million at September 30, 2013. However, total deposits declined by \$9.7 million during the third quarter of 2013 due to seasonal flows by certain agriculture related clients. These seasonal outflows more than offset the impact of a net increase of 135 deposit accounts during the third quarter of 2013.

Non-interest bearing demand deposits increased from \$123.4 million at December 31, 2012 to \$127.1 million at September 30, 2013. The Bank continues to enhance and market its suite of electronic banking and cash management services, with a dedicated Cash Management Department led by Brooks Kohne, who recently announced: "We have now added technology that allows us to access our clients' desktops, with their permission, through the Internet; thereby allowing us to assist with ACH file creation and origination and domestic and international wire processing on a real-time basis."

Interest bearing checking accounts increased from \$17.5 million at December 31, 2012 to \$18.2 million at September 30, 2013. Given the historically low interest rate environment, the Bank has attracted these consumer, sole proprietor, and non-profit organization checking accounts by its focus on a concierge level of service rather than based upon interest rate.

Money market deposits increased from \$60.1 million at December 31, 2012 to \$78.2 million at September 30, 2013. Money market deposits during 2013 benefited from:

- low (often, near zero) interest rates being paid on brokerage accounts and money market mutual funds, thereby encouraging clients to transfer their funds to higher yielding and FDIC insured accounts;
- the expiration of the FDIC Transaction Account Guaranty Program on December 31, 2012, whereby non-interest bearing checking accounts (as defined under the Program) received unlimited FDIC deposit insurance coverage (thereby encouraging certain clients to reallocate funds back to money market accounts insured under the FDIC's unified Standard Maximum Deposit Insurance Amount);
- the Bank's cross-selling money market accounts to new checking account clients given the easy integration and customization via the Bank's online banking service;
- the conversion of certain deposits from certificates of deposit to money market accounts given the limited yield differential between the products in the current interest rate environment; and
- the Bank's offering tiered pricing on money market accounts, whereby clients receive a higher interest rate on their entire account balance as each successively higher balance tier level is attained.

Savings deposits rose from \$62.4 million at December 31, 2012 to \$73.0 million at September 30, 2013. The Bank realized balance increases in both consumer and business savings products, which have been an attractive alternative for liquid funds in the current historically low interest rate environment.

Time deposits decreased from \$31.3 million at December 31, 2012 to \$27.4 million at September 30, 2013. Factors contributing to this decline included transfers from certain maturing time deposits into transaction accounts and the Bank's moderating its time deposit pricing in response to its favorable liquidity position and the availability of alternative low cost funding. \$6.0 million of the \$27.4 million in time deposits at September 30, 2013 were comprised of low cost state term funds. None of the Bank's deposits at September 30, 2013 were brokered deposits.

Commenting on the Bank's deposit performance, Irene Shippee, the Bank's Operations Administrator, stated: "Consistent with 2012, the Bank experienced a seasonal reduction in deposit balances during the third quarter of 2013. Many of these deposit balances historically return to the Bank during the fourth and first quarters of the year, following the cash flow patterns of local agricultural companies." Ms. Shippee then added: "The year to date deposit growth was achieved without pursuing institutional or wholesale deposits in light of the Bank's strong liquidity position. We concluded the third quarter of 2013 with a solid pipeline of potential new deposit relationships."

Marilyn Goode, the Bank's Interim Chief Financial Officer, added: "The Bank's weighted average cost of deposits during the third quarter of 2013 was just 0.18%. We welcomed a notable number of new cash management clients during the first nine months of 2013, many of whom selected multiple services from our product set of ACH origination, online wire request, sweep, online banking, electronic bill payment, lockbox, positive payment, remote branch deposit, person to person payment, and remote deposit capture."

The Bank maintained \$7.0 million in overnight borrowings from the Federal Home Loan Bank of San Francisco at September 30, 2013 in conjunction with its normal daily liquidity position management.

Shareholders' equity rose from \$34.0 million at December 31, 2012 to a record \$36.2 million at September 30, 2013. The 2013 year to date net income of \$1.1 million, \$261 thousand in equity compensation expense, and \$1.2 million from the exercise of vested stock options more than offset a \$379 thousand reduction in the accumulated other comprehensive income associated with changes in unrealized gains and losses on securities classified as available for sale.

Commencing on January 1, 2013, director compensation was shifted to consist solely of time-based restricted share awards. Similarly, the compensation packages for recently hired Bank officers have included a restricted share award component that vests over time, rather than being exclusively composed of cash compensation. The stock option exercises and the equity based compensation, in addition to retained earnings, are supporting the Bank's regulatory capital ratios and capacity for growth. The more extensive use of restricted share awards as a form of compensation emphasizes the directors' and officers' commitment to enhancing shareholder value.

### Operating Results Analysis

Net interest income before provision for loan losses of \$3.2 million during the three months ended September 30, 2013 increased from both: (i) \$3.1 million during the three months ended September 30, 2012; and (ii) \$3.1 million during the three months ended June 30, 2013 (the immediately preceding quarter). These increases in net interest income were primarily generated by a rise in interest earning assets, as the Bank's net interest margin declined from 4.11% during the third quarter of 2012 to 3.57% during the second quarter of 2013 to 3.51% during the third quarter of 2013.

Net interest income before provision for loan losses rose from \$8.7 million during the nine months ended September 30, 2012 to \$9.3 million during the nine months ended September 30, 2013. The Bank's net interest margin declined from 4.01% during the first nine months of 2012 to 3.60% during the first nine months of 2013. This margin compression is a general trend facing the banking industry, as funding costs have already been reduced to historically low levels while asset yields continue to fall in conjunction with:

- the Federal Reserve's continuing to implement aggressive monetary policies (including quantitative easing) in an effort to reduce the national unemployment rate;
- strong price competition among financial institutions for high quality loans; and
- older, higher yielding loans and securities maturing and amortizing and being replaced by new, lower yielding loans and securities reflective of current market interest rates.

The net interest margin over the past year was particularly negatively impacted by the decline in the ratio of average loans to average deposits. Average gross loans equaled 85.7% of average deposits during the third quarter of 2012 versus 77.2% during the third quarter of 2013.

The Bank plans to support its net interest income in upcoming quarters via the following strategies:

- continuing to focus upon the size and mix of the Bank's balance sheet, particularly the growth in the loan portfolio;
- seeking to allocate a greater percentage of excess on-balance sheet liquidity to securities versus cash equivalents in order to obtain incremental yield; and
- pursuing a further migration in deposit mix away from certificates of deposit and toward non-interest bearing checking accounts.

The provision for loan losses was \$89 thousand during the third quarter of 2013, compared to \$98 thousand during the third quarter of 2012 and \$319 thousand during the second quarter of 2013 (the immediately preceding quarter). Factors contributing to the provision for loan losses during the third quarter of 2013 included:

- additional specific loan loss reserves of \$53 thousand for impaired loans associated with two credit relationships where the borrowers are current in their payments to the Bank, but are experiencing financial stress in their businesses; and
- increased formula general reserves associated with one credit relationship placed on Watch status during the third quarter of 2013.

The Bank recorded a \$4 thousand charge-off during the third quarter of 2013 which had already been 100% reserved at June 30, 2013. The Bank recorded \$8 thousand in recoveries during the third quarter of 2013, all of which were associated with a \$500 thousand commercial loan charged off during the first quarter of 2013. Under a settlement agreement with this borrower, the Bank is scheduled to receive monthly payments of \$4 thousand. The October 2013 payment was also received as planned. In addition, during the third quarter of 2013, the borrower reimbursed the Bank for certain legal costs incurred in conjunction with his indebtedness.

The provision for loan losses increased from \$562 thousand during the first nine months of 2012 to \$868 thousand during the first nine months of 2013. Factors contributing to the provision for loan losses during the first half of 2013 (i.e. in addition to those specified above) included:

- additional loan loss reserves of \$277 thousand associated with the \$500 thousand impaired commercial loan that was charged off during the first quarter of 2013;
- increased specific reserves associated with one of the credit relationships described above in reference to the third quarter of 2013 based upon an updated valuation of the collateral securing the debt and additional information regarding the borrower's financial profile;
- increased formula general reserves associated with a credit relationship which was downgraded to Special Mention during the second quarter of 2013;
- growth in the size of the loan portfolio;
- an increase in hospitality industry related loans (a primary industry in the Bank's market area), which are reserved at a higher ratio than most other types of investor real estate; and
- a rise in the amount of loan loss reserves designated for the Bank's qualitative adjustment factors.

Non-interest income of \$100 thousand during the three months ended September 30, 2013 represented an increase from both: (i) \$46 thousand during the three months ended September 30, 2012; and (ii) \$76 thousand during the three months ended June 30, 2013 (the immediately preceding quarter). Non-interest income of \$240 thousand during the first nine months of 2013 almost doubled the \$121 thousand recognized during the first nine months of 2012. Factors contributing to these increases in non-interest income included:

- The Bank implemented a revised fee and service charge schedule effective May 1, 2013 that included some new fees as well as increases to certain existing fees for various services the Bank provides.
- Fee waivers during 2013 have been more selective, based upon the client's profitability to the Bank.
- Late in the third quarter of 2012, the Bank made its initial investment into Bank Owned Life Insurance ("BOLI"). This investment generates monthly dividend income that increases its cash surrender value and is accounted for as a component of non-interest income.

- The management team has increased the Bank's focus on generating non-interest income during 2013 through a variety of sources, including merchant bankcard services, check printing, and wire transfers.
- The Bank recorded a \$21 thousand gain during the third quarter of 2013 from its initial sale of the guaranteed portion of an SBA 7(a) Program loan. The Bank has implemented software that supports this secondary marketing and related servicing; and intends to pursue additional such sales in the future should secondary market prices continue at attractive levels.

Non-interest expense increased from \$2.1 million during the third quarter of 2012 and \$2.3 million during the second quarter of 2013 (the immediately preceding quarter) to \$2.4 million during the third quarter of 2013. Non-interest expense rose from \$6.4 million during the first nine months of 2012 to \$6.9 million during the first nine months of 2013.

During 2013, the Bank has implemented multiple initiatives in order to moderate the pace of increase in operating costs despite the ongoing growth of the Bank. These initiatives have included:

- Linking the Bank's incentive compensation accrual more directly to performance on key metrics which closely align with the generation of shareholder value. Incentive compensation costs for the first nine months of 2013 were \$82 thousand, down from \$162 thousand during the first nine months of 2012.
- The Bank redesigned its health and welfare benefits effective January 1, 2013 to both provide good relative value to its employees and control related expenses. As a result, health and welfare expenses were slightly lower during the first nine months of 2013 versus the same period the prior year despite the Bank's increased staffing and the general upward trend for such costs.
- During the second quarter of 2013, the Bank deregistered its common shares under the Securities Exchange Act of 1934, as amended. This has led to savings in external expenses for legal and accounting services, while also freeing internal resources for other projects in support of the Bank's strategic plan.

Salaries and benefits costs increased from \$1.3 million during the third quarter of 2012 to \$1.5 million during the third quarter of 2013. Salary and benefits costs during the second quarter of 2013 (the immediately preceding quarter) were \$1.4 million. Salaries and benefits costs rose from \$3.8 million during the first nine months of 2012 to \$4.2 million during the first nine months of 2013.

Salaries and benefits costs during the third quarter of 2013 were inflated by \$120 thousand in severance expense. The year over year increases in salaries and benefits costs primarily resulted from expenses for new positions created in support of the Bank's growth, including Information Technology Manager, Relationship Manager, Credit Administrator, and Business Development Officer. The number of full time equivalent employees increased from 57 at December 31, 2012 to 61 at September 30, 2013.

In October 2013, the Bank hired Thomas Anderson as its new Senior Relationship Manager responsible for lending and client acquisition in the region from King City in the north to Santa Maria in the south. Mr. Anderson is an experienced and well-known commercial banker in that area. This hire complements the Bank's recent success in gaining market share in San Luis Obispo County and leverages the expansion of the King City branch office which was completed earlier this year.

Occupancy expenses increased from \$173 thousand during the third quarter of 2012 to \$191 thousand during the third quarter of 2013. Occupancy expenses during the second quarter of 2013 (the immediately preceding quarter) were \$186 thousand. Occupancy expenses rose from \$530 thousand during the first nine months of 2012 to \$570 thousand during the first nine months of 2013 primarily due to the incremental costs associated with the new location for the Monterey branch office, which opened in March 2012. In response to an expanding client base, the Bank also enlarged its King City branch office in March 2013, resulting in a monthly rent increase of \$2 thousand.

Furniture and equipment expense increased from \$60 thousand during the third quarter of 2012 to \$70 thousand during the third quarter of 2013. Furniture and equipment expense during the first nine months of 2013 totaled \$195 thousand, down from \$231 thousand during the first nine months of 2012 primarily due to lower levels of depreciation expense. Furniture and equipment expense is projected to increase in future periods in conjunction with the planned technology upgrades by the Bank over the forthcoming six months.

Other non-interest expense during the third quarter of 2013 totaled \$658 thousand, up from \$587 thousand during the third quarter of 2012 and \$647 thousand during the second quarter of 2013 (the immediately preceding quarter). These increases were primarily generated by higher aggregate costs for software and technology, which have been trending upward in conjunction with an increased client base with more accounts and more transactions, and with the implementation of new technologies.

The Bank's efficiency ratio (operating costs compared to income from operations) unfavorably rose from 67.24% during the third quarter of 2012 to 74.08% during the third quarter of 2013 primarily due to a narrower net interest margin and the severance costs recorded during the third quarter of 2013. Excluding the severance costs, the efficiency ratio during the third quarter of 2013 was 70.43%, consistent with the 70.69% experienced during the second quarter of 2013.

The Bank's efficiency ratio for the first nine months of 2013 was 71.74%, compared to 72.91% during the first nine months of 2012. This improvement in the Bank's efficiency ratio would have been even more pronounced if the Bank had not experienced the margin compression described above. The progress in the Bank's efficiency ratio reflects the 21.6% rise in total assets during the twelve months ended September 30, 2013 without adding additional branch office locations. Technology has been utilized to perform an increasing volume of client transactions without adding new physical locations or hiring a significant volume of additional branch office staff. The Bank offers both qualified businesses and consumers check deposit processing via scanner, with check deposit via smartphone planned for introduction in coming months.

Dr. Daniel Hightower, the Vice Chairman of the Board and the Chairman of the Bank's Information Technology Steering Committee, commented: "We are excited about the technology enhancements scheduled at the Bank over the forthcoming six months. We expect this new hardware and software to facilitate even better client service while improving employee productivity and job satisfaction. In conformity with our Strategic Plan, we aim to utilize technology as a competitive advantage and as a means of improving the Bank's efficiency ratio over time. Next up is an enhancement to our consumer and business debit card products and processing that presents even more flexibility and convenience to our clients."

The Bank's effective book tax rate declined from 41.9% during the third quarter of 2012 to 40.1% during the third quarter of 2013 primarily due to the increase in tax preferred income from Bank Owned Life Insurance and bank eligible and bank qualified municipal bonds. The same factors contributed to a reduction in the Bank's effective book tax rate for the nine months ended September 30, 2013.

## **About 1<sup>st</sup> Capital Bank**

The Bank's primary target markets are commercial enterprises, professionals, real estate investors, family business entities, and residents in Monterey County. The Bank provides a wide range of credit products, including loans under various government programs such as those provided through the U.S. Small Business Administration ("SBA") and the U.S. Department of Agriculture ("USDA"). A full suite of deposits accounts are also furnished, complemented by robust cash management services. The Bank operates full service branch offices in Monterey, Salinas, and King City. The Bank's corporate offices are located at 5 Harris Court, Building N, Suite 3, Monterey, California 93940. The Bank's website is [www.1stcapitalbank.com](http://www.1stcapitalbank.com) and 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 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.1stcapitalbank.com](http://www.1stcapitalbank.com) Internet site for no charge.**

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*--- financial data follows ---*

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

<b><u>Financial Condition Data</u></b> <sup>1</sup>	September 30, <u>2013</u>	June 30, <u>2013</u>	December 31, <u>2012</u>	September 30, <u>2012</u>
<b>Assets</b>				
Cash and due from banks	\$ 1,688	\$ 1,561	\$ 2,872	\$ 1,996
Funds held at the Federal Reserve Bank <sup>2</sup>	18,521	20,873	26,721	32,878
Time deposits at other financial institutions	4,582	8,823	9,321	9,570
Available-for-sale securities, at fair value	86,623	79,673	41,762	17,383
<b>Loans receivable held for investment:</b>				
Construction / land (including farmland)	15,175	22,149	18,207	17,859
Residential 1 to 4 units	32,300	32,922	22,711	21,118
Home equity lines of credit	10,506	10,033	12,243	12,813
Multifamily	5,127	5,011	2,397	3,944
Owner occupied commercial real estate	49,712	49,780	47,917	46,701
Investor commercial real estate	65,223	64,272	65,733	56,997
Commercial and industrial	65,989	62,902	71,848	72,029
Other loans	6,842	6,053	2,197	2,622
<b>Total loans</b>	<b>250,874</b>	<b>253,122</b>	<b>243,253</b>	<b>234,083</b>
Allowance for loan losses	(4,686)	(4,593)	(4,314)	(3,882)
<b>Net loans</b>	<b>246,188</b>	<b>248,529</b>	<b>238,939</b>	<b>230,201</b>
Premises and equipment, net	1,387	1,386	1,282	1,324
Bank owned life insurance	3,626	3,603	3,555	4,500
Investment in FHLB <sup>3</sup> stock, at cost	1,494	1,494	1,026	1,026
Accrued interest receivable and other assets	3,987	3,586	3,871	3,811
<b>Total assets</b>	<b>\$ 368,096</b>	<b>\$ 369,528</b>	<b>\$ 329,349</b>	<b>\$ 302,689</b>
<b>Liabilities and shareholders' equity</b>				
<b>Deposits:</b>				
Noninterest bearing demand deposits	\$ 127,132	\$ 129,840	\$ 123,403	\$ 102,745
Interest bearing checking accounts	18,167	18,611	17,482	13,329
Money market	78,221	85,224	60,091	59,621
Savings	72,991	71,690	62,364	58,260
Time	27,423	28,307	31,314	34,584
<b>Total deposits</b>	<b>323,934</b>	<b>333,672</b>	<b>294,654</b>	<b>268,539</b>
Borrowings	7,000	--	--	--
Accrued interest payable and other liabilities	988	777	694	915
Shareholders' equity	36,174	35,079	34,001	33,235
<b>Total liabilities and shareholders' equity</b>	<b>\$ 368,096</b>	<b>\$ 369,528</b>	<b>\$ 329,349</b>	<b>\$ 302,689</b>
<b>Shares outstanding</b> <sup>4</sup>	<b>3,377,672</b>	<b>3,306,861</b>	<b>3,310,503</b>	<b>3,251,003</b>
<b>Nominal and tangible book value per share</b>	<b>\$ 10.71</b>	<b>\$ 10.61</b>	<b>\$ 10.27</b>	<b>\$ 10.22</b>
<b>Ratio of net loans to total deposits</b>	<b>76.00%</b>	<b>74.48%</b>	<b>81.09%</b>	<b>85.72%</b>

1 = Certain reclassifications have been made to prior period financial statements to conform them to the current period presentation. Loans 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 = The Bank revised its 2007 Equity Incentive Plan during the second quarter of 2013. Those revisions resulted in a lower number of outstanding common shares being reported at June 30, 2013 (and prospectively) due to the elimination of voting and other rights for unvested restricted share awards.

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

	3 Months Ended		
	September 30, 2013	June 30, 2013	September 30, 2012
<b><u>Operating Results Data</u><sup>1</sup></b>			
Interest and dividend income			
Loans	\$ 3,137	\$ 3,089	\$ 3,155
Investment securities	151	141	103
Federal Home Loan Bank stock	21	16	--
Other	27	31	41
Total interest and dividend income	<u>3,336</u>	<u>3,277</u>	<u>3,299</u>
Interest expense			
Interest bearing checking accounts	6	7	7
Money market deposits	68	72	87
Savings deposits	57	56	74
Time deposits	17	21	39
Borrowings	1	--	--
Total interest expense	<u>149</u>	<u>156</u>	<u>207</u>
Net interest income	<u>3,187</u>	<u>3,121</u>	<u>3,092</u>
Provision for loan losses	89	319	98
Net interest income after provision for loan losses	<u>3,098</u>	<u>2,802</u>	<u>2,994</u>
Noninterest income			
Service charges on deposits	31	29	20
BOLI dividend income	23	24	8
Gain on sale of loans	21	--	--
Other	25	23	18
Total noninterest income	<u>100</u>	<u>76</u>	<u>46</u>
Noninterest expenses			
Salaries and benefits	1,516	1,360	1,290
Occupancy	191	186	173
Furniture and equipment	70	67	60
Other	658	647	587
Total noninterest expenses	<u>2,435</u>	<u>2,260</u>	<u>2,110</u>
Income before provision for income taxes	<u>763</u>	<u>618</u>	<u>930</u>
Provision for income taxes	306	259	390
Net income	<u>\$ 457</u>	<u>\$ 359</u>	<u>\$ 540</u>
<b><u>Common Share Data</u></b>			
Earnings per share			
Basic	\$ 0.14	\$ 0.11	\$ 0.17
Diluted	\$ 0.13	\$ 0.11	\$ 0.16
Weighted average shares outstanding			
Basic	3,348,041	3,269,382	3,248,690
Diluted	3,420,215	3,359,011	3,337,605

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

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

	9 Months Ended	
	September 30, 2013	September 30, 2012
<b><u>Operating Results Data</u><sup>1</sup></b>		
Interest and dividend income		
Loans	\$ 9,218	\$ 8,898
Investment securities	424	312
Federal Home Loan Bank stock	43	2
Other	94	134
Total interest and dividend income	9,779	9,346
Interest expense		
Interest bearing checking accounts	20	19
Money market deposits	204	277
Savings deposits	173	208
Time deposits	66	136
Borrowings	1	--
Total interest expense	464	640
Net interest income	9,315	8,706
Provision for loan losses	868	562
Net interest income after provision for loan losses	8,447	8,144
Noninterest income		
Service charges on deposits	82	63
BOLI dividend income	71	8
Gain on sale of loans	21	--
Other	66	50
Total noninterest income	240	121
Noninterest expenses		
Salaries and benefits	4,193	3,835
Occupancy	570	530
Furniture and equipment	195	231
Other	1,897	1,840
Total noninterest expenses	6,855	6,436
Income before provision for income taxes	1,832	1,829
Provision for income taxes	754	771
Net income	\$ 1,078	\$ 1,058
<b><u>Common Share Data</u></b>		
Earnings per share		
Basic	\$ 0.33	\$ 0.33
Diluted	\$ 0.32	\$ 0.32
Weighted average shares outstanding		
Basic	3,289,617	3,238,440
Diluted	3,369,865	3,343,070

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

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

<b><u>Asset Quality</u></b>	September 30, <u>2013</u>	June 30, <u>2013</u>	December 31, <u>2012</u>	September 30, <u>2012</u>
Loans past due 90 days or more and accruing interest	\$ --	\$ --	\$ --	\$ --
Nonaccrual restructured loans	230	233	238	220
Other nonaccrual loans	628	654	1,203	520
Other real estate owned	--	--	--	--
	<u>\$ 858</u>	<u>\$ 887</u>	<u>\$ 1,441</u>	<u>\$ 740</u>

Allowance for loan losses to total loans	1.87%	1.81%	1.77%	1.66%
Allowance for loan losses to nonperforming loans	546.15%	517.81%	299.38%	524.59%
Nonaccrual loans to total loans	0.34%	0.35%	0.59%	0.32%
Nonperforming assets to total assets	0.23%	0.24%	0.44%	0.24%

**Regulatory Capital and Ratios**

Tier 1 regulatory capital	\$ 36,152	\$ 34,918	\$ 33,600	\$ 32,798
Total regulatory capital	\$ 39,450	\$ 38,141	\$ 36,646	\$ 35,685
Tier 1 leverage ratio	9.88%	9.79%	10.67%	10.81%
Tier 1 risk based capital ratio	13.78%	13.64%	13.87%	14.21%
Total risk based capital ratio	15.04%	14.90%	15.12%	15.47%

	<u>3 Months Ended</u>		
	September 30, <u>2013</u>	June 30, <u>2013</u>	September 30, <u>2012</u>
<b><u>Selected Financial Ratios</u></b> <sup>1</sup>			
Return on average total assets	0.50%	0.40%	0.71%
Return on average shareholders' equity	5.06%	4.14%	6.50%
Net interest margin	3.51%	3.57%	4.11%
Net interest income to average total assets	3.45%	3.51%	4.05%
Efficiency ratio	74.08%	70.69%	67.24%

	<u>9 Months Ended</u>	
	September 30, <u>2013</u>	September 30, <u>2012</u>
<b><u>Selected Financial Ratios</u></b> <sup>1</sup>		
Return on average total assets	0.41%	0.48%
Return on average shareholders' equity	4.12%	4.34%
Net interest margin	3.60%	4.01%
Net interest income to average total assets	3.52%	3.96%
Efficiency ratio	71.74%	72.91%

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

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

	3 Months Ended		
	September 30, <u>2013</u>	June 30, <u>2013</u>	September 30, <u>2012</u>
<b><u>Selected Average Balances</u><sup>1</sup></b>			
Gross loans	\$ 253,739	\$ 249,169	\$ 231,716
Investment securities	79,497	70,398	17,866
Federal Home Loan Bank stock	1,494	1,366	1,026
Other interest earning assets	<u>25,205</u>	<u>29,684</u>	<u>48,736</u>
Total interest earning assets	\$ 359,935	\$ 350,617	\$ 299,344
Total assets	\$ 366,011	\$ 356,775	\$ 303,785
Interest bearing checking accounts	\$ 17,347	\$ 17,495	\$ 13,169
Money market	83,730	81,289	64,378
Savings	72,088	67,991	55,170
Time deposits	<u>27,664</u>	<u>28,000</u>	<u>35,229</u>
Total interest bearing deposits	\$ 200,829	\$ 194,775	\$ 167,946
Noninterest bearing demand deposits	<u>127,919</u>	<u>126,284</u>	<u>102,537</u>
Total deposits	\$ 328,748	\$ 321,059	\$ 270,483
Borrowings	576	--	--
Shareholders' equity	\$ 35,858	\$ 34,775	\$ 33,031
	9 Months Ended		
	September 30, <u>2013</u>	September 30, <u>2012</u>	
<b><u>Selected Average Balances</u><sup>1</sup></b>			
Gross loans	\$ 247,177	\$ 215,472	
Investment securities	67,126	17,132	
Federal Home Loan Bank stock	1,298	980	
Other interest earning assets	<u>30,488</u>	<u>56,450</u>	
Total interest earning assets	\$ 346,089	\$ 290,034	
Total assets	\$ 353,869	\$ 293,736	
Interest bearing checking accounts	\$ 16,818	\$ 12,497	
Money market	77,824	63,740	
Savings	68,932	48,348	
Time deposits	<u>28,536</u>	<u>37,985</u>	
Total interest bearing deposits	\$ 192,110	\$ 162,570	
Noninterest bearing demand deposits	<u>124,353</u>	<u>98,210</u>	
Total deposits	\$ 316,463	\$ 260,780	
Borrowings	232	--	
Shareholders' equity	\$ 35,000	\$ 32,564	

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