UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period ended September 30, 2020 OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from to

Commission file number 001-38671

CAPITAL BANCORP INC.
(Exact name of registrant as specified in its charter)

Maryland	**52-2083046**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
2275 Research Boulevard Suite 600 **Rockville Maryland 20850**	**20850**
(Address of principal executive offices)	(Zip Code)

(301) 468-8848
Registrant's telephone number, including area code

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated Filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	CBNK	NASDAQ Stock Market

As of November 5, 2020, the Company had 13,680,974 shares of common stock, par value $0.01 per share, outstanding.

Capital Bancorp, Inc. and Subsidiaries

Form 10-Q

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PART I. CONSOLIDATED FINANCIAL INFORMATION
Item 1. CONSOLIDATED FINANCIAL STATEMENTS

Capital Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands except share data)	September 30, 2020 (unaudited)	December 31, 2019 (audited)
Assets		
Cash and due from banks	**$ 20,138**	$ 10,530
Interest bearing deposits at other financial institutions	**179,789**	102,447
Federal funds sold	**5,590**	1,847
Total cash and cash equivalents	**205,517**	114,824
Investment securities available for sale	**53,992**	60,828
Restricted investments	**3,958**	3,966
Loans held for sale	**137,717**	71,030
Small Business Administration Payroll Protection Program (“SBA-PPP”) loans receivable, net of fees	**233,349**	—
Portfolio loans receivable, net of deferred fees and costs and net of allowance for loan losses of $22,016 and $13,301	**1,222,597**	1,157,820
Premises and equipment, net	**5,021**	6,092
Accrued interest receivable	**7,678**	4,770
Deferred income taxes	**3,589**	4,263
Foreclosed real estate	**3,326**	2,384
Other assets	**2,285**	2,518
Total assets	**$ 1,879,029**	$ 1,428,495
Liabilities		
Deposits		
Noninterest-bearing, including related party balances of $20,821 and $16,009	**$ 596,239**	$ 291,777
Interest-bearing, including related party balances of $126,703 and $125,304	**1,065,972**	933,644
Total deposits	**1,662,211**	1,225,421
Federal Home Loan Bank advances	**22,222**	32,222
Other borrowed funds	**17,516**	15,423
Accrued interest payable	**1,523**	1,801
Other liabilities	**26,180**	20,297
Total liabilities	**1,729,652**	1,295,164
Stockholders' equity		
Common stock, $.01 par value; 49,000,000 shares authorized; 13,682,198 and 13,894,842 issued and outstanding	**137**	139
Additional paid-in capital	**49,866**	51,561
Retained earnings	**97,580**	81,618
Accumulated other comprehensive income	**1,794**	13
Total stockholders' equity	**149,377**	133,331
Total liabilities and stockholders' equity	**$ 1,879,029**	$ 1,428,495

See Notes to Consolidated Financial Statements

Capital Bancorp, Inc. and Subsidiaries
Consolidated Statements of Income
(unaudited)

(dollars in thousands except per share data)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Interest income				
Loans, including fees	**$ 24,836**	$ 21,900	**$ 67,520**	$ 59,548
Investment securities available for sale	**273**	215	**929**	707
Federal funds sold and other	**80**	239	**484**	706
Total interest income	**25,189**	22,354	**68,933**	60,961
Interest expense				
Deposits, includes payments to related parties of $184 and $862 for the three and nine months ended September 30, 2020, respectively, and $479 and $1,448 for the three and nine months ended September 30, 2019, respectively.	**2,634**	3,449	**9,201**	9,887
Borrowed funds	**516**	721	**1,382**	1,615
Total interest expense	**3,150**	4,170	**10,583**	11,502
Net interest income	**22,039**	18,184	**58,350**	49,459
Provision for loan losses	**3,500**	1,071	**9,209**	1,869
Net interest income after provision for loan losses	**18,539**	17,113	**49,141**	47,590
Noninterest income				
Service charges on deposits	**119**	146	**378**	382
Credit card fees	**5,773**	2,059	**10,694**	5,521
Mortgage banking revenue	**14,359**	4,900	**28,496**	10,991
Gain on sale of investment securities available for sale	**—**	—	**—**	26
Other fees and charges	**895**	116	**2,058**	320
Total noninterest income	**21,146**	7,221	**41,626**	17,240
Noninterest expenses				
Salaries and employee benefits	**12,609**	9,238	**32,362**	24,136
Occupancy and equipment	**1,328**	1,111	**3,658**	3,307
Professional fees	**1,307**	724	**2,971**	1,952
Data processing	**7,880**	4,193	**17,664**	11,222
Advertising	**633**	584	**1,875**	1,557
Loan processing	**1,264**	634	**2,451**	1,279
Foreclosed real estate expenses, net	**9**	7	**137**	57
Other operating	**3,089**	1,737	**7,547**	5,258
Total noninterest expenses	**28,119**	18,228	**68,665**	48,768
Income before income taxes	**11,566**	6,106	**22,102**	16,062
Income tax expense	**3,128**	1,625	**5,968**	4,239
Net income	**$ 8,438**	$ 4,481	**$ 16,134**	$ 11,823
Basic earnings per share	**$ 0.61**	$ 0.33	**$ 1.17**	$ 0.86
Diluted earnings per share	**$ 0.61**	$ 0.32	**$ 1.17**	$ 0.85
Weighted average common shares outstanding:				
Basic	**13,794,628**	13,727,519	**13,829,341**	13,714,260
Diluted	**13,794,628**	13,986,382	**13,832,176**	13,921,995

See Notes to Consolidated Financial Statements

Capital Bancorp, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income
(unaudited)

(in thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net income	**$ 8,438**	$ 4,481	**$ 16,134**	$ 11,823
Other comprehensive income (loss):				
Unrealized gain on investment securities available for sale	**37**	57	**2,458**	867
Reclassification of realized gain on sale of investment securities available for sale	**—**	—	**—**	(26)
Unrealized loss on cash flow hedging derivative	**—**	—	**—**	(5)
	37	57	**2,458**	836
Income tax expense relating to the items above	**(10)**	(16)	**(677)**	(230)
Other comprehensive income	**27**	41	**1,781**	606
Comprehensive income	**$ 8,465**	$ 4,522	**$ 17,915**	$ 12,429

See Notes to Consolidated Financial Statements

Capital Bancorp, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity
(unaudited)

(dollars in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2018	13,672,479	$ 137	$ 49,321	$ 65,701	$ (595)	$ 114,564
Adoption of ASC 842 Leases	—	—	—	(54)	—	(54)
Net income	—	—	—	3,319	—	3,319
Unrealized gain on investment securities available for sale, net of income taxes	—	—	—	—	270	270
Unrealized loss on cash flow hedging derivative, net of income taxes	—	—	—	—	(5)	(5)
Stock options exercised	21,706	—	155	(48)	—	107
Shares issued as compensation	18,380	—	150	—	—	150
Stock-based compensation	—	—	199	—	—	199
Balance, March 31, 2019	**13,712,565**	**137**	**49,825**	**68,918**	**(330)**	**118,550**
Net Income	—	—	—	4,023	—	4,023
Unrealized gain on investment securities available for sale, net of income taxes	—	—	—	—	300	300
Stock options exercised	6,100	—	47	(1)	—	46
Stock-based compensation	—	—	199	—	—	199
Balance, June 30, 2019	**13,718,665**	**137**	**50,071**	**72,940**	**(30)**	**123,118**
Net income	**—**	**—**	**—**	**4,481**	**—**	**4,481**
Unrealized gain on investment securities available for sale, net of income taxes	**—**	**—**	**—**	**—**	**41**	**41**
Stock options exercised	**85,003**	**1**	**578**	**(326)**	**—**	**253**
Stock based compensation	**—**	**—**	**199**	**—**	**—**	**199**
Shares repurchased and retired	**(21,130)**	**—**	**(263)**	**—**	**—**	**(263)**
Balance, September 30, 2019	**13,782,538**	**$ 138**	**$ 50,585**	**$ 77,095**	**$ 11**	**$ 127,829**
Balance, December 31, 2019	**13,894,842**	**$ 139**	**$ 51,561**	**$ 81,618**	**$ 13**	**$ 133,331**
Net income	—	—	—	2,934	—	**2,934**
Unrealized gain on investment securities available for sale, net of income taxes	—	—	—	—	754	**754**
Stock options exercised	34,015	—	263	(163)	—	**100**
Stock-based compensation	—	—	244	—	—	**244**
Shares repurchased and retired	(112,134)	(1)	(1,282)	—	—	**(1,283)**
Balance, March 31, 2020	**13,816,723**	**138**	**50,786**	**84,389**	**767**	**136,080**
Net income	—	—	—	4,761	—	4,761
Unrealized gain on investment securities available for sale, net of income taxes	—	—	—	—	1,000	1,000
Shares issued as compensation	3,000	—	37	—	—	37
Stock-based compensation	—	—	243	1	—	244
Shares repurchased and retired	(1,500)	—	(14)	—	—	(14)
Balance, June 30, 2020	**13,818,223**	**138**	**51,052**	**89,151**	**1,767**	**142,108**
Net income	**—**	**—**	**—**	8,438	**—**	**8,438**
Unrealized gain on investment securities available for sale, net of income taxes	—	—	—	—	27	**27**
Stock options exercised	5,175	—	57	—	—	**57**
Stock-based compensation	—	—	249	(1)	—	**248**
Shares repurchased and retired	(141,200)	(1)	(1,492)	(8)	—	**(1,501)**
Balance, September 30, 2020	**13,682,198**	**$ 137**	**$ 49,866**	**$ 97,580**	**$ 1,794**	**$ 149,377**

See Notes to Consolidated Financial Statements

Capital Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(unaudited)

(in thousands)	Nine Months Ended September 30, 2020	2019
Cash flows from operating activities		
Net income	**$ 16,134**	$ 11,823
Adjustments to reconcile net income to net cash used by operating activities:		
Provision for loan losses	**9,209**	1,869
Provision for losses on mortgage loans sold	**475**	128
Provision for off balance sheet credit risk	**233**	138
Amortization on investments, net	**216**	113
Depreciation and amortization	**1,401**	844
Stock-based compensation expense	**736**	597
Director and employee compensation paid in stock	**37**	150
Deferred income tax benefit	**(3)**	(132)
Amortization of debt issuance expense	**139**	23
Gain on sale of securities available for sale	**—**	(26)
Mortgage banking revenue	**(28,496)**	(10,991)
Proceeds from sales of loans held for sale	**888,454**	367,986
Originations of loans held for sale	**(926,645)**	(407,451)
Changes in assets and liabilities:		
Accrued interest receivable	**(2,908)**	(174)
Prepaid income taxes and taxes payable	**—**	(263)
Other assets	**233**	(1,312)
Accrued interest payable	**(278)**	548
Other liabilities	**5,175**	1,601
Net cash used in operating activities	**(35,888)**	(34,529)
Cash flows from investing activities		
Purchases of securities available for sale	**(2,000)**	(8,202)
Maturities, calls and principal paydowns of securities available for sale	**11,078**	15,535
Proceeds from sale of securities available for sale	**—**	3,280
Sales (purchases) of restricted investments	**8**	(1,504)
Increase in SBA-PPP loans receivable, net	**(233,349)**	—
Increase in portfolio loans receivable, net	**(74,928)**	(140,468)
Disposals (purchases) of premises and equipment, net	**(330)**	622
Proceeds from sales of foreclosed real estate	**—**	50
Net cash used in investing activities	**(299,521)**	(130,687)

See Notes to Consolidated Financial Statements

Capital Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(unaudited)

(in thousands)	Nine Months Ended September 30, 2020	2019
Cash flows from financing activities		
Net increase (decrease) in:		
Noninterest-bearing deposits	**304,461**	51,119
Interest-bearing deposits	**132,328**	106,085
Securities sold under agreements to repurchase	**—**	(3,332)
Federal funds purchased	**—**	(2,000)
Federal Home Loan Bank advances, net	**(10,000)**	33,556
Other borrowed funds	**1,954**	—
Repurchase of common stock	**(2,798)**	(263)
Proceeds from exercise of stock options	**157**	406
Net cash provided by financing activities	**426,102**	185,571
Net increase in cash and cash equivalents	**90,693**	20,355
Cash and cash equivalents, beginning of year	**114,824**	34,723
Cash and cash equivalents, end of period	**$ 205,517**	$ 55,078
Noncash activities:		
Loans transferred to foreclosed real estate	**$ 942**	$ 57
Change in unrealized gains on investments	**$ 2,458**	$ 841
Change in fair value of cash flow hedging derivative	**$ —**	$ (5)
Establishment of lease right-of-use asset	**$ —**	$ 5,158
Establishment of lease liability	**$ —**	$ 5,358
Cash paid during the period for:		
Taxes	**$ 7,350**	$ 4,406
Interest	**$ 10,861**	$ 10,954

See Notes to Consolidated Financial Statements

Capital Bancorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 1 - Nature of Business and Basis of Presentation

Nature of operations:

Capital Bancorp, Inc. is a Maryland corporation and bank holding company (the “Company”) for Capital Bank, N.A. (the “Bank”). The Company's primary operations are conducted by the Bank, which operates branches in Rockville, Columbia and North Bethesda, Maryland, Reston, Virginia, and the District of Columbia. The Bank is principally engaged in the business of investing in commercial, real estate, and credit card loans and attracting deposits. The Company originates residential mortgages for sale in the secondary market through Capital Bank Home Loans (“CBHL”), our residential mortgage banking arm, and issues credit cards through OpenSky®, a secured, digitally-driven nationwide credit card platform.

The Company formed Church Street Capital, LLC (“Church Street Capital”) in 2014 to provide short-term secured real estate financing to Washington, D.C. area investors and developers that may not meet all Bank credit criteria. At September 30, 2020, Church Street Capital had loans totaling $4.3 million.

In addition, the Company owns all of the stock of Capital Bancorp (MD) Statutory Trust I (the “Trust”). The Trust is a special purpose non-consolidated entity organized for the sole purpose of issuing trust preferred securities.

Basis of presentation:

The accompanying consolidated financial statements include the activity of the Company and its wholly-owned subsidiaries, the Bank and Church Street Capital. All intercompany transactions have been eliminated in consolidation. The Company reports its activities as four business segments. In determining the appropriateness of segment definition, the Company considers components of the business about which financial information is available and regularly evaluated relative to resource allocation and performance assessment. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), and conform to general practices within the banking industry.

Risks and Uncertainties

The novel coronavirus (“COVID-19”) spread rapidly across the world in the first quarter of 2020 and was declared a pandemic by the World Health Organization. In March 2020, the government and private sector responses to contain its spread began to significantly affect operations and continue to do so through the current period. It is likely operations will continue to be adversely affected. The duration and extent of the effects over longer terms cannot be reasonably estimated at this time. The risks and uncertainties resulting from the pandemic which are most likely to affect future earnings, cash flows and financial condition in future quarters primarily include the nature and duration of the financial effects felt by our customers and the concomitant impact on the customers' ability to fulfill their financial obligations to the Company; as well as the potential decline of real estate values resulting from market disruption which may impair the values of collateral-dependent loans. Accordingly, estimates used in the preparation of the financial statements may be subject to significant adjustments in future periods. The greater the duration and severity of the pandemic, the more likely that results will be materially impacted by its effects.

Significant Accounting Policies:

The preparation of consolidated financial statements in accordance with GAAP requires estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. The primary reference point for the estimates is historical experience and assumptions believed to be reasonable regarding the carrying value of certain assets and

Note 1 - Nature of Business and Basis of Presentation (continued)

liabilities that are not readily available from other sources. Estimates are evaluated on an ongoing basis. Actual results may materially differ from these estimates under different assumptions or conditions.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from financial institutions, interest bearing deposits with financial institutions and federal funds sold. Generally, federal funds are sold for one-day periods.

Investment securities

Investment securities are classified as available for sale and carried at fair value with unrealized gains and losses included in stockholders' equity on an after-tax basis. Premiums and discounts on investment securities are amortized or accreted using the interest method. Changes in the fair value of debt securities available for sale are included in stockholders' equity as unrealized gains and losses, net of the related tax effect. Unrealized losses are periodically reviewed to determine whether the loss represents an other than temporary impairment. Any unrealized losses judged to be other than a temporary impairment are charged to income.

Loans held for sale

Mortgage loans originated and intended for sale are recorded at fair value, determined individually, as of the balance sheet date. Fair value is determined based on outstanding investor commitments, or in the absence of such commitments, based on current investor yield requirements. Gains and losses on loan sales are determined by the specific-identification method. The Company's current practice is to sell residential mortgage loans on a servicing released basis, and, therefore, it has no servicing rights recorded for the value of such servicing. Interest on loans held for sale is credited to income based on the principal amounts outstanding.

Upon sale and delivery, loans are legally isolated from the Company and the Company has no ability to restrict or constrain the ability of third-party investors to pledge or exchange the mortgage loans. The Company does not have the entitlement or ability to repurchase the mortgage loans or unilaterally cause third-party investors to put the mortgage loans back to the Company. Unrealized and realized gains on loan sales are determined using the specific-identification method and are recognized through mortgage banking activity in the Consolidated Statements of Income.

The Company elected to measure loans held for sale at fair value to better align reported results with the underlying economic changes in value of the loans on the Company's balance sheet.

Small Business Administration Paycheck Protection Program

The Small Business Administration Paycheck Protection Program ("SBA-PPP") is one of the centerpieces of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which was passed on March 27, 2020 in response to the outbreak of coronavirus ("COVID-19") and was supplemented with subsequent legislation. Overseen by the United States ("U.S.") Treasury Department, the SBA-PPP offered cash-flow assistance to nonprofit and small business employers through guaranteed loans for expenses incurred between February 15, 2020, and August 8, 2020. Borrowers are eligible for forgiveness of principal and accrued interest on SBA-PPP loans to the extent that the proceeds are used to cover eligible payroll costs, interest costs, rent, and utility costs over a period between eight and 24-weeks after the loan is made as

Note 1 - Nature of Business and Basis of Presentation (continued)

long as the borrower retains its employees and their compensation levels. The CARES Act authorized the SBA to fully guarantee these loans.

Due to the unique nature of these provisions, SBA-PPP loans have been disclosed as a separate balance sheet item. Origination fees received by the SBA are capitalized into the carrying amount of the loans. The deferred fee income, net of origination costs, is recognized over the life of the loan as an adjustment to yield using the effective interest method. SBA-PPP loans receivable as of September 30, 2020 totaled $238.7 million with $5.4 million in net unearned fees and generated $1.5 million of interest income during the third quarter and $2.5 million for the nine months ended September 30, 2020.

Loans and the Allowance for Loan Losses

Loans are stated at the principal amount outstanding, adjusted for deferred origination fees and costs, discounts on loans acquired, and the allowance for loan losses. Interest is accrued based on the loan principal balances and stated interest rates. Origination fees and costs are recognized as an adjustment to the related loan yield using approximate interest methods. The Company discontinues the accrual of interest when any portion of the principal and interest is 90 days past due, or when it is probable that not all principal and interest payments will be collected, and collateral is insufficient to discharge the debt in full. Generally, interest payments on nonaccrual loans are recorded as a reduction of the principal balance.

Loans are considered impaired when, based on current information, management believes the Company will not collect all principal and interest payments according to contractual terms. Generally, loans are reviewed for impairment when the risk grade for a loan is downgraded to a classified asset category. The loans are evaluated for appropriate classification, accrual, impairment, and troubled debt restructure (“TDR”) status. If collection of principal is evaluated as doubtful, all payments are applied to principal. A modification of a loan is considered a TDR when a borrower is experiencing financial difficulty and the modification constitutes a concession; however, the CARES Act provides financial institutions optional temporary relief from TDR and impairment accounting for certain loan modifications related to the COVID-19 pandemic. Under Section 401 of the CARES Act, banks may elect not to categorize loan modifications as TDRs if they are (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the National Emergency or (B) December 31, 2020.

All other short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not TDRs. This includes short-term modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented.

Loans are generally charged-off in part or in full when management determines the loan to be uncollectible. Factors for charge-off that may be considered include: repayments deemed to be projected beyond reasonable time frames, client bankruptcy and lack of assets, and/or collateral deficiencies.

The allowance for loan losses is estimated to adequately provide for probable future losses on existing loans. The allowance consists of specific and general components. For loans that are classified as impaired, an allowance is established when the collateral value, if the loan is collateral dependent, or the discounted cash flows of the impaired loan is lower than the carrying value of that loan. The general component covers pools of nonclassified loans and is based on historical loss experience adjusted with qualitative factors such as: trends in volume and terms of loans; levels of, and trends in, delinquencies and non-accruals; effects of any changes in lending policies, experience, ability and depth of management; national and local economic

Note 1 - Nature of Business and Basis of Presentation (continued)

trends and conditions (with a specific evaluation of COVID-19 impact); commitments and concentrations of credit; changes in the quality of the Company's loan review system; and the volume of loans with identified incomplete financial documentation. Actual loan performance may differ materially from those estimates. A loss is recognized as a charge to the allowance when management believes that collection of the loan is unlikely. Collections of loans previously charged off are added to the allowance at the time of recovery.

The Company determines the allowance for loan losses based on the accumulation of various components that are calculated independently in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 450 for pools of loans, and ASC 310 for TDRs and for individually evaluated loans. The process for determining an appropriate allowance for loan losses is based on a comprehensive and consistently applied analysis of the loan portfolio. The analysis considers all significant factors that affect the collectibility of the portfolio and supports the credit losses estimated by this process. It is important to recognize that the related process, methodology, and underlying assumptions require a substantial degree of judgment. Additional disclosure on the allowance for loan losses, qualitative factors, and the potential COVID-19 impact can be found in Part II, Item 1A - Risk Factors and *Note 5 - Portfolio Loans Receivable*.

The allowance for loan losses for SBA-PPP loans were separately evaluated given the explicit government guarantee. This analysis, which incorporated historical experience with similar SBA guarantees and underwriting, concluded the likelihood of loss was remote and therefore no allowance for loan losses was assigned to these loans.

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization over two to seven years. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related property. Leasehold improvements are amortized over the estimated useful lives of the improvements, approximately ten years, or the term of the lease, whichever is less. Expenditures for maintenance, repairs, and minor replacements are charged to noninterest expenses as incurred.

Leases

During the first quarter of 2019, the Company adopted Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 applies a right-of-use ("ROU") model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. The Company elected to apply the package of practical expedients permitting entities to not reassess: 1) whether any expired or existing contracts are or contain leases; 2) the lease classification for any expired or existing leases; and 3) initial direct costs for any existing leases. Additionally, as provided by ASU 2016-02, the Company elected not to apply the recognition requirements of ASC 842 to short-term leases, defined as leases with a term of 12 months or less, and to recognize the lease payments in net income on short-term leases on a straight-line basis over the lease term.

The Company is largely accounting for existing operating leases consistent with prior guidance except for the incremental balance sheet recognition for leases. The adoption of this standard resulted in the Company recognizing lease right-of-use assets and related lease liabilities totaling $5.5 million and $5.6 million, respectively, as of January 1, 2019. The difference between the lease assets and the lease liabilities was $146 thousand of deferred rent, which was reclassified to lease liabilities, and the remainder was recorded as an adjustment to retained earnings in the amount of $54 thousand. The adoption of this ASU

Note 1 - Nature of Business and Basis of Presentation (continued)

did not have a significant impact on the Company's consolidated statement of income. Additional information is included in *Note 7 - Leases*.

Derivative Financial Instruments

The Company enters into commitments to fund residential mortgage loans (interest rate locks) with the intention of selling them in the secondary market. The Company also enters into forward sales agreements for certain funded loans and loan commitments. The Company records unfunded commitments intended for loans held for sale and forward sales agreements at fair value with changes in fair value recorded as a component of mortgage banking revenue. Loans originated and intended for sale in the secondary market are carried at fair value. For pipeline loans which are not pre-sold to an investor, the Company endeavors to manage the interest rate risk on rate lock commitments by entering into forward sale contracts, whereby the Company obtains the right to deliver securities to investors in the future at a specified price. Such contracts are accounted for as derivatives and are recorded at fair value as derivative assets or liabilities, with changes in fair value recorded in mortgage banking revenue.

The Company accounts for derivative instruments and hedging activities according to guidelines established in ASC 815-10, *Accounting for Derivative Instruments and Hedging Activities*, as amended. The Company recognizes all derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value. Changes in fair value of derivatives designated and accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in other comprehensive income, net of deferred taxes. Any hedge ineffectiveness would be recognized in the income statement line item pertaining to the hedged item.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the measurement date. The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market inputs. For financial instruments that are traded actively and have quoted market prices or observable market inputs, there is minimal subjectivity involved in measuring fair value. However, when quoted market prices or observable market inputs are not fully available, significant management judgment may be necessary to estimate fair value. In developing our fair value estimates, we endeavor to maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value hierarchy defines Level 1 valuations as those based on quoted prices (unadjusted) for identical assets or liabilities in active markets. Level 2 valuations include inputs based on quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 3 valuations are based on at least one significant assumption not observable in the market, or significant management judgment or estimation, some of which may be internally developed.

Financial assets that are recorded at fair value on a recurring basis include investment securities available for sale, loans held for sale, and derivative financial instruments. Financial liabilities that are recorded at fair value on a recurring basis are comprised of derivative financial instruments. Additional information is included in *Note 8 - Fair Value*.

Note 1 - Nature of Business and Basis of Presentation (continued)

Income Taxes

Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are recognized when it is deemed more likely than not that the benefits of such deferred income taxes will be realized.

Earnings per share:

Earnings per share is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding, adjusted for the dilutive effect of stock options and restricted stock using the treasury stock method. At September 30, 2020 and 2019, there were 510,550 and 273,600 stock options, respectively, that were not included in the calculation as their effect would have been anti-dilutive.

Comprehensive income:

The Company reports as comprehensive income all changes in stockholders' equity during the year from sources other than stockholders. Other comprehensive income refers to all components (income, expenses, gains, and losses) of comprehensive income that are excluded from net income.

The Company's only component of other comprehensive income is unrealized gains and losses on investment securities available for sale, net of income taxes. Information concerning the Company's accumulated other comprehensive income as of September 30, 2020 and December 31, 2019 is as follows:

(in thousands)	**September 30, 2020**	December 31, 2019
Unrealized gains on securities available for sale	**$ 2,475**	$ 18
Deferred tax expense	**(681)**	(5)
Total accumulated comprehensive income	**$ 1,794**	$ 13

Recently issued accounting pronouncements:

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The FASB subsequently revised ASU 2019-10, which delayed implementation and the new standard is now effective for fiscal years beginning after December 15, 2022, including the interim periods within those fiscal years. The Company expects the provisions of this standard to impact the Company’s consolidated financial statements, in particular, the level of the reserve for credit losses. The Company is continuing to evaluate the extent of the potential impact and expects that portfolio composition and economic conditions at the time of adoption will be a factor.

In November 2019, the FASB issued guidance to defer the effective dates for private companies, not-for-profit organizations, and certain smaller reporting companies to apply standards on current expected loan losses (“CECL”). The new effective dates will be fiscal years beginning after December 15, 2022 including interim periods within those fiscal years. In addition, the FASB issued guidance that addresses issues raised by stakeholders during the implementation of ASU 2016-13, “Financial Instruments-loan losses (Topic 326): Measurement of Loan Losses on Financial Instruments.” The amendments affect a variety of Topics in the Accounting Standards Codification. For entities that have not yet adopted the amendments in ASU 2016-13, the amendments are effective for fiscal years beginning after December 15, 2022 including interim periods

Note 1 - Nature of Business and Basis of Presentation (continued)

within those fiscal years. Early adoption is permitted in any interim period as long as an entity has adopted the amendments in ASU 2016-13. While the Company does not expect these amendments to have a material effect on its financial statements, the Company is continuing to evaluate the extent of the potential impact and expects that portfolio composition and economic conditions at the time of adoption will be a factor.

The Company will apply the ASU through a cumulative-effect adjustment to beginning retained earnings in the year of adoption. While early adoption has been permitted since first quarter 2019, the Company does not expect to early adopt. In addition to the allowance for loan losses, the Company will also record an allowance for credit losses on debt securities instead of applying the impairment model currently utilized. The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.

In April 2019, the FASB issued codification improvements to ASU Topic 326 - Financial Instruments - Credit Loss, Topic 815 - Derivatives and Hedging, and Subtopic 825-10 - Financial Instruments. This codification provides technical corrections and clarifies issues related to fair value hedges. The Company early adopted this guidance upon issuance, and it did not have a material impact on the Company's consolidated financial statements.

In December 2019, the FASB issued guidance to simplify accounting for income taxes by removing specific technical exceptions that often produce information investors have a hard time understanding. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The amendments are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2020, the FASB issued ASU 2020-04, ''Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting." This new ASU provides temporary optional expedients and exceptions to GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from the London Interbank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates. Entities can elect not to apply certain modification accounting requirements to contracts affected by reference rate reform, if certain criteria are met. Entities that make such elections would not have to remeasure contracts at the modification date or reassess a previous accounting determination. Entities can elect various optional expedients that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform, if certain criteria are met. This amended guidance and the ability to elect its temporary optional expedients and exceptions are effective for the Company as of March 12, 2020 through December 31, 2022. The adoption of ASU 2020-04 Topic 848 is not expected to have a material impact on the Company's financial statements.

In March 2020, various regulatory agencies, including the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, ("agencies") issued an interagency statement on loan modifications and reporting for financial institutions working with customers affected by COVID-19. The interagency statement was effective immediately and impacted accounting for loan modifications. Under ASC 310-40, "Receivables - Troubled Debt Restructurings by Creditors," a restructuring of debt constitutes a TDR if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The agencies confirmed with the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered TDRs. Such modifications include short-term (e.g., six months) modifications that include payment deferrals of (i) principal and interest, (ii) interest only and (iii) principal only, fee waivers, extensions of repayment terms, or other delays in payment that are deemed insignificant.

Note 1 - Nature of Business and Basis of Presentation (continued)

Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. As of September 30, 2020, the Company has offered payment deferrals for commercial and consumer customers for up to six months. The loan modifications offered to borrowers provided the borrower with payment relief in the form of reduced or deferred payments for up to 90 days (six months in selected instances) during which time interest is continuing to accrue. It is not expected that this interagency guidance will have a material impact on the Company’s financial statements; however, this impact cannot be quantified at this time.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Reclassifications:

Certain reclassifications have been made to amounts reported in prior periods to conform to the current period presentation. The reclassifications had no material effect on net income or total stockholders' equity.

Subsequent Events:

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events through the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.

Note 2 - Cash and Cash Equivalents

Cash and cash equivalents include cash and amounts due from banks, interest bearing deposits and federal funds sold. The Bank is required by regulations to maintain an average cash reserve balance based on a percentage of deposits. At September 30, 2020 and December 31, 2019, the requirements were satisfied by amounts on deposit with the Federal Reserve Bank and cash on hand.

Note 3 - Investment Securities

The amortized cost and estimated fair value of investment securities at September 30, 2020 and December 31, 2019 are summarized as follows:

Note 3 - Investment Securities (continued)

Investment Securities Available for Sale

(in thousands)

September 30, 2020	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Municipal	**$ 513**	**$ 31**	**$ —**	**$ 544**
Corporate	**4,260**	**35**	**(25)**	**4,270**
Mortgage-backed securities	**46,744**	**2,434**	**—**	**49,178**
Total	**$ 51,517**	**$ 2,500**	**$ (25)**	**$ 53,992**
December 31, 2019				
U.S. government-sponsored enterprises	$ 1,000	$ —	$ (1)	$ 999
Municipal	515	13	—	528
Corporate	2,542	46	(23)	2,565
Mortgage-backed securities	56,754	117	(135)	56,736
Total	$ 60,811	$ 176	$ (159)	$ 60,828

There were no securities sold during the nine months ended September 30, 2020. Proceeds from sales of securities sold during the nine months ended September 30, 2019 were $3.3 million. The investment sales resulted in realized gains of $26 thousand for the three and nine months ended September 30, 2019.

Information related to unrealized losses in the investment portfolio as of September 30, 2020 and December 31, 2019 is summarized as follows:

Investment Securities Unrealized Losses

(in thousands)

	Less than 12 months		12 months or longer		Total	
September 30, 2020	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate	**$ —**	**$ —**	**$ 235**	**$ (25)**	**$ 235**	**$ (25)**
Total	**$ —**	**$ —**	**$ 235**	**$ (25)**	**$ 235**	**$ (25)**
December 31, 2019						
U.S. government-sponsored enterprises	$ —	$ —	$ 999	$ (1)	$ 999	$ (1)
Corporate	—	—	519	(23)	519	(23)
Mortgage-backed securities	21,487	(78)	5,246	(57)	26,733	(135)
Total	$ 21,487	$ (78)	$ 6,764	$ (81)	$ 28,251	$ (159)

At September 30, 2020, there was one corporate security that had been in an unrealized loss position for greater than twelve months. At December 31, 2019, there was one U.S. government-sponsored enterprises security, two corporate securities, and four mortgage-backed securities that had been in a loss position for greater than twelve months. Management believes that the unrealized loss at September 30, 2020 resulted from changes in the interest rates and current market conditions and not as a result of credit deterioration. Management has the ability and the intent to hold these investment securities until maturity or until they recover in value.

Note 3 - Investment Securities (continued)

A summary of pledged securities at September 30, 2020 and December 31, 2019 is shown below:

Pledged Securities

	September 30, 2020		December 31, 2019	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Federal Home Loan Bank	**$ 47,257**	**$ 49,722**	$ 1,508	$ 1,522

Contractual maturities of U.S. government-sponsored enterprises, municipals and corporate securities at September 30, 2020 and December 31, 2019 are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call premiums or prepayment penalties.

Contractual Maturities

	September 30, 2020		December 31, 2019	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	**$ —**	**$ —**	$ 1,542	$ 1,518
Over one to five years	**—**	**—**	—	—
Over five to ten years	**4,000**	**4,035**	2,000	2,046
Over ten years	**773**	**779**	515	528
Mortgage-backed securities[1]	**46,744**	**49,178**	56,754	56,736
Total	**$ 51,517**	**$ 53,992**	$ 60,811	$ 60,828

(1) Mortgage-backed securities contractually repay in monthly installments.

Note 4 - SBA-PPP Loans Receivable

Pursuant to the CARES Act, the SBA-PPP provides forgivable loans to small businesses to enable them to maintain payroll, hire back employees who have been laid off, and cover applicable overhead. SBA-PPP loans have an interest rate of 1%, have 2 and 5 year terms, and carry a 100% guarantee of the SBA.

The allowance for loan losses for SBA-PPP loans was separately evaluated given the explicit government guarantee. This analysis, which incorporated historical experience with similar SBA guarantees and underwriting, concluded the likelihood of loss was remote and therefore no allowance for loan losses was assigned to these loans.

At September 30, 2020, SBA-PPP loans receivable, which totaled $238.7 million, are all rated as pass credits, not past due, nonaccrual, TDR, or otherwise impaired. Unearned net fees associated with the SBA-PPP loans amounted to $5.4 million at September 30, 2020. There were no outstanding commitments to extend additional SBA-PPP loans at September 30, 2020.

Note 5 - Portfolio Loans Receivable

Major classifications of portfolio loans as are as follows:

Portfolio Loan Categories

(in thousands)	September 30, 2020	December 31, 2019
Real estate:		
Residential	**$ 422,698**	$ 427,926
Commercial	**372,972**	348,091
Construction	**227,662**	198,702
Commercial and Industrial	**134,889**	151,109
Credit card	**84,964**	46,412
Other consumer	**2,268**	1,285
Portfolio loans receivable, gross	**1,245,453**	1,173,525
Deferred origination fees, net	**(840)**	(2,404)
Allowance for loan losses	**(22,016)**	(13,301)
Portfolio loans receivable, net	**$ 1,222,597**	$ 1,157,820

The Company makes loans to customers located primarily in the Washington, D.C. and Baltimore, Maryland metropolitan areas. Although the loan portfolio is diversified, its performance is influenced by the regional economy. The Company's loan categories, excluding SBA-PPP loans, previously discussed in Note 4, are described below.

Residential Real Estate Loans. One-to-four family mortgage loans are primarily secured by owner-occupied primary residences and, to a lesser extent, investor owned residences. Residential loans are originated through the commercial sales teams and Capital Bank Home Loans division. Residential loans also include home equity lines of credit. Owner-occupied residential real estate loans usually have fixed rates for five or seven years and adjust on an annual basis after the initial term based on a typical maturity of 30 years. Investor residential real estate loans are generally based on 25-year terms with a balloon payment due after five years. Generally, the required minimum debt service coverage ratio is 115%. Residential real estate loans have represented a stable and growing portion of our loan portfolio.

Commercial Real Estate Loans. Commercial real estate loans are originated on owner-occupied and non-owner-occupied properties. These loans may be more adversely affected by conditions in the real estate markets or in the general economy. Commercial loans that are secured by owner-occupied commercial real

Note 5 - Portfolio Loans Receivable (continued)

estate and primarily collateralized by operating cash flows are also included in this category of loans. As of September 30, 2020, there were approximately $181.2 million of owner-occupied commercial real estate loans, representing approximately 48.6% of the commercial real estate portfolio. Commercial real estate loan terms are generally extended for 10 years or less and amortize generally over 25 years or less. The interest rates on commercial real estate loans generally have initial fixed rate terms that adjust typically at 5 years. Origination fees are routinely charged for services. Personal guarantees from the principal owners of the business are generally required, supported by a review of the principal owners' personal financial statements and global debt service obligations. The properties securing the portfolio are somewhat diverse in terms and type. This diversity may help reduce the exposure to adverse economic events that affect any single industry.

Construction Loans. Construction loans are offered within the Company's Washington, D.C. and Baltimore, Maryland metropolitan operating areas to builders primarily for the construction of single-family homes and condominium and townhouse conversions or renovations and, to a lesser extent, to individuals. Construction loans typically have terms of 12 to 18 months. The Company frequently transitions the end purchaser to permanent financing or re-underwriting and sale into the secondary market through Capital Bank Home Loans. According to underwriting standards, the ratio of loan principal to collateral value, as established by an independent appraisal, cannot exceed 75% for investor-owned and 80% for owner-occupied properties. Exceptions are sometimes made. Semi-annual stress testing of the construction loan portfolio is conducted, and underlying real estate conditions are closely monitored as well as trends of sales outcomes versus underwriting valuations as part of ongoing risk management efforts. The borrowers' progress in construction buildout is closely monitored to enforce the original underwriting guidelines for construction milestones and completion timelines.

Commercial and Industrial. In addition to other loan products, general commercial loans, including commercial lines of credit, working capital loans, term loans, equipment financing, letters of credit and other loan products are offered, primarily in target markets, and underwritten based on each borrower's ability to service debt from income. These loans are primarily made based on the identified cash flows of the borrower and secondarily, on the underlying collateral provided by the borrower. Most commercial business loans are secured by a lien on general business assets including, among other things, available real estate, accounts receivable, promissory notes, inventory and equipment. Personal guaranties from the borrower or other principal are generally obtained.

Credit Cards. Our OpenSky® credit card division provides credit cards on a nationwide basis to under-banked populations and those looking to rebuild their credit scores through a fully digital and mobile platform. Substantially all of the lines of credit are secured by a noninterest bearing demand account at the Bank in an amount equal to the full credit limit of the credit card. In addition, using a proprietary scoring model, which considers credit score and repayment history (typically a minimum of six months of on-time repayments, but ultimately determined on a case-by-case basis), the Bank has recently begun to offer certain customers an unsecured line in excess of their secured line of credit. Approximately $81.1 million and $43.3 million of the credit card balances were secured by savings deposits held by the Company as of September 30, 2020 and December 31, 2019, respectively.

Other Consumer Loans. To a limited extent and typically as an accommodation to existing customers, personal consumer loans, such as, for example, term loans, car loans or boat loans are offered.

Loans acquired through acquisitions are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan losses. In estimating the fair value of loans acquired, certain factors were considered, including the remaining lives of the acquired loans, payment history, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, and the net present value

Note 5 - Portfolio Loans Receivable (continued)

of cash flows expected. Discounts on loans that were not considered impaired at acquisition were recorded as an accretable discount, which will be recognized in interest income over the terms of the related loans. For loans considered to be impaired, the difference between the contractually required payments and expected cash flows was recorded as a nonaccretable discount. The remaining nonaccretable discounts on loans acquired was $285 thousand as of September 30, 2020 and December 31, 2019. Loans with nonaccretable discounts had carrying values of $841 thousand and $864 thousand as of September 30, 2020 and December 31, 2019.

Accretable discounts on loans acquired is summarized as follows:

Accretable Discounts on Loans Acquired

(in thousands)	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2020	**September 30, 2019**	**September 30, 2020**	**September 30, 2019**
Accretable discount at beginning of period	**$ 230**	$ 424	**$ 429**	$ 438
Less: Accretion and payoff of loans	**(4)**	(13)	**(203)**	(27)
Other changes, net	**—**	22	**—**	22
Accretable discount at end of period	**$ 226**	$ 433	**$ 226**	$ 433

The following tables set forth the changes in the allowance for loan losses and an allocation of the allowance for loan losses by class for the three and nine months ended September 30, 2020 and September 30, 2019.

Allowance for Loan Losses

(in thousands) **Three Months Ended September 30, 2020**	**Beginning Balance**	**Provision for Loan Losses**	**Charge-Offs**	**Recoveries**	**Ending Balance**
Real estate:					
Residential	**$ 6,244**	**$ 737**	**$ —**	**$ —**	**$ 6,981**
Commercial	**5,232**	**1,158**	**—**	**—**	**6,390**
Construction	**3,952**	**537**	**—**	**—**	**4,489**
Commercial and Industrial	**1,743**	**671**	**(85)**	**—**	**2,329**
Credit card	**1,497**	**376**	**(85)**	**7**	**1,795**
Other consumer	**11**	**21**	**—**	**—**	**32**
Total	**$ 18,679**	**$ 3,500**	**$ (170)**	**$ 7**	**$ 22,016**
Nine Months Ended September 30, 2020					
Real estate:					
Residential	**$ 4,135**	**$ 2,846**	**$ —**	**$ —**	**$ 6,981**
Commercial	**3,573**	**2,817**	**—**	**—**	**6,390**
Construction	**2,668**	**1,821**	**—**	**—**	**4,489**
Commercial and Industrial	**1,548**	**892**	**(111)**	**—**	**2,329**
Credit card	**1,367**	**811**	**(408)**	**25**	**1,795**
Other consumer	**10**	**22**	**—**	**—**	**32**
Total	**$ 13,301**	**$ 9,209**	**$ (519)**	**$ 25**	**$ 22,016**

Note 5 - Portfolio Loans Receivable (continued)

Allowance for Loan Losses

(in thousands)

Three Months Ended September 30, 2019	Beginning Balance	Provision for Loan Losses	Charge-Offs	Recoveries	Ending Balance
Real estate:					
Residential	$ 3,915	$ 269	$ (8)	$ —	$ 4,176
Commercial	3,116	307	—	3	3,426
Construction	2,204	173	—	—	2,377
Commercial and Industrial	1,472	140	(54)	—	1,558
Credit card	1,199	181	(120)	3	1,263
Other consumer	7	1	—	—	8
Total	$ 11,913	$ 1,071	$ (182)	$ 6	$ 12,808

Nine Months Ended September 30, 2019	Beginning Balance	Provision for Loan Losses	Charge-Offs	Recoveries	Ending Balance
Real estate:					
Residential	$ 3,541	$ 643	$ (8)	$ —	$ 4,176
Commercial	3,003	413	—	10	3,426
Construction	2,093	284	—	—	2,377
Commercial and Industrial	1,578	62	(82)	—	1,558
Credit card	1,084	468	(303)	14	1,263
Other consumer	9	(1)	—	—	8
Total	$ 11,308	$ 1,869	$ (393)	$ 24	$ 12,808

Note 5 - Portfolio Loans Receivable (continued)

The following tables present, by class and reserving methodology, the allocation of the allowance for loan losses and the gross investment in loans. The allowance for loan losses consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-impaired loans and is based on historical loss experience adjusted for current economic factors.

Allowance for Loan Loss Composition

(in thousands)	Allowance for Loan Losses Ending Balance Evaluated for Impairment:		Outstanding Portfolio Loan Balances Evaluated for Impairment:	
September 30, 2020	**Individually**	**Collectively**	**Individually**	**Collectively**
Real estate:				
Residential	**$ —**	**$ 6,981**	**$ 1,626**	**$ 421,072**
Commercial	**—**	**6,390**	**1,466**	**371,506**
Construction	**—**	**4,489**	**6,464**	**221,198**
Commercial and Industrial	**574**	**1,755**	**1,395**	**133,494**
Credit card	**—**	**1,795**	**—**	**84,964**
Other consumer	**—**	**32**	**—**	**2,268**
Total	**$ 574**	**$ 21,442**	**$ 10,951**	**$ 1,234,502**
December 31, 2019				
Real estate:				
Residential	$ —	$ 4,135	$ 2,192	$ 425,734
Commercial	—	3,572	1,433	346,658
Construction	—	2,668	—	198,702
Commercial and Industrial	119	1,429	474	150,635
Credit card	—	1,368	—	46,412
Other consumer	—	10	—	1,285
Total	$ 119	$ 13,182	$ 4,099	$ 1,169,426

Note 5 - Portfolio Loans Receivable (continued)

Past due loans, segregated by age and class of loans, as of September 30, 2020 and December 31, 2019 were as follows:

Portfolio Loans Past Due

(in thousands) September 30, 2020	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Portfolio Loans	Accruing Loans 90 or More Days Past Due	Non-accrual Loans
Real estate:							
Residential	$ 708	$ 1,580	$ 2,288	$ 420,410	$ 422,698	$ —	$ 1,626
Commercial	3,331	1,695	5,026	367,946	372,972	230	1,466
Construction	4,750	589	5,339	222,323	227,662	297	6,464
Commercial and Industrial	425	323	748	134,141	134,889	—	1,395
Credit card	7,698	2	7,700	77,264	84,964	2	—
Other consumer	—	—	—	2,268	2,268	—	—
Total	$ 16,912	$ 4,189	$ 21,101	$ 1,224,352	$ 1,245,453	$ 529	$ 10,951
Acquired loans included in total above	$ —	$ 576	$ 576	$ 5,141	$ 5,717	$ 230	$ 393
December 31, 2019							
Real estate:							
Residential	$ 704	$ 2,436	$ 3,140	$ 424,786	$ 427,926	$ 374	$ 2,192
Commercial	275	1,671	1,946	346,145	348,091	237	1,433
Construction	756	—	756	197,946	198,702	—	—
Commercial and Industrial	172	353	525	150,584	151,109	—	474
Credit card	5,526	8	5,534	40,878	46,412	9	—
Other consumer	—	—	—	1,285	1,285	—	—
Total	$ 7,433	$ 4,468	$ 11,901	$ 1,161,624	$ 1,173,525	$ 620	$ 4,099
Acquired loans included in total above	$ 305	$ 1,243	$ 1,548	$ 4,873	$ 6,421	$ 464	$ 880

Loans secured by a one-to-four family residential property in the process of foreclosure at September 30, 2020 and December 31, 2019 amounted to $11 thousand and $481 thousand, respectively.

Note 5 - Portfolio Loans Receivable (continued)

Impaired loans were as follows:

Impaired Loans

(in thousands) **September 30, 2020**	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Real estate:					
Residential	$ 1,843	$ 1,626	$ —	$ 1,626	$ —
Commercial	1,594	1,466	—	1,466	—
Construction	6,566	6,464	—	6,464	—
Commercial and Industrial	1,548	—	1,395	1,395	574
Credit card	—	—	—	—	—
Other consumer	—	—	—	—	—
Total	$ 11,551	$ 9,556	$ 1,395	$ 10,951	$ 574
Acquired loans included above	$ 552	$ 393	$ —	$ 393	$ —
December 31, 2019					
Real estate:					
Residential	$ 2,309	$ 2,192	$ —	$ 2,192	$ —
Commercial	1,477	1,433	—	1,433	—
Construction	—	—	—	—	—
Commercial and Industrial	574	201	273	474	119
Credit card	—	—	—	—	—
Other consumer	—	—	—	—	—
Total	$ 4,360	$ 3,826	$ 273	$ 4,099	$ 119
Acquired loans included above	$ 1,148	$ 880	$ —	$ 880	$ —

The following tables summarize interest recognized on impaired loans:

Interest Recognized on Impaired Loans

	For the Three Months Ended September 30, 2020		For the Nine Months Ended September 30, 2020	
(in thousands)	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
Real estate:				
Residential	$ 1,860	$ 1	$ 1,864	$ 1
Commercial	1,616	8	1,618	10
Construction	6,531	169	6,462	178
Commercial and Industrial	1,813	54	1,841	54
Total	$ 11,820	$ 232	$ 11,785	$ 243

Note 5 - Portfolio Loans Receivable (continued)

Interest Recognized on Impaired Loans

(in thousands)	For the Three Months Ended September 30, 2019		For the Nine Months Ended September 30, 2019	
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
Real estate:				
Residential	$ 2,612	$ 8	$ 2,620	$ 11
Commercial	1,160	2	1,161	2
Construction	2,133	—	2,132	—
Commercial and Industrial	1,003	8	1,005	9
Total	$ 6,908	$ 18	$ 6,918	$ 22

Impaired loans include loans acquired on which management has recorded a nonaccretable discount.

Credit quality indicators

As part of the ongoing monitoring of the credit quality of the Company’s loan portfolio, management tracks certain credit quality indicators including trends related to the risk grade of loans, the level of classified loans, net charge-offs, nonperforming loans, and the general economic conditions in the Company’s market.

The Company utilizes a risk grading matrix to assign a risk grade to each of its loans. A description of the general characteristics of loans characterized as classified is as follows:

Special Mention

A special mention loan has potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company’s credit position at some future date. Special mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Borrowers may exhibit poor liquidity and leverage positions resulting from generally negative cash flow or negative trends in earnings. Access to alternative financing may be limited to finance companies for business borrowers and may be unavailable for commercial real estate borrowers.

Substandard

A substandard loan is inadequately protected by the current financial condition and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Borrowers may exhibit recent or unexpected unprofitable operations, an inadequate debt service coverage ratio, or marginal liquidity and capitalization. These loans require more intense supervision by Company management.

Note 5 - Portfolio Loans Receivable (continued)

Doubtful

A doubtful loan has all the weaknesses inherent as a substandard loan with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following table presents the balances of classified loans based on the risk grade. Classified loans include Special Mention, Substandard, and Doubtful loans:

Portfolio Loan Classifications

(in thousands)	Pass[1]	Special Mention	Substandard	Doubtful	Total
September 30, 2020					
Real estate:					
Residential	**$ 411,957**	**$ 8,245**	**$ 2,496**	**$ —**	**$ 422,698**
Commercial	**361,474**	**10,243**	**1,255**	**—**	**372,972**
Construction	**220,086**	**1,112**	**6,464**	**—**	**227,662**
Commercial and Industrial	**121,707**	**10,965**	**2,217**	**—**	**134,889**
Credit card	**84,964**	**—**	**—**	**—**	**84,964**
Other consumer	**2,268**	**—**	**—**	**—**	**2,268**
Portfolio loans receivable, gross	**$ 1,202,456**	**$ 30,565**	**$ 12,432**	**$ —**	**$ 1,245,453**
December 31, 2019					
Real estate:					
Residential	$ 425,661	$ —	$ 2,265	$ —	$ 427,926
Commercial	340,313	6,345	1,433	—	348,091
Construction	198,702	—	—	—	198,702
Commercial and Industrial	145,178	4,505	1,426	—	151,109
Credit card	46,412	—	—	—	46,412
Other consumer	1,285	—	—	—	1,285
Portfolio loans receivable, gross	$ 1,157,551	$ 10,850	$ 5,124	$ —	$ 1,173,525

(1) Category includes loans graded exceptional, very good, good, satisfactory and pass/watch, in addition to credit cards and consumer credits that are not graded.

Impaired loans also include certain loans that have been modified in TDRs where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after confirmation of the borrower's sustained repayment performance for a reasonable period, generally six months.

Note 5 - Portfolio Loans Receivable (continued)

Modifications such as payment deferrals through September 30, 2020 have been short term in nature and are included in the population of loans deferred and have not impacted TDRs. The status of TDRs is as follows:

Troubled Debt Restructurings

(in thousands)	Number of Contracts	Recorded Investment		
September 30, 2020		Performing	Nonperforming	Total
Real estate:				
Residential	**3**	**$ —**	**$ 145**	**$ 145**
Commercial and Industrial	**2**	**—**	**301**	**301**
Total	**5**	**$ —**	**$ 446**	**$ 446**
Acquired loans included in total above	**3**	**$ —**	**$ 145**	**$ 145**
December 31, 2019				
Real estate:				
Residential	3	$ —	$ 145	$ 145
Commercial and Industrial	2	—	314	314
Total	5	$ —	$ 459	$ 459
Acquired loans included in total above	3	$ —	$ 145	$ 145

There were no new TDRs in the nine months ended September 30, 2020. The Company had no defaulted TDR loans over the last twelve months.

Outstanding loan commitments were as follows:

Loan Commitments

(in thousands)	September 30, 2020	December 31, 2019
Unused lines of credit		
Real Estate:		
Residential	**$ 10,360**	$ 13,754
Residential - Home Equity	**29,838**	26,407
Commercial	**17,069**	31,411
Construction	**116,714**	114,999
Commercial and Industrial	**46,537**	36,442
Secured credit card	**95,854**	37,517
Personal	**634**	43
Total	**$ 317,006**	$ 260,573
Commitments to originate residential loans held for sale	**$ 9,823**	$ 2,646
Letters of credit	**$ 5,102**	$ 5,305

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition of the contract. Lines of credit generally have variable interest rates. Such lines do not represent future cash requirements because it is unlikely that all customers will draw upon their lines in full at any time. Loan commitments generally have variable interest rates, fixed expiration dates, and may require payment of a

Note 5 - Portfolio Loans Receivable (continued)

fee.

The Company's maximum exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the credit commitment. Loan commitments and lines of credit are generally made on the same terms, including collateral, as outstanding loans. Management is not aware of any accounting loss to be incurred by funding these loan commitments. The Company maintains an estimated reserve for off balance sheet items such as unfunded lines of credit, which is reflected in other liabilities, with changes being charged to or released from operating expense. Activity for this account is as follows for the periods presented:

Off Balance Sheet Reserve

(in thousands)	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2020	**September 30, 2019**	**September 30, 2020**	**September 30, 2019**
Balance at beginning of period	**$ 1,271**	$ 1,146	**$ 1,226**	$ 1,053
Provision for off balance sheet credit commitments	**188**	45	**233**	138
Balance at end of period	**$ 1,459**	$ 1,191	**$ 1,459**	$ 1,191

The Company makes representations and warranties that loans sold to investors meet their program's guidelines and that the information provided by the borrowers is accurate and complete. In the event of a default on a loan sold, the investor may have the right to make a claim for losses due to document deficiencies, program compliance, early payment default, and fraud or borrower misrepresentations.

The Company maintains an estimated reserve for potential losses on mortgage loans sold, which is reflected in other liabilities, with changes being charged to or released from operating expense. Activity in this reserve is as follows for the periods presented:

Mortgage Loan Put-back Reserve

(in thousands)	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2020	**September 30, 2019**	**September 30, 2020**	**September 30, 2019**
Balance at beginning of period	**$ 823**	$ 527	**$ 575**	$ 501
Provision for mortgage loan put backs	**213**	61	**475**	128
Charge-offs	**—**	(48)	**(14)**	(89)
Balance at end of period	**$ 1,036**	$ 540	**$ 1,036**	$ 540

Note 6 - Derivative Financial Instruments

As part of its mortgage banking activities, the Company enters into interest rate lock commitments, which are commitments to originate loans whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. The Company then either locks the loan and rate in with an investor and commits to deliver the loan if settlement occurs (Best Efforts) or commits to deliver the locked loan to an investor in a binding (Mandatory) delivery program. Certain loans under rate lock commitments are covered under forward sales contracts. Forward sales contracts are recorded at fair value with changes in fair value recorded in mortgage banking revenue. Interest rate lock commitments and commitments to deliver loans to investors are considered derivatives. The market value of interest rate lock commitments and best efforts contracts are not readily ascertainable with precision because they are not actively traded in stand-alone markets. The Company determines the fair value of rate lock commitments and delivery contracts by estimating the fair value of the underlying asset, which is impacted by current interest rates and takes into consideration the probability that the rate lock commitments will close or will be funded.

The following table reports the commitment and fair value amounts on the outstanding derivatives:

Derivatives

(in thousands)	September 30, 2020	December 31, 2019
Notional amount of open forward sales agreements	**$ 66,000**	$ 61,000
Fair value of open forward delivery sales agreements	**(278)**	(125)
Notional amount of open mandatory delivery commitments	**8,899**	22,888
Fair value of open mandatory delivery commitments	**158**	115
Notional amount of interest rate lock commitments	**42,906**	32,365
Fair value of interest rate lock commitments	**267**	122

Note 7 - Leases

The Company’s primary leasing activities relate to certain real estate leases entered into in support of the Company’s branch operations and back office operations. The Company leases five of its full service branches and five other locations for corporate/administration activities, operations, and loan production. All property leases under lease agreements have been been designated as operating leases. The Company does not have leases designated as finance leases.

The Company determines if an arrangement is a lease at inception. Operating lease right-of-use (“ROU”) assets are included in premises and equipment, and operating lease liabilities are included as other liabilities in the consolidated balance sheets. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The weighted average discount rate used was 2.23% at September 30, 2020 and 2.24% at December 31, 2019. The operating lease ROU asset also includes any lease pre-payments. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company has lease agreements with lease and non-lease components, which the Company has elected to account for separately as the non-lease component amounts are readily determinable under most leases.

As of September 30, 2020, the Company’s lease ROU assets and related lease liabilities were $3.5 million and $3.8 million, respectively, compared to December 31, 2019 balances of $3.9 million of ROU assets and $4.3 million of lease liabilities, and have remaining terms ranging from 1 - 6 years, including extension options that the Company is reasonably certain will be exercised. As of September 30, 2020, the Company had not entered into any material leases that have not yet commenced. The Company’s lease information is summarized as follows:

Leases

(in thousands)	September 30, 2020	December 31, 2019
Lease Right of Use Asset:		
Lease asset	**$ 5,462**	$ 5,158
Less: Accumulated amortization	**(1,974)**	(1,238)
Net lease asset	**$ 3,488**	$ 3,920
Lease Liability:		
Lease liability	**$ 3,837**	$ 4,291

Note 7 - Leases (continued)

Future minimum payments for operating leases with initial or remaining terms of one year or more are as follows:

Lease Payment Obligations

(in thousands)		September 30, 2020
Amounts due in:		
2020	$	361
2021		1,408
2022		1,023
2023		777
2024		420
Total future lease payments		**3,989**
Discount of cash flows		(152)
Present value of net future lease payments	**$**	**3,837**

Note 8 - Fair Value

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, recommend disclosures about fair value, and establish a hierarchy for determining fair value measurement. The hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities. The three levels are as follows:

Level 1 - Inputs to the valuation method are quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 - Inputs to the valuation method include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and

Level 3 - Inputs to the valuation method are unobservable and significant to the fair value measurement.

Fair value measurements on a recurring basis

Investment securities available for sale - The fair values of the Company's investment securities available for sale are provided by an independent pricing service. The fair values of the Company's securities are determined based on quoted prices for similar securities under Level 2 inputs.

Loans held for sale - The fair value of loans held for sale is determined using Level 2 inputs of quoted prices for a similar asset, adjusted for specific attributes of that loan.

Derivative financial instruments - Derivative instruments used to hedge residential mortgage loans held for sale and the related interest rate lock commitments include forward commitments to sell mortgage loans and are reported at fair value utilizing Level 2 inputs. The fair values of derivative financial instruments are based on derivative market data inputs as of the valuation date and the underlying value of mortgage loans for rate lock commitments.

Note 8 - Fair Value (continued)

The Company has categorized its financial instruments measured at fair value on a recurring basis as of September 30, 2020 and December 31, 2019 as follows:

Fair Value of Financial Instruments

(in thousands)

September 30, 2020	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investment securities available for sale				
Municipal	$ 544	—	$ 544	—
Corporate	4,270	—	4,270	—
Mortgage-backed securities	49,178	—	49,178	—
Total	$ 53,992	$ —	$ 53,992	$ —
Loans held for sale	$ 137,717	$ —	$ 137,717	$ —
Derivative assets	$ 425	$ —	$ 425	$ —
Derivative liabilities	$ 278	$ —	$ 278	$ —
December 31, 2019				
Investment securities available for sale				
U.S. government-sponsored enterprises	$ 999	$ —	$ 999	$ —
Municipal	528	—	528	—
Corporate	2,565	—	2,565	—
Mortgage-backed securities	56,736	—	56,736	—
Total	$ 60,828	$ —	$ 60,828	$ —
Loans held for sale	$ 71,030	$ —	$ 71,030	$ —
Derivative assets	$ 237	$ —	$ 237	$ —
Derivative liabilities	$ 125	$ —	$ 125	$ —

Financial instruments recorded using FASB ASC 825-10

Under FASB ASC 825-10, the Company may elect to report most financial instruments and certain other items at fair value on an instrument-by-instrument basis with changes in fair value reported in net income. After the initial adoption, the election is made at the acquisition of an eligible financial asset, financial liability or firm commitment or when certain specified reconsideration events occur. The fair value election, with respect to an item, may not be revoked once an election is made.

The following table reflects the difference between the fair value carrying amount of loans held for sale, measured at fair value under FASB ASC 825-10, and the aggregate unpaid principal amount the Company is contractually entitled to receive at maturity:

Fair Value of Loans Held for Sale

(in thousands)	September 30, 2020	December 31, 2019
Aggregate fair value	$ 137,717	$ 71,030
Contractual principal	127,934	67,118
Difference	$ 9,783	$ 3,912

The Company has elected to account for loans held for sale at fair value to eliminate the mismatch that would occur by recording changes in market value on derivative instruments used to hedge loans held for sale while carrying the loans at the lower of cost or market.

Note 8 - Fair Value (continued)

Fair value measurements on a nonrecurring basis

Impaired loans - The Company has measured impairment generally based on the fair value of the loan's collateral and discounted cash flow analysis. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values. As of September 30, 2020 and December 31, 2019, the fair values consist of loan balances of $11.0 million and $4.1 million, with specific reserves of $574 thousand and $119 thousand, respectively.

Foreclosed real estate - The Company's foreclosed real estate is measured at fair value less cost to sell. Fair value was determined based on offers and/or appraisals. Cost to sell the real estate was based on standard market factors. The Company has categorized its foreclosed real estate as Level 3.

The Company has categorized its impaired loans and foreclosed real estate as follows:

Fair Value of Impaired Loans and Foreclosed Real Estate

(in thousands)	September 30, 2020	December 31, 2019
Impaired loans		
Level 1 inputs	**$ —**	$ —
Level 2 inputs	**—**	—
Level 3 inputs	**10,377**	3,980
Total	**$ 10,377**	$ 3,980
Foreclosed real estate		
Level 1 inputs	**$ —**	$ —
Level 2 inputs	**—**	—
Level 3 inputs	**3,326**	2,384
Total	**$ 3,326**	$ 2,384

The following table provides information describing the unobservable inputs used in Level 3 fair value measurements at September 30, 2020 and December 31, 2019:

Unobservable Inputs

	Valuation Technique	Unobservable Inputs	Range of Inputs
Impaired Loans	Appraised Value/Discounted Cash Flows	Discounts to appraisals or cash flows for estimated holding and/or selling costs	11 to 25%
Foreclosed Real Estate	Appraised Value/Comparable Sales	Discounts to appraisals for estimated holding and/or selling costs	11 to 25%

Fair value of financial instruments

Fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practical to estimate the value is based upon the characteristics of the instruments and relevant market information. Financial instruments include cash, evidence of ownership in an entity, or contracts that convey or impose on an entity the contractual right or obligation to either receive or deliver cash for another financial instrument.

Note 8 - Fair Value (continued)

The information used to determine fair value is highly subjective and judgmental in nature and, therefore, the results may not be precise. Subjective factors include, among other things, estimates of cash flows, risk characteristics, credit quality, and interest rates, all of which are subject to change. Since the fair value is estimated as of the balance sheet date, the amounts that will actually be realized or paid upon settlement or maturity on these various instruments could be significantly different.

The fair value of the Company's loan portfolio includes a credit risk assumption in the determination of the fair value of its loans. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. The Company's loan portfolio is initially fair valued using a segmented approach. The Company divides its loan portfolio into the following categories: variable rate loans, impaired loans, and all other loans. The results are then adjusted to account for credit risk as described above. However, under the new guidance, the Company believes a further credit risk discount must be applied through the use of a discounted cash flow model to compensate for illiquidity risk, based on certain assumptions included within the discounted cash flow model, primarily the use of discount rates that better capture inherent credit risk over the lifetime of a loan. This consideration of enhanced credit risk provides an estimated exit price for the Company's loan portfolio.

For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values. Fair values for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral.

The fair value of cash and cash equivalents and investments in restricted stocks is the carrying amount. Restricted stock includes equity of the Federal Reserve and other banker's banks.

The fair value of noninterest bearing deposits and securities sold under agreements to repurchase is the carrying amount.

The fair value of checking, savings, and money market deposits is the amount payable on demand at the reporting date. Fair value of fixed maturity term accounts and individual retirement accounts is estimated using rates currently offered for accounts of similar remaining maturities.

The fair value of certificates of deposit in other financial institutions is estimated based on interest rates currently offered for deposits of similar remaining maturities.

The fair value of borrowings is estimated by discounting the value of contractual cash flows using current market rates for borrowings with similar terms and remaining maturities.

The fair value of outstanding loan commitments, unused lines of credit, and letters of credit are not included in the table since the carrying value generally approximates fair value. These instruments generate fees that approximate those currently charged to originate similar commitments.

The table below presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments.

Note 8 - Fair Value (continued)

Fair Value of Selected Financial Instruments

(in thousands)	September 30, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Level 1				
Cash and due from banks	**$ 20,138**	**$ 20,138**	$ 10,530	$ 10,530
Interest bearing deposits at other financial institutions	**179,789**	**179,789**	102,447	102,447
Federal funds sold	**5,590**	**5,590**	1,847	1,847
Level 3				
Loans receivable, net [1]	**$ 1,455,946**	**$ 1,467,771**	$ 1,157,820	$ 1,155,922
Restricted investments	**3,958**	**3,958**	3,966	3,966
Financial liabilities				
Level 1				
Noninterest bearing deposits	**$ 596,239**	**$ 596,239**	$ 291,777	$ 291,777
Level 3				
Interest bearing deposits	**$ 1,065,972**	**$ 1,072,067**	$ 933,644	$ 934,349
FHLB advances and other borrowed funds	**39,738**	**39,663**	47,645	47,678

(1) Includes SBA-PPP loans and portfolio loans.

Note 9 - Segments

The Company's reportable segments represent product line divisions and are viewed separately for strategic planning purposes by management. The four segments include Commercial Banking, Capital Bank Home Loans (the Company's mortgage loan division), OpenSky® (the Company's credit card division) and the Corporate Office. The following schedule presents financial information for each reportable segment at September 30, 2020.

Segments

For the Three Months Ended September 30, 2020

(in thousands)	Commercial Bank	CBHL	OpenSky®	Corporate	Eliminations	Consolidated
Interest income	$ 16,695	$ 856	$ 7,070	$ 607	$ (39)	$ 25,189
Interest expense	2,214	565	—	410	(39)	3,150
Net interest income	14,481	291	7,070	197	—	22,039
Provision for loan losses	3,123	—	377	—	—	3,500
Net interest income after provision	11,358	291	6,693	197	—	18,539
Noninterest income	164	15,209	5,773	—	—	21,146
Noninterest expense	9,148	8,912	9,974	85	—	28,119
Net income before taxes	$ 2,374	$ 6,588	$ 2,492	$ 112	$ —	$ 11,566
Total assets	$ 1,611,947	$ 138,781	$ 95,124	$ 172,269	$ (139,092)	$ 1,879,029
For the Three Months Ended September 30, 2019						
Interest income	$ 15,878	$ 896	$ 5,180	$ 400	$ —	$ 22,354
Interest expense	3,888	277	—	5	—	4,170
Net interest income	11,990	619	5,180	395	—	18,184
Provision for loan losses	882	—	189	—	—	1,071
Net interest income after provision	11,108	619	4,991	395	—	17,113
Noninterest income	228	4,933	2,059	1	—	7,221
Noninterest expense	7,859	4,411	5,564	394	—	18,228
Net income before taxes	$ 3,477	$ 1,141	$ 1,486	$ 2	$ —	$ 6,106
Total assets	$ 1,157,332	$ 70,110	$ 46,694	$ 148,016	$ (110,745)	$ 1,311,406

Note 9 - Segments (continued)

Segments

For the Nine Months Ended September 30, 2020

(in thousands)	Commercial Bank	CBHL	OpenSky®	Corporate	Eliminations	Consolidated
Interest income	$ 49,147	$ 1,912	$ 16,151	$ 1,817	$ (94)	$ 68,933
Interest expense	8,536	1,161	—	980	(94)	10,583
Net interest income	40,611	751	16,151	837	—	58,350
Provision for loan losses	8,399	—	810	—	—	9,209
Net interest income after provision	32,212	751	15,341	837	—	49,141
Noninterest income	574	30,356	10,694	2	—	41,626
Noninterest expense	26,039	19,634	22,700	292	—	68,665
Net income before taxes	$ 6,747	$ 11,473	$ 3,335	$ 547	$ —	$ 22,102
Total assets	$ 1,611,947	$ 138,781	$ 95,124	$ 172,269	$ (139,092)	$ 1,879,029

For the Nine Months Ended September 30, 2019

	Commercial Bank	CBHL	OpenSky®	Corporate	Eliminations	Consolidated
Interest income	$ 44,641	$ 1,928	$ 13,362	$ 1,031	—	$ 60,961
Interest expense	10,781	520	—	202	—	11,502
Net interest income	33,860	1,408	13,362	829	—	49,459
Provision for loan losses	1,283	—	536	50	—	1,869
Net interest income after provision	32,577	1,408	12,826	779	—	47,590
Noninterest income	573	11,142	5,521	4	—	17,240
Noninterest expense	22,271	10,472	14,799	1,226	—	48,768
Net income before taxes	$ 10,879	$ 2,078	$ 3,548	$ (443)	$ —	$ 16,062
Total assets	$ 1,157,332	$ 70,110	$ 46,694	$ 148,016	$ (110,745)	$ 1,311,406

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended as a review of significant factors affecting the Company's financial condition and results of operations for the periods indicated. This discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and the related notes and the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

PRIVATE SECURITIES LITIGATION REFORM ACT SAFE HARBOR STATEMENT

This Quarterly Report on Form 10-Q and oral statements made from time-to-time by our representatives contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. You should not place undue reliance on such statements because they are subject to numerous risks and uncertainties relating to our operations and the business environment in which we operate, all of which are difficult to predict and many of which are beyond our control. Forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy, expectations, beliefs, projections, anticipated events or trends, growth prospects, financial performance, and similar expressions concerning matters that are not historical facts. These statements often include words such as "may," "believe," "expect," "anticipate," "potential," "opportunity," "intend," "plan," "estimate," "could," "project," "seek," "should," "will," or "would," or the negative of these words and phrases or similar words and phrases.

In addition to the foregoing, the COVID-19 pandemic is adversely affecting us, our customers, counterparties, employees and third party service providers, and the ultimate extent of the impact on our business, financial position, results of operations, liquidity, and prospects is uncertain. Continued deterioration in general business and economic conditions, including further increases in unemployment rates, or turbulence in domestic or global financial markets could adversely affect our revenues and the values of our assets and liabilities, reduce the availability of funding, lead to a tightening of credit, and further increase stock price volatility, which could result in impairment to our goodwill in future periods. Changes to statutes, regulations, or regulatory policies or practices as a result of, or in response to COVID-19, could affect us in substantial and unpredictable ways, including the potential adverse impact of loan modifications and payment deferrals implemented consistent with recent regulatory guidance. The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward-looking statements:

COVID-19 Pandemic

- responsive actions related to the COVID-19 pandemic may adversely affect our business, financial condition, results of operations, liquidity, and cash flow. It is impossible to predict, with reliability, the extent of any such impact;

- public health officials have recommended and mandated precautions to mitigate the spread of COVID-19, including prohibitions on congregating in heavily populated areas and shelter-in-place orders or similar measures. As a result, we have temporarily closed certain of our branches and other locations over the past several months. Our results could be adversely impacted by these closures and other actions taken to contain the impact of COVID-19, and the extent of such impact will depend on future developments, which are highly uncertain and cannot be reliably predicted;

- while we expect the impacts of COVID-19 to have an adverse effect on our business, financial condition and results of operations, we are unable to predict, with any reliability, the extent or nature of these impacts at this time;

- our residential mortgage banking, consumer credit card and commercial businesses may be adversely affected by the effect of the COVID-19 pandemic and other circumstances;

- adequacy of reserves, including our allowance for loan losses, may be impacted by effects of the COVID-19 pandemic and other circumstances;

- asset quality within the Company's loan portfolio and the value of collateral securing our loans may deteriorate and be adversely impacted by the effects and duration of the COVID-19 pandemic and other circumstances;

- our allowance for loan losses may increase if borrowers experience financial difficulties, which will adversely affect our results of operations; the net worth and liquidity of loan guarantors may decline, impairing their ability to honor their commitments to us;

- if the economy is unable to substantially reopen, and high levels of unemployment continue for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income; collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase;

- liquidity risks associated with our business could be adversely affected by the COVID-19 pandemic and other circumstances;

- our ability to maintain important deposit customer relationships and our reputation could be impacted by the COVID-19 pandemic and other circumstances;

- the sufficiency of our capital, including sources of capital and the extent to which we may be required to raise additional capital to meet our goals may be impacted by the COVID-19 pandemic and other circumstances;

- fluctuations in the fair value of our investment securities that are beyond our control could be impacted by the COVID-19 pandemic duration;

- potential exposure to fraud, negligence, computer theft and cyber-crime as an effect of the COVID-19 pandemic and other circumstances could increase;

- the adequacy of our risk management framework may be impacted by the COVID-19 pandemic as our cyber security risks are increased as the result of an increase in the number of employees working remotely;

General Economic Conditions

- economic conditions (including interest rate environment, government economic and monetary policies, the strength of global financial markets and inflation and deflation) that impact the financial services industry as a whole and/or our business;

- interest rate risk associated with our business, including sensitivity of our interest earning assets and interest bearing liabilities to interest rates, and the impact to our earnings from changes in interest rates;

- the concentration of our business in the Washington, D.C. and Baltimore, Maryland metropolitan areas and the effect of changes in the economic, political and environmental conditions on these markets;

General Business Operations

- our ability to prudently manage our growth and execute our strategy;

- our plans to grow our commercial real estate and commercial business loan portfolios which may carry material risks of non-payment or other unfavorable consequences;
- strategic acquisitions we may undertake to achieve our goals;
- our dependence on our information technology and telecommunications systems and the potential for any systems failures or interruptions;
- our dependence upon outside third parties for the processing and handling of our records and data;
- our ability to adapt to technological change;
- our engagement in derivative transactions;
- volatility and direction of market interest rates;
- the possible impact of uncertainty about the future of *LIBOR* on our net interest income;
- due to the decline in the Federal Reserve Board's target federal funds rate to near 0%, the yield on our assets may decline to a greater extent than the decline in our cost of interest-bearing liabilities, reducing our net interest margin and spread and reducing net income;
- the effectiveness of our internal controls over financial reporting and our ability to remediate any future material weakness in our internal controls over financial reporting;
- our dependence on our management team and board of directors and changes in management and board composition;
- our involvement from time to time in legal proceedings, examinations and remedial actions by regulators;
- risks associated with our OpenSky credit card division, including compliance with applicable consumer finance and fraud prevention regulations;
- we may be required to repurchase loans originated for sale by our mortgage banking division;
- results of examinations of us by our regulators, including the possibility that our regulators may, among other things, require us to increase our allowance for loan losses or to write-down assets;
- changes in the laws, rules, regulations, interpretations or policies relating to financial institution, accounting, tax, trade, monetary and fiscal matters;
- increased competition in the financial services industry, particularly from regional and national institutions;
- the financial soundness of other financial institutions;
- Federal Deposit Insurance Corporation premiums may increase if the agency experiences additional resolution costs;
- further government intervention in the U.S. financial system;
- natural disasters and adverse weather, acts of terrorism, an outbreak of hostilities or other international or domestic calamities, and other matters beyond our control; and

- potential exposure to fraud, negligence, computer theft and cyber-crime.

As you read and consider forward-looking statements, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties and assumptions and can change as a result of many possible events or factors, not all of which are known to us or in our control. Although we believe that these forward-looking statements are based on reasonable assumptions, beliefs, and expectations, if a change occurs or our beliefs, assumptions, or expectations were incorrect, our business, financial condition, liquidity or results of operations may vary materially from those expressed in our forward-looking statements. You should be aware that many factors could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements. These factors include those described under the heading “Risk Factors” under Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2019 in addition to Part II, Item 1A - Risk Factors of this Quarterly Report on Form 10-Q and other reports as filed with the SEC.

You should keep in mind that any forward-looking statement made by us speaks only as of the date on which we make it. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, and disclaim any obligation to, update or revise any industry information or forward-looking statements after the date on which they are made.

Overview

Capital Bancorp, Inc. (the “Company”) was incorporated in 1998 in Maryland to act as the bank holding company for Capital Bank, N.A. (the “Bank”) which received its charter in 1999 and began operations in 1999. The Bank is headquartered in Rockville, Maryland and serves the Washington, D.C. and Baltimore, Maryland metropolitan areas through five commercial bank branches, five mortgage offices, two loan production offices, a limited service branch and three corporate and operations facilities located in key markets throughout our operating area. We serve businesses, not-for-profit associations and entrepreneurs throughout the region by partnering with them to design tailored financial solutions supported by customized technology and “client first” advice.

The Company reports its activities in four business segments: commercial banking; mortgage lending; credit cards; and corporate activities. In determining the appropriateness of segment definition, the Company considers components of the business about which financial information is available and regularly evaluated relative to resource allocation and performance assessment. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), and conform to general practices within the banking industry.

Our Commercial Banking division accounts for the majority of the Bank’s total assets. Our commercial bankers provide quality service, customized solutions and tailored advice to commercial clients in our operating markets.

Our Capital Bank Home Loan (“CBHL”) division originates conventional and government-guaranteed residential mortgage loans on a nationwide basis primarily for sale into the secondary market and in certain, limited circumstances for the Bank’s loan portfolio.

Our OpenSky® division provides secured credit cards on a nationwide basis to under-banked populations and those looking to rebuild their credit scores. OpenSky® cards operate on a fully digital and mobile enabled platform with all marketing and application procedures conducted through website and mobile applications. A deposit equal to the full credit limit of the card is made into a noninterest-bearing demand account with the Bank when the account is opened and the deposit is required to be maintained throughout the life of the card. Using our proprietary scoring model, which considers credit score and repayment history (typically a minimum of six months of on-time repayments, but ultimately determined on a case-by-case basis), OpenSky® also offers certain existing customers an unsecured line in excess of their secured line of credit.

COVID-19 Pandemic

The recent outbreak of COVID-19, which was declared a pandemic by the World Health Organization on March 11, 2020, has led to adverse impacts on economic conditions and created uncertainty in financial markets. In early March 2020, the Company began preparing for potential disruptions and government limitations on activity in the markets in which we serve. Our team activated our Business Continuity Program and was able to quickly execute on multiple initiatives to adjust our operations to protect the health and safety of our employees and clients. Currently, a significant portion of our workforce is working remotely without materially impacting our productivity while continuing to provide a high level of customer service. Since the beginning of the crisis, we have been in close contact with our clients, assessing the level of impact on their businesses, and providing relief programs according to each client's specific situation and qualifications. Currently, three of the Company's branches are open and two remain temporarily closed. We have enhanced awareness of digital banking offerings and limited the number of customers in the branch and have taken steps to comply with various government directives regarding "social distancing," as well as enhanced cleaning and disinfecting of all surface areas to protect our clients and employees.

Small Business Administration's Paycheck Protection Program

We were able to quickly establish our process for participating in the Small Business Administration's Paycheck Protection Program ("SBA-PPP") that enabled our clients to utilize this valuable resource. SBA-PPP loans are designed to provide assistance for small businesses during the COVID-19 pandemic to help meet the costs associated with payroll, mortgage interest, rent and utilities. These loans are 100% guaranteed by the SBA and, under certain circumstances, forgiveness of the loan, by the SBA, is granted to the borrower. Forgiveness is also based on the small business maintaining or quickly rehiring their employees and maintaining salary levels for their employees. SBA-PPP loans do not require any collateral or personal guarantees. Through September 30, 2020, approximately $238.7 million SBA-PPP loans have been originated in the first and second rounds of the program. These efforts have allowed us to further strengthen and deepen our client relationships, while positively impacting thousands of individuals. We monitor the credit quality of the loan portfolio and we monitor line of credit draws for deviation from normal activity to improve loan performance and reduce credit risk.

Short-term Modifications for Borrowers

In keeping with regulatory guidance to work with borrowers during this unprecedented situation and as outlined in Section 4013 of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), the Company is providing loan modifications where appropriate, including potential interest only payments or payment deferrals for clients that are adversely affected by the COVID-19 pandemic. Section 4013 of the CARES Act also addressed COVID-19 related modifications and specified that such modifications made on loans that were current as of December 31, 2019 are not TDRs. In accordance with interagency guidance issued in April 2020, these short-term modifications made to a borrower affected by the COVID-19 pandemic and governmental shutdown orders, such as payment deferrals, fee waivers and extensions of repayment terms, do not need to be identified as TDRs if the loans were current at the time a modification plan was implemented. Loans on which we deferred payments on a short-term basis for commercial and consumer loans were $144.0 million at June 30, 2020 and have decreased to $30.3 million or approximately 2.05% of loans receivable as of September 30, 2020.

Liquidity

We are monitoring our liquidity position on an ongoing basis as the circumstances surrounding the pandemic continue to evolve. The Company has several available sources of on and off-balance sheet liquidity. Currently, the Company has not needed to tap into these available liquidity sources . The potential for increased reliance on available liquidity sources may be required based on the effects of the pandemic and their impact on the level of deposits and other factors. Additional discussion on our liquidity as of the report date is reflected in the “Liquidity” section of management’s discussion and analysis.

Capital

As of September 30, 2020, the Bank exceeded all the capital requirements to which it was subject and based on the most recent notification from its primary federal regulator is considered to be well-capitalized. There are no conditions or events since that notification that management believes would change the Bank’s classification. We are closely monitoring our capital position and are taking appropriate steps to ensure our level of capital remains strong. Our capital, while significant, may deteriorate in future periods due to the impact of the pandemic.

Results of Operations

Net Income

The following table sets forth the principal components of net income for the periods indicated.

(in thousands)	Three Months Ended September 30, 2020	2019	% Change
Interest income	**$ 25,189**	$ 22,354	12.7 %
Interest expense	**3,150**	4,170	(24.5)%
Net interest income	**22,039**	18,184	21.2 %
Provision for loan losses	**3,500**	1,071	226.8 %
Net interest income after provision	**18,539**	17,113	8.3 %
Noninterest income	**21,146**	7,221	192.8 %
Noninterest expenses	**28,119**	18,228	54.3 %
Net income before income taxes	**11,566**	6,106	89.4 %
Income tax expense	**3,128**	1,625	92.5 %
Net income	**$ 8,438**	$ 4,481	88.3 %

Net income for the three months ended September 30, 2020 increased 88.3 percent to $8.4 million from $4.5 million for the three months ended September 30, 2019. The increase was primarily the result of higher levels of interest income and mortgage banking revenue (included in noninterest income), and a decrease in interest expense. These improvements were partially offset by an increase in the loan loss provision of $3.5 million in the current quarter, which was the result of macro-economic deterioration from the COVID-19 worldwide pandemic. Noninterest expense was $28.1 million for the three months ended September 30, 2020, compared to $18.2 million for the three months ended September 30, 2019, an increase of $9.9 million, or 54.3%. The increase was primarily driven by a $3.4 million, or 36.5%, increase in salaries and benefits period over period. In addition, there was an increase of $3.7 million in data processing expenses, resulting from the increase in credit cards and in the number of loan and deposits accounts as compared to the three months ended September 30, 2019.

(in thousands)	Nine Months Ended September 30, 2020	2019	% Change
Interest income	**$ 68,933**	$ 60,961	13.1 %
Interest expense	**10,583**	11,502	(8.0)%
Net interest income	**58,350**	49,459	18.0 %
Provision for loan losses	**9,209**	1,869	392.7 %
Net interest income after provision	**49,141**	47,590	3.3 %
Noninterest income	**41,626**	17,240	141.5 %
Noninterest expenses	**68,665**	48,768	40.8 %
Net income before income taxes	**22,102**	16,062	37.6 %
Income tax expense	**5,968**	4,239	40.8 %
Net income	**$ 16,134**	$ 11,823	36.5 %

Net income for the nine months ended September 30, 2020 was $16.1 million, an increase of approximately $4.3 million, or 36.5%, from net income for the nine months ended September 30, 2019 of $11.8 million. The increase in earnings was attributable to higher levels of both net interest income and noninterest income. Improved net interest income was primarily due to an increase in interest income resulting from higher levels of earning assets during the period and a decrease in interest expense. The increase in noninterest income was partially offset by higher noninterest expenses and an increased provision for loan losses of $9.2 million. Noninterest income increased $24.4 million over the prior comparable period primarily due to increased mortgage banking revenue of $17.5 million and credit card fees of $5.2 million. Noninterest expense increased primarily due to increases in salaries and benefits of $8.2 million, or 34.08%, data processing of $6.4 million, or 57.4%, and loan processing of $1.2 million. These increases are attributed to significant growth in mortgage originations and secured credit cards during the nine months ended

September 30, 2020.

Net Interest Income and Net Margin Analysis

We analyze our ability to generate income from interest earning assets and control the interest expenses of our liabilities, measured as net interest income, through our net interest margin and net interest spread. Net interest income is the difference between the interest and fees earned on interest earning assets, such as loans and securities, and the interest expense incurred in connection with interest bearing liabilities, such as deposits and borrowings, which are used to fund those assets. Net interest margin is a ratio calculated as net interest income divided by average interest earning assets for the same period. Net interest spread is the difference between average interest rates earned on interest earning assets and average interest rates paid on interest bearing liabilities.

Changes in market interest rates and the interest rates we earn on interest earning assets or pay on interest bearing liabilities, as well as in the volume and types of interest earning assets, interest bearing and noninterest bearing liabilities and stockholders' equity, are usually the largest drivers of periodic changes in net interest income, net interest margin and net interest spread. Fluctuations in market interest rates are driven by many factors, including governmental monetary policies, inflation, deflation, macroeconomic developments, changes in unemployment, the money supply, political and international conditions and conditions in domestic and foreign financial markets. Periodic changes in the volume and types of loans in our loan portfolio are affected by, among other factors, economic and competitive conditions in the Washington, D.C. and Baltimore, Maryland metropolitan areas, as well as developments affecting the real estate, technology, government services, hospitality and tourism and financial services sectors within our target markets and throughout the Washington, D.C. and Baltimore, Maryland metropolitan areas. Our ability to respond to changes in these factors by using effective asset-liability management techniques will affect the stability of our net interest income and net interest margin.

The following table shows the average outstanding balance of each principal category of our assets, liabilities and stockholders' equity, together with the average yields on our assets and the average costs of our liabilities for the periods indicated. Such yields and costs are calculated by dividing income or expense by the average daily balances of the corresponding assets or liabilities for the same period.

AVERAGE BALANCE SHEET AND NET INTEREST ANALYSIS

	Three Months Ended September 30,					
	2020			2019		
($ in thousands)	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate(1)	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate(1)
Assets						
Interest earning assets:						
Interest bearing deposits	**$ 119,279**	**$ 29**	**0.10%**	$ 35,723	$ 164	1.83%
Federal funds sold	**3,980**	**—**	**0.01%**	1,325	7	2.12%
Investment securities	**54,989**	**273**	**1.97%**	38,389	215	2.22%
Restricted investments	**4,007**	**51**	**5.04%**	5,629	68	4.77%
Loans held for sale	**112,890**	**856**	**3.02%**	56,301	896	6.31%
SBA-PPP loans receivable	**235,160**	**1,470**	**2.49%**	—	—	—%
Portfolio loans receivable(2)	**1,218,589**	**22,510**	**7.35%**	1,099,191	21,004	7.58%
Total interest earning assets	**1,748,894**	**25,189**	**5.73%**	1,236,558	22,354	7.17%
Noninterest earning assets	**22,768**			15,908		
Total assets	**$ 1,771,662**			$ 1,252,466		
Liabilities and Stockholders' Equity						
Interest bearing liabilities:						
Interest bearing demand accounts	**$ 218,415**	**156**	**0.28%**	$ 116,820	191	0.65%
Savings	**5,126**	**1**	**0.05%**	3,913	3	0.35%
Money market accounts	**532,973**	**1,186**	**0.89%**	339,751	1,484	1.73%
Time deposits	**267,970**	**1,291**	**1.92%**	286,605	1,771	2.45%
Borrowed funds	**41,069**	**516**	**5.00%**	89,746	721	3.19%
Total interest bearing liabilities	**1,065,553**	**3,150**	**1.18%**	836,835	4,170	1.98%
Noninterest bearing liabilities:						
Noninterest bearing liabilities	**22,702**			17,163		
Noninterest bearing deposits	**539,220**			271,851		
Stockholders' equity	**144,187**			126,617		
Total liabilities and stockholders' equity	**$ 1,771,662**			$ 1,252,466		
Net interest spread			**4.55%**			5.19%
Net interest income		**$ 22,039**			$ 18,184	
Net interest margin (3)			**5.01%**			5.83%

(1) Annualized.
(2) Includes nonaccrual loans.
(3) For the three months ended September 30, 2019 and 2020, SBA-PPP loans and credit card loans collectively accounted for 117 and 146 basis points of the reported net interest margin, respectively.

The following table presents information regarding the dollar amount of changes in interest income and interest expense for the periods indicated for each major component of interest earning assets and interest bearing liabilities and distinguishes between the changes attributable to changes in volume and changes attributable to changes in interest rates. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been proportionately allocated to both volume and rate.

ANALYSIS OF CHANGES IN NET INTEREST INCOME

	Three Months Ended September 30, 2020 Compared to the Three Months Ended September 30, 2019			Nine Months Ended September 30, 2020 Compared to the Nine Months Ended September 30, 2019		
	Change Due To			Change Due To		
(in thousands)	Volume	Rate	Interest Variance	Volume	Rate	Interest Variance
Interest Income:						
Interest bearing deposits	$ (227)	$ 92	$ (135)	$ (376)	$ 165	$ (211)
Federal funds sold	(14)	7	(7)	17	(42)	(25)
Investment securities	78	(20)	58	252	(30)	222
Restricted stock	(21)	4	(17)	(9)	23	14
Loans held for sale	(83)	43	(40)	(35)	16	(19)
SBA-PPP loans receivable	1,470	—	1,470	2,482	—	2,482
Portfolio loans receivable	2,098	(592)	1,506	8,121	(2,612)	5,509
Total interest income	3,301	(466)	$ 2,835	10,452	(2,480)	7,972
Interest Expense:						
Interest bearing demand accounts	(100)	65	(35)	229	(62)	167
Savings	2	(4)	(2)	4	(9)	(5)
Money market accounts	(2,111)	1,813	(298)	(165)	115	(50)
Time deposits	(110)	(370)	(480)	(171)	(627)	(798)
Borrowed funds	4,387	(4,592)	(205)	(618)	385	(233)
Total interest expense	2,068	(3,088)	(1,020)	(721)	(198)	(919)
Net interest income	$ 1,233	$ 2,622	$ 3,855	$ 11,173	$ (2,282)	$ 8,891

Net interest income increased by $3.9 million, or 21.2%, for the third quarter of 2020 compared to the third quarter of 2019 as average total interest earning assets increased from $1.2 billion to $1.7 billion. The increase in average interest earning assets was primarily driven by an increase in average portfolio loan balances of $119.4 million, or 10.9%, from an average of $1.1 billion for the quarter ended September 30, 2019 to $1.2 billion for the quarter ended September 30, 2020. Average interest earning assets were also boosted by the SBA-PPP loans which averaged $235.2 million above the prior year period. Reflective of the decreasing interest rate environment beginning in the third quarter of 2019 and the below market yield on the SBA-PPP loans, the annualized yield on interest earning assets decreased 144 basis points, from 7.17% for the three months ended September 30, 2019 to 5.73% for the three months ended September 30, 2020.

Average interest bearing liabilities increased by $228.7 million, or 27.3%, from $836.8 million for the third quarter of 2019 to $1.1 billion for the third quarter of 2020. The increase was due to growth of $277.4 million, or 37.1%, in the average balance of interest bearing deposits and a decrease in the average balance of borrowed funds of $48.7 million, or 54%. The annualized average interest rate paid on interest bearing liabilities decreased 80 basis points to 1.18% for the third quarter of 2020 from 1.98% for the third quarter of 2019. The average annualized interest rate on interest bearing deposits and borrowed funds decreased by 80 basis points. The decreases in the annualized average interest rates reflect interest rate decreases in 2019 and 2020.

The net interest margin decreased 82 basis points to 5.01% for the three months ended September 30, 2020, from 5.83% for the three months ended September 30, 2019. Excluding credit cards and SBA-PPP loans, the Company’s annualized net interest margin was 3.84% for the three months ended September 30, 2020, down 53 basis points from 4.37% for the three months ended September 30, 2019. The year over year net interest margin decrease of 82 basis points was primarily due to the decreasing rate environment. The Company's net interest spread was 4.55% and 5.19% for the three months ended September 30, 2020 and 2019, respectively.

AVERAGE BALANCE SHEET AND NET INTEREST ANALYSIS

	Nine Months Ended September 30,					
	2020			2019		
(in thousands)	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate[(1)]	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate[(1)]
Assets						
Interest earning assets:						
Interest bearing deposits	**$ 98,661**	**$ 306**	**0.41%**	$ 35,164	$ 518	1.97%
Federal funds sold	**2,319**	**4**	**0.22%**	1,685	28	2.23%
Investment securities	**58,071**	**929**	**2.14%**	42,281	707	2.24%
Restricted investments	**4,025**	**174**	**5.78%**	4,276	160	4.99%
Loans held for sale	**77,878**	**1,909**	**3.27%**	35,229	1,928	7.32%
SBA-PPP loans receivable	**134,130**	**2,482**	**2.47%**	—	—	—%
Portfolio loans receivable[(2)]	**1,197,719**	**63,129**	**7.04%**	1,041,364	57,620	7.40%
Total interest earning assets	**1,572,803**	**68,933**	**5.85%**	1,159,999	60,961	7.03%
Noninterest earning assets	**21,779**			15,115		
Total assets	**$ 1,594,582**			$ 1,175,114		
Liabilities and Stockholders' Equity						
Interest bearing liabilities:						
Interest bearing demand accounts	**$ 181,597**	**$ 555**	**0.41%**	$ 97,325	$ 387	0.53%
Savings	**4,686**	**4**	**0.13%**	3,613	9	0.35%
Money market accounts	**484,412**	**4,153**	**1.15%**	330,086	4,203	1.70%
Time deposits	**284,844**	**4,489**	**2.11%**	294,693	5,288	2.40%
Borrowed funds	**43,823**	**1,382**	**4.21%**	59,816	1,615	3.61%
Total interest bearing liabilities	**999,362**	**10,583**	**1.41%**	785,533	11,502	1.96%
Noninterest bearing liabilities:						
Noninterest bearing liabilities	**21,401**			14,971		
Noninterest bearing deposits	**433,381**			252,353		
Stockholders' equity	**140,438**			122,257		
Total liabilities and stockholders' equity	**$ 1,594,582**			$ 1,175,114		
Net interest spread			**4.44%**			5.07%
Net interest income		**$ 58,350**			$ 49,459	
Net interest margin [(3)]			**4.96%**			5.70%

(1) Annualized
(2) Includes nonaccrual loans.
(3) For the nine months ended September 30, 2019 and 2020, SBA-PPP loans and credit card loans collectively accounted for 104 and 135 basis points of the reported net interest margin, respectively.

For the nine months ended September 30, 2020, net interest income increased by $8.9 million, or 18.0%, from the nine months ended September 30, 2019 as average total interest earning assets increased from $1.2 billion to $1.6 billion. The increase in average interest earning assets was primarily driven by an increase in average portfolio loan balances of $156.4 million, or 15.0%, from an average balance of $1.0 billion to $1.2 billion for the same period. Reflective of the decreasing interest rate environment beginning in the third quarter of 2019 and the below market yield on the SBA-PPP loans, the annualized yield on interest earning assets decreased 118 basis points, from 7.03% for the nine months ended September 30, 2019 to 5.85% for the nine months ended September 30, 2020.

For the nine months ended September 30, 2020, average interest bearing liabilities increased by $213.8 million, or 27.2%, from $785.5 million to $999.4 million period over period. The increase was due to growth of $229.8 million, or 31.7%, in the average balance of interest bearing deposits and a decrease in the average balance of borrowed funds of $16.0 million, or 26.7%. The annualized average interest rate paid on interest bearing liabilities decreased 55 basis points for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019. The average annualized interest rate on interest bearing deposits decreased by 156 basis points which was partially offset by an increase in the average annualized interest rate on borrowed funds of 60 basis points. The decreases in the annualized average interest rates reflect interest rate decreases in 2019 and 2020.

The net interest margin decreased 74 basis points to 4.96% for the nine months ended September 30, 2020, from 5.70% for the nine months ended September 30, 2019. Excluding credit cards and SBA-PPP loans, the annualized net interest margin was 3.92% for the nine months ended September 30, 2020, down 43 basis points from 4.35% for the nine months ended September 30, 2019. The year over year net interest margin decrease of 74 basis points resulted from the decreasing rate environment. Net interest spread was 4.44% and 5.07% for the nine months ended September 30, 2020 and 2019, respectively.

Provision for Loan Losses

The provision for loan losses is a charge to income in order to bring our allowance for loan losses to a level deemed appropriate by management. For a description of the factors taken into account by our management in determining the allowance for loan losses see "Financial Condition—Allowance for Loan Losses."

The provision for loan losses was $3.5 million and $1.1 million for the three months ended September 30, 2020 and 2019, respectively. For the quarter ended September 30, 2020, uncertainty surrounding the deterioration of the macro-economic environment related to the COVID-19 pandemic resulted in a $3.5 million provision. Net charge-offs amounted to $163 thousand for the three months ended September 30, 2020, compared to $176 thousand for the three months ended September 30, 2019. The decrease in net charge-offs for the three months ended September 30, 2020 was primarily due to decreases in charge-offs of $8 thousand in residential real estate and $35 thousand in the credit card portfolio which was partially offset by an increase in charge-offs in the commercial and industrial portfolio of $31 thousand.

Uncertainty surrounding the deterioration of the macro-economic environment related to the COVID-19 pandemic resulted in provision for loan losses of $9.2 million for the nine months ended September 30, 2020 compared to $1.9 million for the pre-pandemic nine months ended September 30, 2019. Net charge-offs amounted to $494 thousand for the nine months ended September 30, 2020, compared to $369 thousand for the nine months ended September 30, 2019. The increase in net charge-offs for the nine months ended September 30, 2020 was primarily due to increases in charge-offs of $105 thousand in the credit card portfolio. Our allowance for loan losses as a percent of portfolio loans was 1.77% and 1.14% at September 30, 2020 and December 31, 2019, respectively.

Noninterest Income

Our primary sources of recurring noninterest income are service charges on deposit accounts, certain credit card fees, such as interchange fees and statement fees, and mortgage banking revenue. Noninterest income does not include (i) loan origination fees to the extent they exceed the direct loan origination costs, which are generally recognized over the life of the related loan as an adjustment to yield using the interest method or (ii) annual, renewal and late fees related to our credit card portfolio, which are generally recognized over the twelve month life of the related loan as an adjustment to yield using the interest method.

The following table presents, for the periods indicated, the major categories of noninterest income:

NONINTEREST INCOME

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	**2019**	**% Change**	**2020**	**2019**	**% Change**
(in thousands)						
Noninterest income:						
Service charges on deposit accounts	**$ 119**	$ 146	(18.5)%	**$ 378**	$ 382	(1.0)%
Credit card fees	**5,773**	2,059	180.4 %	**10,694**	5,521	93.7 %
Mortgage banking revenue	**14,359**	4,900	193.0 %	**28,496**	10,991	159.3 %
Gain on sale of securities	**—**	—	— %	**—**	26	(100.0)%
Other fees and charges	**895**	116	671.6 %	**2,058**	320	543.1 %
Total noninterest income	**$ 21,146**	$ 7,221	192.8 %	**$ 41,626**	$ 17,240	141.5 %

Noninterest income increased $13.9 million, or 193%, to $21.1 million for the three months ended September 30, 2020 from $7.2 million for the three months ended September 30, 2019. The increase was primarily due to an increase in credit card fees of $3.7 million, or 180.4%, and mortgage banking revenue, which increased by $9.5 million, or 193%, during the third quarter of 2020 compared to the third quarter of 2019. Due to the overall lower interest rate environment accelerating refinances in the current year, purchase volume as a percentage of loan originations declined to 34% for the third quarter of 2020, compared to 44.0% for the third quarter of 2019. Proceeds from the sale of loans held for sale amounted to $423.1 million for the three months ended September 30, 2020 compared to $177.0 million for the three months ended September 30, 2019.

OpenSky® credit card issuances continued at higher levels, totaling 148 thousand for the three months ended September 30, 2020, compared to 31 thousand for the three months ended September 30, 2019. Credit card fees correspondingly increased $3.7 million to $5.8 million for the three months ended September 30, 2020 from $2.1 million for the three months ended September 30, 2019.

Noninterest income increased $24.4 million, or 141%, to $41.6 million for the nine months ended September 30, 2020 compared to $17.2 million for the nine months ended September 30, 2019. The increase was primarily due to credit card fees which increased $5.2 million, or 93.7%, and mortgage banking revenue, which increased by $17.5 million, or 159%, during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019. Purchase volume as a percentage of loan originations was 32.7% for the nine months ended September 30, 2020, compared to 62.1% for the nine months ended September 30, 2019. Proceeds from the sale of loans held for sale amounted to $888.5 million for the nine months ended September 30, 2020 compared to $368.0 million for the nine months ended September 30, 2019.

OpenSky® credit card fees increased $5.2 million to $10.7 million for the nine months ended September 30, 2020 from $5.5 million for the nine months ended September 30, 2019 primarily due to an increase in credit card accounts.

Noninterest Expense

Generally, noninterest expense is composed of all employee expenses and costs associated with operating our facilities, obtaining and retaining customer relationships and providing bank services. The largest component of noninterest expense is salaries and employee benefits. Noninterest expense also includes operational expenses, such as occupancy and equipment expenses, professional fees, advertising expenses, loan processing expenses and other general and administrative expenses, including FDIC assessments, communications, travel, meals, training, supplies and postage.

The following table presents, for the periods indicated, the major categories of noninterest expense:

NONINTEREST EXPENSE

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	% Change	2020	2019	% Change
(in thousands)						
Noninterest expense:						
Salaries and employee benefits	**12,609**	9,238	36.5%	**32,362**	24,136	34.1%
Occupancy and equipment	**1,328**	1,111	19.5%	**3,658**	3,307	10.6%
Professional services	**1,307**	724	80.5%	**2,971**	1,952	52.2%
Data processing	**7,880**	4,193	87.9%	**17,664**	11,222	57.4%
Advertising	**633**	584	8.4%	**1,875**	1,557	20.4%
Loan processing	**1,264**	634	99.4%	**2,451**	1,279	91.6%
Foreclosed real estate expense, net	**9**	7	28.6%	**137**	57	140.4%
Other	**3,089**	1,737	77.8%	**7,547**	5,258	43.5%
Total noninterest expense	**$ 28,119**	$ 18,228	54.3%	**$ 68,665**	$ 48,768	40.8%

Noninterest expense amounted to $28.1 million for the three months ended September 30, 2020, an increase of $9.9 million, or 54.3%, compared to $18.2 million for the three months ended September 30, 2019. The increase was primarily due to increases in salaries and employee benefits, (which include commissions paid on mortgage originations), data processing expenses, loan processing and other expenses. Commissions paid on mortgage originations increased 94.5% from $1.9 million to $3.7 million, reflective of significantly higher levels of mortgage originations. The increase in salaries and benefits was also reflective of the organic growth of the Company and includes 13 new employees in the revenue producing teams of the commercial banking and mortgage banking divisions. In addition, there was an increase of $3.7 million in data processing expense reflecting the higher volume of open credit cards and higher loan and deposit balances during the period. Additionally, operating expenses increased $1.4 million due to increases in marketing and advertising, credit expenses, professional fees and FDIC insurance.

Noninterest expense amounted to $68.7 million for the nine months ended September 30, 2020, an increase of $19.9 million, or 40.8%, compared to $48.8 million for the nine months ended September 30, 2019. The increase was primarily due to increases in salaries and employee benefits, which include commissions paid on mortgage originations, professional services, data processing expenses, loan processing, and other expenses. Commissions paid on mortgage originations increased 87.2% from $4.0 million to $7.5 million, reflective of higher levels of mortgage originations. Another component of the increase in salary and employee benefits expense resulted from a 5.6% increase in employees to 250 at September 30, 2020, from 231 at September 30, 2019. The increase in employees is reflective of the organic growth of the Company and includes 13 new employees in the revenue producing teams of the commercial banking and mortgage banking divisions. In addition, there was an increase of $6.4 million in data processing expense reflecting the higher volume of open credit cards and higher loan and deposit balances during the period.

Income Tax Expense

The amount of income tax expense we incur is influenced by our pre-tax income and our other nondeductible expenses. Deferred tax assets and liabilities are reflected at current income tax rates in effect for the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Income tax expense was $3.1 million for the three months ended September 30, 2020 compared to $1.6 million for the three months ended September 30, 2019. Our effective tax rates were approximately 27.0% and 26.6% for the 2020 and 2019 periods, respectively. For the nine months ended September 30, 2020, income tax expense was $6.0 million compared to $4.2 million for the nine months ended September 30, 2019, with effective tax rates of 27.0% and 26.4% for 2020 and 2019, respectively. The increases in income tax expense for both periods in 2020 relative to the comparable periods in 2019 were due to higher pre tax income.

Financial Condition

As of September 30, 2020, total assets increased $450.5 million from December 31, 2019 to approximately $1.9 billion. The increase was primarily attributable to the origination and funding of $238.7 million of SBA-PPP loans supplemented with strong organic deposit growth during the second and third quarters of 2020. Federal funds sold, loans receivable, interest bearing deposits at other financial institutions and loans held for sale increased. Premises and equipment and investment securities decreased over the period. Noninterest bearing deposits increased to $596.2 million at September 30, 2020 from $291.8 million at December 31, 2019 and interest bearing deposits increased to $1.1 billion from $933.6 million in the period. Stockholders' equity increased $16.0 million, or 12.0%, to $149.4 million at September 30, 2020, primarily due to earnings.

Interest Bearing Deposits at Other Financial Institutions

As of September 30, 2020, interest bearing deposits at other financial institutions increased $77.4 million, or 75.5%, to $179.8 million from $102.4 million at December 31, 2019. The increase was primarily due to increased deposits from customer fiduciary deposit accounts.

Securities

We use our securities portfolio to provide a source of liquidity, provide an appropriate return on funds invested, manage interest rate risk, meet collateral requirements and meet regulatory capital requirements.

Management classifies investment securities as either held to maturity or available for sale based on our intentions and the Company's ability to hold such securities until maturity. In determining such classifications, securities that management has the positive intent and the Company has the ability to hold until maturity are classified as held to maturity and carried at amortized cost. All other securities are designated as available for sale and carried at estimated fair value with unrealized gains and losses included in stockholders' equity on an after-tax basis. For the years presented, all securities were classified as available for sale.

Our investment portfolio decreased by 11.2%, or approximately $6.8 million, from $60.8 million at December 31, 2019, to $54.0 million at September 30, 2020 primarily as a result of $9.8 million of paydowns received on mortgage-backed securities, offset by an increased unrealized gain on securities of $2.5 million. Year to date calls and maturities totaled $1.3 million. To supplement interest income earned on our loan portfolio, we invest in mortgage-backed securities, government agency bonds, and high quality municipal and corporate bonds.

The following tables summarize the contractual maturities and weighted-average yields of investment securities at September 30, 2020 and the amortized cost and carrying value of those securities as of the indicated dates.

INVESTMENT MATURITIES

September 30, 2020	More Than Five Years Through 10 Years		More Than 10 Years		Total		
	Book Value	Weighted Average Yield	Book Value	Weighted Average Yield	Book Value	Fair Value	Weighted Average Yield
(in thousands)							
Securities Available for Sale:							
Municipal	$ —	—%	$ 513	17.55%	$ 513	$ 544	17.55%
Corporate bonds	4,000	1.59%	260	—%	4,260	4,270	1.79%
Mortgage-backed securities	16,569	4.01%	30,175	0.91%	46,744	49,178	1.84%
Total	$ 20,569	3.54%	$ 30,948	1.18%	$ 51,517	$ 53,992	1.99%

Portfolio Loans Receivable

Our primary source of income is derived from interest earned on loans. Our portfolio loans consist of loans secured by real estate as well as commercial business loans, credit card loans, substantially all of which are secured by corresponding deposits at the Bank and, to a very limited extent, other consumer loans. Our loan customers primarily consist of small- to medium-sized businesses, professionals, real estate investors, small residential builders and individuals. Our owner-occupied commercial real estate loans, residential construction loans and commercial business and investment loans provide us with higher risk-adjusted returns, shorter maturities and more sensitivity to interest rate fluctuations, and are complemented by our relatively lower risk residential real estate loans to individuals. To a lesser extent, our credit card portfolio supplements our traditional lending products with enhanced yields. Our lending activities are principally directed to our market area consisting of the Washington, D.C. and Baltimore, Maryland metropolitan areas.

The following table summarizes our loan portfolio by type of loan as of the dates indicated:

COMPOSITION OF PORTFOLIO LOANS

	As of September 30, 2020		As of December 31, 2019	
(in thousands)	Amount	Percent	Amount	Percent
Real estate:				
Residential	**$ 422,698**	34%	$ 427,926	36%
Commercial	**372,972**	30%	348,091	30%
Construction	**227,662**	18%	198,702	17%
Commercial and Industrial	**134,889**	11%	151,109	13%
Credit card	**84,964**	7%	46,412	4%
Other consumer	**2,268**	—%	1,285	—%
Portfolio loans receivable, gross	**1,245,453**	100%	1,173,525	100%
Deferred origination fees, net	**(840)**		(2,404)	
Portfolio loans, net of unearned income	**1,244,613**		1,171,121	
Allowance for loan losses	**(22,016)**		(13,301)	
Portfolio loans receivable, net	**$ 1,222,597**		$ 1,157,820	

The repayment of loans is a source of additional liquidity for us. The following table details maturities and sensitivity to interest rate changes for our loan portfolio at September 30, 2020:

LOAN MATURITY AND SENSITIVITY TO CHANGES IN INTEREST RATES

	As of September 30, 2020			
(in thousands)	Due in One Year or Less	Due in One to Five Years	Due After Five Years	Total
Real estate:				
Residential	$ 82,873	$ 163,625	$ 176,200	$ 422,698
Commercial	66,765	193,032	113,175	372,972
Construction	202,005	24,506	1,151	227,662
Commercial and Industrial	69,244	36,126	29,519	134,889
Credit card	84,964	—	—	84,964
Other consumer	1,862	243	163	2,268
Portfolio loans receivable, gross	$ 507,713	$ 417,532	$ 320,208	$ 1,245,453
Amounts with fixed rates	$ 148,552	$ 297,130	$ 73,373	$ 519,055
Amounts with floating rates	$ 359,161	$ 120,402	$ 246,835	$ 726,398

In addition to the portfolio loans shown above, SBA-PPP loans receivable, which totaled $238.7 million at September 30, 2020, mature in the 1-5 year time-frame and carry a fixed rate of interest.

Nonperforming Assets

Nonperforming loans increased to $11.5 million, or 0.92% of total portfolio loans, at September 30, 2020 compared to $4.7 million, or 0.40% of total portfolio loans, at December 31, 2019. The $6.8 million, or 143.2%, increase during the nine months ended September 30, 2020 was primarily due to an increase of $6.5 million in nonperforming construction loans. The increase was attributable to two past due construction loans related to a single relationship totaling $4.7 million and another loan for $1.4 million which is a single borrower relationship. We believe these three loans are well secured and no impairment is currently expected. Included in the nonperforming loans at September 30, 2020 are troubled debt restructurings of $446 thousand.

Foreclosed real estate increased to $3.3 million as of September 30, 2020 compared to $2.4 million as of December 31, 2019 due to the foreclosure of a residential loan.

Total nonperforming assets were $14.8 million at September 30, 2020 compared to $7.1 million at December 31, 2019, or 0.79% and 0.50% of corresponding total assets, respectively.

As a result of the COVID-19 pandemic, we anticipate that our commercial, commercial real estate, residential and consumer borrowers will continue to encounter economic difficulties, which could lead to increases in our levels of nonperforming assets, impaired loans and troubled debt restructurings.

The following table presents information regarding nonperforming assets at the dates indicated:

NONPERFORMING ASSETS[1]

(in thousands)	September 30, 2020	December 31, 2019
Nonaccrual loans		
Real Estate:		
Residential	$ 1,626	$ 2,192
Commercial	1,466	1,433
Construction	6,464	—
Commercial and Industrial	1,395	474
Accruing loans 90 or more days past due	529	620
Total nonperforming portfolio loans	11,480	4,719
Foreclosed real estate	3,326	2,384
Total nonperforming assets	$ 14,806	$ 7,103
Restructured loans - nonaccrual	$ 446	$ 459
Restructured loans - accruing	$ —	$ —
Ratio of nonperforming loans to portfolio loans	0.92%	0.40%
Ratio of nonperforming assets to total assets	0.79%	0.50%

(1) Excludes SBA-PPP loans receivable, none of which were nonperforming.

The following table presents the loan balances by category as well as risk rating at the dates indicated. No assets were classified as loss during the periods presented.

PORTFOLIO LOAN CLASSIFICATION

(in thousands)	Pass[1]	Special Mention	Substandard	Doubtful	Total
September 30, 2020					
Real estate:					
Residential	$ 411,957	$ 8,245	$ 2,496	$ —	$ 422,698
Commercial	361,474	10,243	1,255	—	372,972
Construction	220,086	1,112	6,464	—	227,662
Commercial and Industrial	121,707	10,965	2,217	—	134,889
Credit card	84,964	—	—	—	84,964
Other consumer	2,268	—	—	—	2,268
Portfolio loans receivable, gross	$ 1,202,456	$ 30,565	$ 12,432	$ —	$ 1,245,453
December 31, 2019					
Real estate:					
Residential	$ 425,661	$ —	$ 2,265	$ —	$ 427,926
Commercial	340,313	6,345	1,433	—	348,091
Construction	198,702	—	—	—	198,702
Commercial and Industrial	145,178	4,505	1,426	—	151,109
Credit card	46,412	—	—	—	46,412
Other consumer	1,285	—	—	—	1,285
Portfolio loans receivable, gross	$ 1,157,551	$ 10,850	$ 5,124	$ —	$ 1,173,525

(1) Category includes loans graded exceptional, very good, good, satisfactory and pass / watch, in addition to credit cards and consumer credits that are not graded.

At September 30, 2020, the recorded investment in impaired loans was $11.0 million, of which $1.4 million required a specific reserve of $574 thousand. This compares to a recorded investment in impaired loans of $4.1 million at December 31, 2019, including $273 thousand which required a specific reserve of $119 thousand. The increase in impaired loans is largely attributed to two past due construction loans totaling $4.7 million related to a single relationship and another commercial relationship totaling $1.4 million. We believe these loans are well secured and no impairment is currently expected.

Impaired loans also include certain loans that have been modified as TDRs. The Company had five loans amounting to $446 thousand at September 30, 2020, and five loans totaling $459 thousand at December 31, 2019 that were considered to be TDRs.

Allowance for Loan Losses

We maintain an allowance for loan losses that represents management's best estimate of the loan losses and risks inherent in our loan portfolio. The amount of the allowance for loan losses should not be interpreted as an indication that charge-offs in future periods will necessarily occur in those amounts, or at all. In determining the allowance for loan losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of the allowance for loan losses is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature of our loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates. The following table presents a summary of changes in the allowance for loan losses for the periods and dates indicated:

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

(in thousands)	**For the Nine Months Ended September 30, 2020**	For the Year Ended December 31, 2019
Allowance for loan losses at beginning of period	**$ 13,301**	$ 11,308
Charge-offs:		
Residential	**—**	(40)
Commercial and Industrial	**(111)**	(331)
Credit card	**(408)**	(461)
Total charge-offs	**(519)**	(832)
Recoveries:		
Real estate:		
Commercial	**—**	13
Commercial and Industrial	**—**	2
Credit card	**25**	19
Total recoveries	**25**	34
Net charge-offs	**(494)**	(798)
Provision for loan losses	**9,209**	2,791
Allowance for loan losses at period end	**$ 22,016**	$ 13,301
Portfolio loans outstanding, net of unearned income	**$ 1,244,613**	$ 1,171,121
Average portfolio loans outstanding, net of unearned income	**$ 1,197,719**	$ 1,064,421
Allowance for loan losses to period end portfolio loans	1.77%	1.14%
Annualized net charge-offs to average portfolio loans	0.06%	0.10%

Our allowance for loan losses at September 30, 2020 and December 31, 2019 was $22.0 million, or 1.77% of portfolio loans, and $13.3 million, or 1.14% of portfolio loans, respectively. The increase in the allowance was the result of a $9.2 million provision for loan losses during the nine months ended September 30, 2020 due to the uncertain economic impact of COVID-19. The allowance for loan losses for SBA-PPP loans was separately evaluated given the explicit government guarantee. This analysis, which incorporated historical experience with similar SBA guarantees and underwriting, concluded the likelihood of loss was remote and therefore these loans were not assigned a reserve in the allowance for loan losses. The allowance for loan losses at September 30, 2020 included specific reserves of $574 thousand established for impaired loans. Charge-offs for the nine months ended September 30, 2020 were $519 thousand and were partially offset by recoveries of $25 thousand. The allowance for loan losses at December 31, 2019 included specific reserves of $119 thousand established for impaired loans. Charge-offs for the year ended December 31, 2019 were $832 thousand, and were partially offset by recoveries of $34 thousand. The charge-offs for the first nine months ended September 30, 2020 and for the year ended December 31, 2019 were primarily due to credit card charge-offs.

Although we believe that we have established the allowance for loan losses in accordance with GAAP and that the allowance for loan losses was adequate to provide for known and inherent losses in the portfolio at all times shown above, future provisions for loan losses will be subject to ongoing evaluations of the risks in our loan portfolio.

The following table shows the allocation of the allowance for loan losses among loan categories and certain other information as of the dates indicated. The total allowance is available to absorb losses from any loan category.

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

	September 30, 2020		December 31, 2019	
	Amount	Percent [1]	Amount	Percent [1]
(in thousands)				
Real estate:				
Residential	**$ 6,981**	**32%**	$ 4,135	31%
Commercial	**6,390**	**29%**	3,572	27%
Construction	**4,489**	**20%**	2,668	20%
Commercial and Industrial	**2,329**	**11%**	1,548	12%
Credit card	**1,795**	**8%**	1,368	10%
Other consumer	**32**	**—%**	10	—%
Total allowance for loan losses	**$ 22,016**	**100%**	$ 13,301	100%

(1) Loan category as a percentage of total portfolio loans.

Beginning in the first quarter of 2020, the COVID-19 pandemic impacted the U.S. economy. Management is actively monitoring the loan portfolio for industry concentrations that we believe are most likely to be impacted by the pandemic. While the Company has negligible exposure to the energy sector, shared national credits or leveraged lending, the Bank does have exposures to affected industries such as, for example, hospitality, food service and retail business. The duration and severity of the pandemic will likely result in future credit challenges in these and other business sectors.

Management has been working with customers on payment deferrals to assist companies manage through the pandemic. The following table shows the allocation of deferred loans related to COVID-19:

Loan Modifications [1]

(dollars in millions)

Sector	September 30, 2020 Deferred Loans Total Loans Outstanding	September 30, 2020 Deferred Loans Balance	September 30, 2020 Deferred Loans # of Loans Deferred	June 30, 2020 Deferred Loans Total Loans Outstanding	June 30, 2020 Deferred Loans Balance	June 30, 2020 Deferred Loans # of Loans Deferred
Accommodation & Food Services	$ 86.4	$ 11.2	14	$ 83.9	$ 42.6	36
Real Estate and Rental Leasing	503.1	9.3	16	527.9	45.6	67
Other Services Including Private Households	273.9	5.6	11	193.8	17.3	36
Educational Services	20.5	—	—	20.4	9.8	6
Construction	246.0	0.3	1	220.4	4.2	6
Professional, Scientific, and Technical Services	87.3	1.1	2	88.4	5.0	11
Arts, Entertainment & Recreation	30.4	1.4	2	14.9	5.0	9
Retail Trade	24.5	—	—	25.5	3.0	8
Healthcare & Social Assistance	78.0	0.9	1	77.2	4.7	11
Wholesale Trade	2.6	—	—	13.0	0.9	1
All other [1]	125.3	0.5	2	175.7	5.9	13
Total	$ 1,478.0	$ 30.3	49	$ 1,441.1	$ 144.0	204

(1) Excludes modifications and deferrals made for our OpenSky secured card customers.

Outstanding deferred loans decreased $113.7 million, or 79% from June 30, 2020 to September 30, 2020. Loans that have been removed from deferred status have returned to original payment terms.

Deposits

Deposits are the major source of funding for the Company. We offer a variety of deposit products including interest bearing demand, savings, money market and time accounts all of which we actively market at competitive pricing. We generate deposits from our customers on a relationship basis and through the efforts of our commercial lending officers and our business banking officers. Our credit card customers are a significant source of noninterest bearing deposits and accounted for $176.7 million, or 30%, of our total noninterest bearing deposit balances as of September 30, 2020, an increase of $99.0 million from the first nine months of 2019. At September 30, 2020, noninterest bearing deposits amounted to $596.2 million, an increase of $304.5 million, or 104.3%, compared to the level at December 31, 2019 due in large part to an increase of $137.5 million in fiduciary accounts and the above noted increase in deposits generated by our OpenSky secured credit card program. Opportunistically, we supplement our deposits with wholesale funding sources such as brokered deposits.

Interest bearing deposits increased $132.3 million, or 14.2%, from December 31, 2019 to September 30, 2020 and included increases in interest bearing demand and money market accounts, offset by a reduction in certificates of deposits. The Company continues to execute on its strategic initiative to improve the deposit portfolio mix from wholesale deposits to core deposits including noninterest bearing deposits. During the period, certificates of deposit decreased $62.7 million, or 19.2%, with brokered deposits representing a majority of that decrease. Interest bearing demand and money market accounts increased $94.0 million, or 54.0% and $78.4 million, or 18.3% from December 31, 2019 to September 30, 2020, respectively.

The average rate paid on interest bearing deposits decreased 51 basis points from 1.80% for the year ended December 31, 2019 to 1.29% for the nine months ended September 30, 2020. Rates paid on certificates of deposit decreased 27 basis points over the same period. The decrease in the average rates reflects decreases in market interest rates which began in the third quarter of 2019.

The following table presents the average balances and average rates paid on deposits for the periods indicated:

COMPOSITION OF AVERAGE DEPOSITS

	For the Nine Months Ended September 30, 2020		For the Year Ended December 31, 2019	
	Average Balance	**Average Rate**	Average Balance	Average Rate
(in thousands)				
Interest bearing demand accounts	**$ 181,597**	**0.41%**	$ 109,977	0.61%
Money market accounts	**484,412**	**1.15%**	344,272	1.69%
Savings accounts	**4,686**	**0.13%**	3,597	0.36%
Certificates of deposit	**284,844**	**2.11%**	302,149	2.38%
Total interest bearing deposits	**955,539**	**1.29%**	759,995	1.80%
Noninterest bearing demand accounts	**433,381**		260,726	
Total deposits	**$ 1,388,920**	**0.88%**	$ 1,020,721	1.34%

The following table presents the maturities of our certificates of deposit as of September 30, 2020.

MATURITIES OF CERTIFICATES OF DEPOSIT

	Three Months or Less	**Over Three Through Six Months**	**Over Six Through Twelve Months**	**Over Twelve Months**	**Total**
(in thousands)					
$100,000 or more	$ 40,130	$ 51,324	$ 105,983	$ 115,043	$ 312,480
Less than $100,000	6,112	4,745	14,758	3,339	28,954
Total	$ 46,242	$ 56,069	$ 120,741	$ 118,382	$ 341,434

Borrowings

We primarily utilize short-term and long-term borrowings to supplement deposits to fund our lending and investment activities, each of which is discussed below.

FHLB Advances. The FHLB allows us to borrow up to 25% of our assets on a blanket floating lien status collateralized by certain securities and loans. As of September 30, 2020, approximately $207.0 million in real estate loans and $48.2 million in investment securities were pledged as collateral to the FHLB supporting a $447.4 million line of credit. We utilize these borrowings to meet liquidity needs and to fund certain fixed rate loans in our portfolio. As of September 30, 2020, we had $22.2 million in outstanding advances and our available borrowing capacity at the FHLB was $233.0 million at September 30, 2020. The $10.0 million decrease compared to $32.2 million of outstanding advances at December 31, 2019 resulted from principal paydowns on our long term FHLB advance.

The following table sets forth certain information on our FHLB borrowings during the periods presented:

FHLB ADVANCES

(in thousands)	For the Nine Months Ended September 30, 2020	For the Year Ended December 31, 2019
Amount outstanding at period-end	**$ 22,222**	$ 32,222
Weighted average interest rate at period-end	**2.40%**	2.40%
Maximum month-end balance during the period	**$ 31,111**	$ 72,778
Average balance outstanding during the period	**$ 27,232**	$ 43,472
Weighted average interest rate during the period	**2.42%**	2.47%

The Company has also issued junior subordinated debentures and other subordinated notes. At September 30, 2020, these other borrowings amounted to $17.5 million.

At September 30, 2020, our junior subordinated debentures amounted to $2.1 million. The junior subordinated debentures were issued in June of 2006, mature on June 15, 2036, and may be redeemed prior to that date under certain circumstances. The principal amount of the debentures has not changed since issuance, and they accrue interest at a floating rate equal to the three-month LIBOR plus 1.87%.

On November 24, 2015, the Company issued $13.5 million in aggregate principal amount of subordinated notes with a maturity date of December 1, 2025. The notes may be redeemed prior to the maturity date under certain circumstances. The notes bear interest at 6.95% for the first five years, then adjust to the three-month LIBOR plus 5.33%.

The Federal Reserve Bank of Richmond has an available borrower in custody arrangement which allows us to borrow on a collateralized basis. The Company's borrowing capacity under the Federal Reserve's discount window program was $15.6 million as of September 30, 2020. Certain commercial loans are pledged under this arrangement. We maintain this borrowing arrangement to meet liquidity needs pursuant to our contingency funding plan. No advances were outstanding under this facility as of September 30, 2020. The Bank has $2.0 million in borrowings under the Payroll Protection Program Liquidity Facility ("PPPLF") whereby The Federal Reserve Bank of Richmond accepts SBA-PPP loans pledged as collateral and provides funding to the Bank at 0.35% for the term of the SBA-PPP loans which is generally 24 months.

The Company also has available lines of credit of $76.0 million with other correspondent banks at September 30, 2020, as well as access to certificate of deposit funding through a financial network and wholesale brokers. Our funding policy limits use of this funding source to 30% of the Bank's deposits. These lines were not utilized at September 30, 2020.

Liquidity

Liquidity is defined as the Bank's capacity to meet its cash and collateral obligations at a reasonable cost. Maintaining an adequate level of liquidity depends on the Bank's ability to meet both expected and unexpected cash flows and collateral needs efficiently without adversely affecting either daily operations or the financial condition of the Bank. Liquidity risk is the risk that we will be unable to meet our obligations as they become due because of an inability to liquidate assets or obtain adequate funding. The Bank's obligations, and the funding sources used to meet them, depend significantly on our business mix, balance sheet structure and the cash flow profiles of our on- and off-balance sheet obligations. In managing our cash flows, management regularly confronts situations that can give rise to increased liquidity risk. These include funding mismatches, market constraints on the ability to convert assets into cash or in accessing sources of funds (i.e., market liquidity) and contingent liquidity events. Changes in economic conditions or exposure to credit, market, operation, legal and reputational risks also could affect the Bank's liquidity risk profile and are considered in the assessment of liquidity and asset/liability management.

Management has established a management process for identifying, measuring, monitoring and controlling liquidity risk. Because of its critical importance to the viability of the Bank, liquidity risk management is fully integrated into our risk management processes. Critical elements of our liquidity risk management include: corporate governance consisting of oversight by the board of directors and active involvement by management; strategies, policies, procedures, and limits used to manage and mitigate liquidity risk; liquidity risk measurement and monitoring systems (including assessments of the current and prospective cash flows or sources and uses of funds) that are believed to be commensurate with the complexity and business activities of the Bank; active management of intraday liquidity and collateral; a diverse mix of existing and potential future funding sources; holding liquid marketable securities, free of legal, regulatory or operational impediments, that can be used to meet liquidity needs in stressful situations; contingency funding plans that address potential adverse liquidity events and emergency cash flow requirements; and internal controls and internal audit processes believed to be sufficient to determine the adequacy of the institution's liquidity risk management process.

We expect funds to be available from a number of basic banking activity sources, including the core deposit base, the repayment and maturity of loans and investment security cash flows. Other potential funding sources include brokered certificates of deposit, deposit listing services, CDARS, borrowings from the FHLB and other lines of credit.

As of September 30, 2020, we had $233.0 million of available borrowing capacity from the FHLB, $15.6 million of available borrowing capacity from the Federal Reserve Bank of Richmond and available lines of credit of $76.0 million with other correspondent banks. In addition, as a participant in the PPPLF, the Bank has funding available at the Federal Reserve Bank of Richmond upon the pledging of the SBA-PPP loans. SBA-PPP loans available for pledging amounted to $2.0 million at September 30, 2020. The funding facility is available to be drawn upon through December 31, 2020 at a rate of 0.35% for the corresponding term of the underlying SBA-PPP loan collateral. Cash and cash equivalents were $205.5 million at September 30, 2020 and $114.8 million at December 31, 2019. We believe our liquidity resources were at sufficient levels to fund loans and meet other cash needs as necessary.

Capital Resources

Stockholders' equity increased $16.0 million at September 30, 2020 compared to December 31, 2019. Net income for the nine months ended September 30, 2020 increased retained earnings by $16.1 million. Stock options exercised, shares issued as compensation, and stock-based compensation increased common stock and additional paid-in capital aggregately by $1.7 million. In addition to these increases, the change in net unrealized gains on available for sale securities of $1.8 million supplemented stockholders' equity. As part of the Company's stock repurchase program, shares repurchased and retired for the nine months ended September 30, 2020 totaled 254,834 shares at a weighted average price of $10.84, for a total cost of $2.8 million, including commissions.

The Company uses several indicators of capital strength. The most commonly used measure is the Common Equity Tier 1 ("CET1") capital ratio (common equity tier 1 capital divided by risk weighted assets), which was 11.48% at September 30, 2020 and 11.10% at December 31, 2019. The Company has above-average levels of capital and has taken steps to navigate COVID-19 related disruptions, including taking higher levels than normal of loan loss provisions and maintaining higher than normal levels of liquidity on the balance sheet.

The following table shows the return on average assets (computed as net income divided by average total assets), return on average equity (computed as net income divided by average equity) and common equity tier 1 capital ratios for the three and nine months ended September 30, 2020 and for the year ended December 31, 2019.

	For the Three Months Ended September 30, 2020	**For the Nine Months Ended September 30, 2020**	**For the Year Ended December 31, 2019**
Return on Average Assets[(1)]	**1.89%**	**1.35%**	1.38%
Return on Average Equity[(1)]	**23.28%**	**15.35%**	13.66%
Common Equity Tier 1 Capital	**11.48%**	**11.48%**	10.73%

(1) These ratios are annualized for the three and nine months ended September 30, 2020.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios of Tier 1 Capital, Common Equity Tier 1 Capital, and Total Capital as a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 1250%. The Bank is also required to maintain capital at a minimum level based on quarterly average assets, which is known as the leverage ratio.

In July 2013, federal bank regulatory agencies issued a final rule that revised their risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with certain standards that were developed by Basel III and certain provisions of the Dodd-Frank Act. The final rule applied to all depository institutions and bank holding companies and savings and loan holding companies with total consolidated assets of more than $1 billion. The Bank was required to implement the new Basel III capital standards (subject to the phase-in for certain parts of the new rules) as of January 1, 2015. In

August of 2018 the Regulatory Relief Act directed the Federal Reserve Board to revise the Small BHC Policy Statement to raise the total consolidated asset limit in the Small BHC Policy Statement from $1 billion to $3 billion. The Company was previously required to comply with the minimum capital requirements on a consolidated basis; however, the Company continues to meet the conditions of the revised Small BHC Policy Statement and was exempt from the consolidated capital requirements for the periods reflected.

As of September 30, 2020, the Bank was in compliance with all applicable regulatory capital requirements to which it was subject, and the Bank was classified as “well capitalized” for purposes of the prompt corrective action regulations. As we deploy our capital and continue to grow our operations, our regulatory capital levels may decrease depending on our level of earnings. However, we intend to monitor and control our growth in order to remain in compliance with all regulatory capital standards applicable to us.

The following table presents the regulatory capital ratios for the Company(as if applicable to the Company) and the Bank as of the dates indicated.

(in thousands)	Actual		Minimum capital adequacy		To be well capitalized	
September 30, 2020	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
The Company						
Tier 1 leverage ratio (to average assets)	**$ 149,644**	**8.63%**	**$ 69,360**	**4.00%**	**N/A**	**N/A**
Tier 1 capital (to risk-weighted assets)	**149,644**	**12.93%**	**98,407**	**8.50%**	**N/A**	**N/A**
Common equity tier 1 capital ratio (to risk-weighted assets)	**147,582**	**12.75%**	**81,041**	**7.00%**	**N/A**	**N/A**
Total capital ratio (to risk-weighted assets)	**177,727**	**15.35%**	**121,561**	**10.50%**	**N/A**	**N/A**
The Bank						
Tier 1 leverage ratio (to average assets)	**$ 129,051**	**7.44%**	**$ 69,360**	**4.00%**	**$ 86,700**	**5.00%**
Tier 1 capital (to risk-weighted assets)	**129,051**	**11.48%**	**95,525**	**8.50%**	**89,906**	**8.00%**
Common equity tier 1 capital ratio (to risk-weighted assets)	**129,051**	**11.48%**	**78,668**	**7.00%**	**73,049**	**6.50%**
Total capital ratio (to risk-weighted assets)	**143,215**	**12.74%**	**118,001**	**10.50%**	**112,382**	**10.00%**
December 31, 2019						
The Company						
Tier 1 leverage ratio (to average assets)	135,380	9.96%	54,397	4.00%	N/A	N/A
Tier 1 capital (to risk-weighted assets)	135,380	12.31%	66,011	6.00%	N/A	N/A
Common equity tier 1 capital ratio (to risk-weighted assets)	133,318	12.12%	49,508	4.50%	N/A	N/A
Total capital ratio (to risk-weighted assets)	149,142	13.56%	88,015	8.00%	N/A	N/A
The Bank						
Tier 1 leverage ratio (to average assets)	114,613	8.65%	53,005	4.00%	66,256	5.00%
Tier 1 capital (to risk-weighted assets)	114,613	10.73%	64,093	6.00%	85,458	8.00%
Common equity tier 1 capital ratio (to risk-weighted assets)	114,613	10.73%	48,070	4.50%	69,435	6.50%
Total capital ratio (to risk-weighted assets)	127,976	11.98%	85,458	8.00%	106,822	10.00%

Contractual Obligations

We have contractual obligations to make future payments on debt agreements. While our liquidity monitoring and management consider both present and future demands for and sources of liquidity, the following table of contractual commitments focuses only on future obligations and summarizes our contractual obligations as of September 30, 2020.

CONTRACTUAL OBLIGATIONS

	As of September 30, 2020				
(in thousands)	**Due in One Year or Less**	**Due After One Through Three Years**	**Due After Three Through Five Years**	**Due After 5 Years**	**Total**
FHLB advances	$ 13,333	$ 8,889	$ —	$ —	$ 22,222
Certificates of deposit $100,000 or more	197,437	114,813	230	—	312,480
Certificates of deposit less than $100,000	25,615	3,060	279	—	28,954
FRB Borrowings	—	1,954	—	—	1,954
Lease payments	361	3,208	420	—	3,989
Subordinated debt	—	—	—	15,562	15,562
Total	$ 236,746	$ 131,924	$ 929	$ 15,562	$ 385,161

Off-Balance Sheet Items

In the normal course of business, we enter into various transactions that, in accordance with GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and issue letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in our consolidated balance sheets. Our exposure to credit loss is represented by the contractual amounts of these commitments. The same credit policies and procedures are generally used in making these commitments as for on-balance sheet instruments. We are not aware of any accounting loss to be incurred by funding these commitments; however, we maintain an allowance for off-balance sheet credit risk which is recorded in other liabilities on the consolidated balance sheet.

Our commitments associated with outstanding letters of credit and commitments to extend credit expiring by period as of the date indicated are summarized below. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

CREDIT EXTENSION COMMITMENTS

(in thousands)	As of September 30, 2020	As of December 31, 2019
Unfunded lines of credit	**$ 317,006**	$ 260,573
Commitments to originate residential loans held for sale	**9,823**	2,646
Letters of credit	**5,102**	5,305
Total credit extension commitments	**$ 331,931**	$ 268,524

Unfunded lines of credit represent unused credit facilities to our current borrowers. Letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. Lines of credit generally have variable interest rates. In the event of nonperformance by the customer in accordance with the terms of the agreement with the third party, we would be required to fund the commitment. The maximum potential amount of future payments we could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, we would be entitled to seek recovery from the client from the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, cash and/or marketable securities. Our policies generally require that letter of credit arrangements contain security and debt covenants similar to those contained in loan agreements. Our credit risk associated with issuing letters of credit is believed to be substantially the same as the risk involved in extending loan facilities to our customers.

We seek to minimize our exposure to loss under letters of credit and credit commitments by subjecting them to the same credit approval and monitoring procedures as we do for on-balance sheet instruments. The effect on our revenue, expenses, cash flows and liquidity of the unused portions of these letters of credit commitments cannot be precisely predicted because there is no guarantee that the lines of credit will be used.

Commitments to extend credit are agreements to lend funds to a customer, as long as there is no violation of any condition established in the contract, for a specific purpose. Commitments generally have variable interest rates, fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn, the total commitment amounts disclosed above do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by us, upon extension of credit is based on management's credit evaluation of the customer.

We enter into forward commitments for the delivery of mortgage loans in our current pipeline. Interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from our commitments to fund the loans. These commitments to fund mortgage loans to be sold into the secondary market, along with the interest rate lock commitments and forward commitments for the future delivery of mortgage loans to third party investors, are considered derivatives.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity and Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our asset liability and funds management policy provides management with the guidelines for funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position**.** We manage our sensitivity position within our established guidelines.

Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the market value of all interest earning assets and interest bearing liabilities, other than those that have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

We endeavor to manage our exposure to interest rates by structuring our balance sheet in the ordinary course of business. We do not enter into instruments such as leveraged derivatives, financial options or financial futures contracts for the purpose of reducing interest rate risk. We hedge the interest rate risks of our available for sale mortgage pipeline by using mortgage-backed securities, and short positions. Based on the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Our exposure to interest rate risk is managed by the Bank’s Asset/Liability Management Committee (“ALCO”) in accordance with policies approved by our board of directors. The committee formulates strategies based on perceived levels of interest rate risk. In determining the appropriate level of interest rate risk, the committee considers the impact on earnings and capital of the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The committee meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans and the maturities of investments and borrowings. Additionally, the committee reviews liquidity, cash flow flexibility, maturities of deposits and consumer and commercial deposit activity. Management employs methodologies to manage interest rate risk, which include an analysis of relationships between interest earning assets and interest bearing liabilities and an interest rate shock simulation model.

The following table indicates that, for periods less than one year, rate-sensitive assets exceeded rate-sensitive liabilities, resulting in an asset-sensitive position. For a bank with an asset-sensitive position, or positive gap, rising interest rates would generally be expected to have a positive effect on net interest income, and falling interest rates would generally be expected to have the opposite effect.

INTEREST SENSITIVITY GAP

September 30, 2020	Within One Month	After One Month Through Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year or Non-Sensitive	Total
(in thousands)						
Assets						
Interest earning assets						
Loans [1]	$ 773,614	$ 85,290	$ 321,659	1,180,563	$ 435,116	1,615,679
Securities	906	—	—	906	53,086	53,992
Interest bearing deposits at other financial institutions	179,789	—	—	179,789	—	179,789
Federal funds sold	5,590	—	—	5,590	—	5,590
Total earning assets	$ 959,899	$ 85,290	$ 321,659	$ 1,366,848	$ 488,202	$ 1,855,050
Liabilities						
Interest bearing liabilities						
Interest bearing deposits	$ 724,538	$ —	$ —	$ 724,538	$ —	$ 724,538
Time deposits	22,160	24,082	176,810	223,052	118,382	341,434
Total interest bearing deposits	746,698	24,082	176,810	947,590	118,382	1,065,972
FHLB Advances	3,021	2,140	9,736	14,897	7,325	22,222
Other borrowed funds	—	—	—	—	17,516	17,516
Total interest bearing liabilities	$ 749,719	$ 26,222	$ 186,546	$ 962,487	$ 143,223	$ 1,105,710
Period gap	$ 210,180	$ 59,068	$ 135,113	$ 404,361	$ 344,979	$ 749,340
Cumulative gap	$ 210,180	$ 269,248	$ 404,361	$ 404,361	$ 749,340	
Ratio of cumulative gap to total earning assets	11.33%	14.51%	21.80%	21.80%	40.39%	

(1) Includes loans held for sale and loans made under the SBA-PPP loan program.

We use quarterly Earnings at Risk ("EAR") simulations to assess the impact of changing interest rates on our earnings under a variety of scenarios and time horizons. These simulations utilize both instantaneous and parallel changes in the level of interest rates, as well as non-parallel changes such as changing slopes and twists of the yield curve. Static simulation models are based on current exposures and assume a constant balance sheet with no new growth. Dynamic simulation models are also utilized that rely on assumptions regarding changes in existing lines of business, new business, and changes in management and client behavior.

We also use economic value-based methodologies to measure the degree to which the economic values of the Bank's positions change under different interest rate scenarios. The economic-value approach focuses on a longer-term time horizon and captures all future cash flows expected from existing assets and liabilities. The economic value model utilizes a static approach in that the analysis does not incorporate new business; rather, the analysis shows a snapshot in time of the risk inherent in the balance sheet.

Many assumptions are used to calculate the impact of interest rate fluctuations on our net interest income, such as asset prepayments, non-maturity deposit price sensitivity and decay rates, and key rate drivers. Because of the inherent use of these estimates and assumptions in the model, our actual results may, and most likely will, differ from our static EAR results. In addition, static EAR results do not include actions that our management may undertake to manage the risks in response to anticipated changes in interest rates or client behavior. For example, as part of our asset/liability management strategy, management has the ability to increase asset duration and decrease liability duration in order to reduce asset sensitivity, or to decrease asset duration and increase liability duration in order to increase asset sensitivity.

The following table summarizes the results of our EAR analysis in simulating the change in net interest income and fair value of equity over a 12-month horizon as of September 30, 2020:

IMPACT ON NET INTEREST INCOME UNDER A STATIC BALANCE SHEET, PARALLEL INTEREST RATE SHOCK

Earnings at Risk	-200 bps	-100 bps	Flat	+100 bps	+200 bps	+300 bps
September 30, 2020	(3.5)%	(1.4)%	0.0%	0.4%	1.4%	2.8%

Utilizing an economic value of equity (“EVE”) approach, we analyze the risk to capital from the effects of various interest rate scenarios through a long-term discounted cash flow model. This measures the difference between the economic value of our assets and the economic value of our liabilities, which is a proxy for our liquidation value. While this provides some value as a risk measurement tool, management believes EAR is more appropriate in accordance with the going concern principle.

The following table illustrates the results of our EVE analysis as of September 30, 2020.

ECONOMIC VALUE OF EQUITY ANALYSIS UNDER A STATIC BALANCE SHEET, PARALLEL INTEREST RATE SHOCK

Economic Value of Equity	-200 bps	-100 bps	Flat	+100 bps	+200 bps	+300 bps
September 30, 2020	7.1%	2.0%	0.0%	9.5%	15.9%	20.3%

Item 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

The Company's management, including our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is (i) recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated to our management, including our Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There has been no change in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

From time to time, we are a party to various litigation matters incidental to the ordinary conduct of our business. We are not presently a party to any material legal proceedings.

Item 1A. RISK FACTORS.

The section titled Risk Factors in Part I, Item 1A of our 2019 Form 10-K includes a discussion of the many risks and uncertainties we face, any one or more of which could have a material adverse effect on our business, results of operations, financial condition (including capital and liquidity), or prospects or the value of or return on an investment in the Company. The information presented below provides an update to, and should be read in conjunction with, the risk factors and other information contained in our 2019 Form 10-K.

The recent COVID-19 pandemic has led to periods of significant volatility in financial, commodities and other markets and could harm our business and results of operations.

In December 2019, COVID-19 was first reported in Wuhan, Hubei Province, China. Since then, COVID-19 infections have spread to additional countries including the United States. In March 2020, the World Health Organization declared COVID-19 to be a pandemic. Given the ongoing and dynamic nature of the circumstances, it is difficult to predict the impact of the coronavirus pandemic on our business, and there is no guarantee that our efforts to address or mitigate the adverse impacts of the coronavirus will be effective. The impact to date has included periods of significant volatility in financial, commodities and other markets. This volatility has had and, if it continues, could continue to have an adverse impact on our customers and on our business, financial condition and results of operations as well as our growth strategy.

Our business is dependent upon the willingness and ability of our customers to conduct banking and other financial transactions. The spread of COVID-19 has caused and could continue to cause severe disruptions in the U.S. economy at large, and has resulted and may continue to result in disruptions to our customers' businesses, and a decrease in consumer confidence and business generally. In addition, recent actions by US federal, state and local governments to address the pandemic, including travel bans, stay-at-home orders and school, business and entertainment venue closures, have had and may continue to have a significant adverse effect on our customers and the markets in which we conduct our business. The extent of impacts resulting from the coronavirus pandemic and other events beyond our control will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus pandemic and actions taken to contain the coronavirus or its impact, among others.

Disruptions to our customers could result in increased risk of delinquencies, defaults, foreclosures and losses on our loans. The escalation of the pandemic may also negatively impact regional economic conditions for a period of time, resulting in declines in local loan demand, liquidity of loan guarantors, loan collateral (particularly in real estate), loan originations and deposit availability. If the global response to contain COVID-19 escalates or is unsuccessful, we could experience a material adverse effect on our business, financial condition, results of operations and cash flows.

The spread of the COVID-19 outbreak and the governmental responses may disrupt banking and other financial activity in the areas in which we operate and could potentially create widespread business continuity issues for us.

The outbreak of COVID-19 and the U.S. federal, state and local governmental responses may result in a disruption in the services we provide. We rely on our third-party vendors to conduct business and to process, record, and monitor transactions. If any of these vendors are unable to continue to provide us with these services or experience interruptions in their ability to provide us with these services, it could negatively impact our ability to serve our customers. Furthermore, the coronavirus pandemic could negatively impact the ability of our employees and customers to engage in banking and other financial transactions in the geographic areas in which we operate and could create widespread business continuity issues for us. We also could be adversely affected if key personnel or a significant number of employees were to become unavailable due to infection, quarantine or other effects and restrictions of a COVID-19 outbreak in our market areas. Although we have business continuity plans and other safeguards in place, there is no assurance that such plans and safeguards will be effective. If we are unable to promptly recover from such business disruptions, our business and financial conditions and results of operations would be adversely affected. We also may incur additional costs to remedy damages caused by such disruptions, which could adversely affect our financial condition and results of operations.

Our participation in the SBA-PPP loan program exposes us to risks related to noncompliance with the SBA-PPP loan program, as well as litigation risk related to our administration of the SBA-PPP loan program, which could have a material adverse impact on our business, financial condition and results of operations.

The Company is a participating lender in the SBA-PPP, a loan program administered through the SBA, that was created to help eligible businesses, organizations and self-employed persons fund their operational costs during the COVID-19 pandemic. Under this program, the SBA guarantees 100% of the amounts loaned under the SBA-PPP. The SBA-PPP opened on April 3, 2020; however, because of the short window between the passing of the CARES Act and the opening of the SBA-PPP, there is some ambiguity in the laws, rules and guidance regarding the operation of the SBA-PPP, which exposes the Company to risks relating to noncompliance with the SBA-PPP. For instance, other financial institutions have experienced litigation related to their process and procedures used in processing applications for the SBA-PPP. Any financial liability, litigation costs or reputational damage caused by SBA-PPP related litigation could have a material adverse impact on our business, financial condition and results of operations. In addition, the Company may be exposed to credit risk on SBA-PPP loans if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded, or serviced. If a deficiency is identified, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from the Company.

Interest rate volatility stemming from COVID-19 could negatively affect our net interest income, lending activities, deposits and profitability.

Our net interest income, lending activities, deposits and profitability could be negatively affected by volatility in interest rates caused by uncertainties stemming from COVID-19. In March 2020, the Federal Reserve lowered the target range for the federal funds rate to a range from 0 to 0.25 percent, citing concerns about the impact of COVID-19 on markets and stress in the energy sector. A prolonged period of extremely volatile and unstable market conditions would likely increase our funding costs and negatively affect market risk mitigation strategies. Higher income volatility from changes in interest rates and spreads to benchmark indices could cause a loss of future net interest income and a decrease in current fair market values of our assets. Fluctuations in interest rates will impact both the level of income and expense recorded on most of our assets and liabilities and the market value of all interest-earning assets and interest-bearing liabilities, which in turn could have a material adverse effect on our net income, operating results, or financial condition.

We are subject to increasing credit risk as a result of the COVID-19 pandemic, which could adversely impact our profitability.

Our business depends on our ability to successfully measure and manage credit risk. As a commercial lender, we are exposed to the risk that the principal of, or interest on, a loan will not be paid timely or at all or that the value of any collateral supporting a loan will be insufficient to cover our outstanding exposure. In addition, we are exposed to risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual loans and borrowers. As the overall economic climate in the U.S., generally, and in our market areas specifically, experiences material disruption due to the COVID-19 pandemic, our borrowers may experience difficulties in repaying their loans and governmental actions may provide payment relief to borrowers affected by COVID-19 and preclude our ability to initiate foreclosure proceedings in certain circumstances and, as a result, the collateral we hold may decrease in value or become illiquid, and the level of our nonperforming loans, charge-offs and delinquencies could rise and require significant additional provisions for credit losses. Additional factors related to the credit quality of certain commercial real estate loans include the duration of state and local moratoriums on evictions for non-payment of rent or other fees. The payment on these loans that are secured by income producing properties are typically dependent on the successful operation of the related real estate property and may subject us to risks from adverse conditions in the real estate market or the general economy.

We are actively working to support our borrowers to mitigate the impact of the COVID-19 pandemic on them and on our loan portfolio, including through loan modifications that defer payments for those who experienced a hardship as a result of the COVID-19 pandemic. Although recent regulatory guidance provides that such loan modifications are exempt from the calculation and reporting of TDRs and loan delinquencies, we cannot predict whether such loan modifications may ultimately have an adverse impact on our profitability in future periods. Our inability to successfully manage the increased credit risk caused by the COVID-19 pandemic could have a material adverse effect on our business, financial condition and results of operations.

Unpredictable future developments related to or resulting from the COVID-19 pandemic could materially and adversely affect our business and results of operations.

Because there have been no comparable recent global pandemics that resulted in a similar global impact, we do not yet know the full extent of the COVID-19 pandemic's effects on our business, operations, or the global economy as a whole. Any future development will be highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the effectiveness of our work from home arrangements, third party providers' ability to support our operation, and any actions taken by governmental authorities and other third parties in response to the pandemic. We are continuing to monitor the COVID-19 pandemic and related risks, although the rapid development and fluidity of the situation precludes any specific prediction as to its ultimate impact on us. However, if the pandemic continues to spread or otherwise results in a continuation or worsening of the current economic and commercial environments, our business, financial condition, results of operations and cash flows as well as our regulatory capital and liquidity ratios could be materially adversely affected and many of the risks described in our 2019 Form 10-K will be heightened.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

On April 25, 2019, the Company announced a stock repurchase program. The program enables the Company to repurchase up to $5.0 million of its outstanding common stock, and expires on December 31, 2020. During the year ended December 31, 2019 and the nine months ended September 30, 2020, the Corporation repurchased shares under the stock repurchase program, as reflected in the following table.

Period	Total Number of Shares Purchased	Average price paid per share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Through December 31, 2019	**28,480**	**$ 13.00**	**28,480**	**$ 4,629,646**
For the three months ended March 31, 2020	**112,134**	**$ 11.41**	**112,134**	**3,349,806**
For the three months ended June 30, 2020	**1,500**	**$ 9.41**	**1,500**	**3,335,691**
July 1, 2020 to July 31, 2020	**—**	**$ —**	**—**	3,335,691
August 1, 2020 to August 31, 2020	25,000	$ 10.55	25,000	3,071,941
September 1, 2020 to September 30, 2020	116,200	$ 10.37	116,200	1,866,947
For the three months ended September 30, 2020	**141,200**	**$ 10.40**	**141,200**	**1,866,947**
For the nine months ended September 30, 2020	**254,834**	**$ 10.84**	**254,834**	**1,866,947**
Total	**283,314**		**283,314**	

Item 3. DEFAULTS UPON SENIOR SECURITIES.

None.

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

Item 5. OTHER INFORMATION.

None.

Item 6. EXHIBITS.

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Form S-1 filed on August 31, 2018).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Form S-1 filed on August 31, 2018).
31.1	Rule 13a-14(a) Certification of the Principal Executive Officer.
31.2	Rule 13a-14(a) Certification of the Principal Financial Officer.
32	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.
101	The following materials from the Quarterly Report on Form 10-Q of Capital Bancorp, Inc. for the quarter ended September 30, 2020, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statement of Changes in Shareholders' Equity, (v) Consolidated Statements of Cash Flows and (vi) Notes to Unaudited Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CAPITAL BANCORP, INC.
Registrant

Date: November 9, 2020 /s/ Ed Barry
Ed Barry
Chief Executive Officer (Principal Executive Officer)

Date: November 9, 2020 /s/ Alan W. Jackson
Alan W. Jackson
Chief Financial Officer (Principal Financial and Accounting Officer)

Section 2: EX-31.1 (RULE 13A-14(A) CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER)

Exhibit 31.1

Rule 13a-14(a) Certification of the Principal Executive Officer.

Exhibit 31.1

Rule 13a-14(a) Certification of the Principal Executive Officer.

I, Ed Barry, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Capital Bancorp, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2020 By: /s/ Ed Barry
Ed Barry
Chief Executive Officer

Section 2: EX-31.2 (RULE 13A-14(A) CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER)

Exhibit 31.2

Rule 13a-14(a) Certification of the Principal Financial Officer.

Exhibit 31.2

Rule 13a-14(a) Certification of the Principal Financial Officer.

I, Alan W. Jackson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Capital Bancorp, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2020 By: /s/ Alan W. Jackson

Alan W. Jackson
Chief Financial Officer

Section 2: EX-32 (Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

Exhibit 32

Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32

Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Capital Bancorp, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the undersigned's best knowledge and belief:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 9, 2020 By: /s/ Ed Barry

Ed Barry
Chief Executive Officer

By: /s/ Alan W. Jackson

Alan W. Jackson
Chief Financial Officer