

**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 March 31, 2024 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

(State or other jurisdiction of incorporation or organization)

**2275 Research Boulevard Suite 600
Rockville Maryland**

(Address of principal executive offices)

52-2083046

(IRS Employer Identification No.)

20850

(Zip Code)

(301) 468-8848

Registrant's telephone number, including area code

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

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

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

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	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

As of May 8, 2024, the Company had 13,892,251 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 (unaudited)

(in thousands except share data)	March 31, 2024	December 31, 2023
Assets		
Cash and due from banks	\$ 12,361	\$ 14,513
Interest-bearing deposits at other financial institutions	72,787	39,044
Federal funds sold	56	407
Total cash and cash equivalents	85,204	53,964
Investment securities available for sale	202,254	208,329
Restricted investments	4,441	4,353
Loans held for sale	10,303	7,481
Portfolio loans receivable, net of deferred fees and costs	1,964,525	1,903,288
Less allowance for credit losses	(29,350)	(28,610)
Total portfolio loans held for investment, net	1,935,175	1,874,678
Premises and equipment, net	4,500	5,069
Accrued interest receivable	12,258	11,494
Deferred tax asset	12,311	12,252
Bank owned life insurance	38,062	37,711
Accounts receivable	11,637	1,055
Other assets	8,093	9,790
Total assets	<u>\$ 2,324,238</u>	<u>\$ 2,226,176</u>
Liabilities		
Deposits		
Noninterest-bearing	\$ 665,812	\$ 617,373
Interest-bearing	1,339,883	1,278,623
Total deposits	2,005,695	1,895,996
Federal Home Loan Bank advances	22,000	22,000
Other borrowed funds	12,062	27,062
Accrued interest payable	6,009	5,583
Other liabilities	19,007	20,675
Total liabilities	<u>2,064,773</u>	<u>1,971,316</u>
Stockholders' equity		
Common stock, \$0.01 par value; 49,000,000 shares authorized; 13,889,563 issued and outstanding at March 31, 2024; 13,922,532 issued and outstanding at December 31, 2023	139	139
Additional paid-in capital	54,229	54,473
Retained earnings	218,731	213,345
Accumulated other comprehensive loss	(13,634)	(13,097)
Total stockholders' equity	259,465	254,860
Total liabilities and stockholders' equity	<u>\$ 2,324,238</u>	<u>\$ 2,226,176</u>

See accompanying Notes to Unaudited Consolidated Financial Statements

Capital Bancorp, Inc. and Subsidiaries

Consolidated Statements of Income (unaudited)

	Three Months Ended March 31,	
	2024	2023
<small>(dollars in thousands except per share data)</small>		
Interest income		
Loans, including fees	\$ 45,991	\$ 41,275
Investment securities available for sale	1,251	1,377
Federal funds sold and other	1,127	764
Total interest income	48,369	43,416
Interest expense		
Deposits	12,833	7,754
Borrowed funds	528	1,175
Total interest expense	13,361	8,929
Net interest income	35,008	34,487
Provision for credit losses	2,727	1,660
Provision for (release of) credit losses on unfunded commitments	142	(19)
Net interest income after provision for credit losses	32,139	32,846
Noninterest income		
Service charges on deposits	207	229
Credit card fees	3,881	4,210
Mortgage banking revenue	1,453	1,155
Other income	431	432
Total noninterest income	5,972	6,026
Noninterest expenses		
Salaries and employee benefits	12,907	12,554
Occupancy and equipment	1,613	1,213
Professional fees	1,947	2,374
Data processing	6,761	6,530
Advertising	2,032	517
Loan processing	371	349
Foreclosed real estate expenses, net	1	6
Merger-related expenses	712	—
Operational losses	931	964
Other operating	2,212	1,715
Total noninterest expenses	29,487	26,222
Income before income taxes	8,624	12,650
Income tax expense	2,062	2,915
Net income	\$ 6,562	\$ 9,735
Basic earnings per share	\$ 0.47	\$ 0.69
Diluted earnings per share	\$ 0.47	\$ 0.68
Weighted average common shares outstanding:		
Basic	13,918,724	14,159,383
Diluted	13,918,724	14,272,292

See accompanying Notes to Unaudited Consolidated Financial Statements

Capital Bancorp, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income *(unaudited)*

(in thousands)	Three Months Ended March 31,	
	2024	2023
Net income	\$ 6,562	\$ 9,735
Other comprehensive (loss) income:		
Unrealized (loss) gain on investment securities available for sale	(589)	3,736
Income tax benefit (expense) relating to the items above	52	(944)
Other comprehensive (loss) income	(537)	2,792
Comprehensive income	\$ 6,025	\$ 12,527

See accompanying Notes to Unaudited Consolidated Financial Statements

Capital Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity (unaudited)

(dollars in thousands)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balance, December 31, 2022	14,138,829	\$ 141	\$ 58,190	\$ 182,435	\$ (16,751)	\$ 224,015
Cumulative effect adjustment due to adoption of the CECL standard	—	—	—	(29)	—	(29)
Net income	—	—	—	9,735	—	9,735
Unrealized gain on investment securities available for sale, net of income taxes	—	—	—	—	2,792	2,792
Stock options exercised, net of shares withheld for purchase price	63,064	1	782	(194)	—	589
Shares issued as compensation	28,081	—	585	(39)	—	546
Stock-based compensation	—	—	438	—	—	438
Cash dividends to stockholders (\$0.06 per share)	—	—	—	(850)	—	(850)
Shares repurchased and retired	(146,937)	(1)	(2,718)	—	—	(2,719)
Balance, March 31, 2023	14,083,037	\$ 141	\$ 57,277	\$ 191,058	\$ (13,959)	\$ 234,517
Balance, December 31, 2023	13,922,532	\$ 139	\$ 54,473	\$ 213,345	\$ (13,097)	\$ 254,860
Net income	—	—	—	6,562	—	6,562
Unrealized loss on investment securities available for sale, net of income taxes	—	—	—	—	(537)	(537)
Stock options exercised, net of shares withheld for purchase price	10,171	—	146	(39)	—	107
Shares issued as compensation	24,729	—	537	(22)	—	515
Stock-based compensation	—	—	472	—	—	472
Cash dividends to stockholders (\$0.08 per share)	—	—	—	(1,115)	—	(1,115)
Shares repurchased and retired	(67,869)	—	(1,399)	—	—	(1,399)
Balance, March 31, 2024	13,889,563	\$ 139	\$ 54,229	\$ 218,731	\$ (13,634)	\$ 259,465

See accompanying Notes to Unaudited Consolidated Financial Statements

Capital Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

(in thousands)	Three Months Ended March 31,	
	2024	2023
Cash flows from operating activities		
Net income	\$ 6,562	\$ 9,735
Adjustments to reconcile net income to net cash (used for) provided by operating activities:		
Provision for credit losses	2,727	1,660
Provision for (reversal of) credit losses on unfunded commitments	142	(19)
Provision for mortgage put-back reserve, net	13	5
Net amortization (accretion) on investments	60	(34)
Premises and equipment depreciation	85	73
Lease asset amortization	238	266
Increase in cash surrender value of BOLI	(351)	(257)
Executive long-term incentive plan expense	149	152
Stock-based compensation expense	472	438
Director and employee compensation paid in Company stock	515	547
Deferred income tax benefit	(7)	(65)
Gain on sale of securities available for sale	—	1
Valuation allowance on derivatives	—	9
Increase in valuation of loans held for sale carried at fair value	—	6
Proceeds from sales of loans held for sale	37,555	42,238
Originations of loans held for sale	(40,377)	(44,448)
Changes in assets and liabilities:		
Accrued interest receivable	(764)	(496)
Taxes payable	489	2,927
Accounts receivable	(10,582)	(105)
Other assets	1,697	191
Accrued interest payable	426	946
Other liabilities	(2,461)	(3,414)
Net cash (used for) provided by operating activities	(3,412)	10,356
Cash flows from investing activities		
Purchases of securities available for sale	(15,362)	—
Proceeds from calls and maturities of securities available for sale	20,788	490
Net (purchases) sales of restricted investments	(88)	3,147
Net increase in portfolio loans receivable	(63,224)	(60,023)
Net sales (purchases) of premises and equipment	246	(2,320)
Net cash used in investing activities	(57,640)	(58,706)

See accompanying Notes to Unaudited Consolidated Financial Statements

Capital Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited) (Continued)

(in thousands)	Three Months Ended March 31,	
	2024	2023
Cash flows from financing activities		
Net increase (decrease) in:		
Noninterest-bearing deposits	48,439	31,488
Interest-bearing deposits	61,260	154,814
Federal Home Loan Bank repayments	—	(75,000)
Other borrowed funds	(15,000)	—
Dividends paid	(1,115)	(850)
Repurchase of common stock	(1,399)	(2,719)
Net proceeds from exercise of stock options	107	589
Net cash provided by financing activities	<u>92,292</u>	<u>108,322</u>
Net increase in cash and cash equivalents	31,240	59,972
Cash and cash equivalents, beginning of year	\$ 53,964	80,415
Cash and cash equivalents, end of period	\$ 85,204	\$ 140,387
Noncash investing and financing activities:		
Change in unrealized (losses) gains on investments	\$ (589)	\$ 3,736
Cash paid during the period for:		
Taxes	\$ 36	\$ 35
Interest	\$ 12,935	\$ 5,920

See accompanying Notes to Unaudited Consolidated Financial Statements

Capital Bancorp, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

Note 1 - Nature of Business and Basis of Presentation

Nature of operations:

Capital Bancorp, Inc. is a Maryland corporation and the 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 and Columbia, 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"), the Bank's residential mortgage banking arm, and issues credit cards through OpenSky™, a digitally-driven nationwide credit card platform providing secured, partially secured, and unsecured credit solutions.

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 March 31, 2024, Church Street Capital had loans totaling \$7.6 million with a collectively assessed allowance for credit losses ("ACL") of \$184 thousand. Refer to Note 5 - "Portfolio Loans Receivable" to the "Notes to Unaudited Consolidated Financial Statements" for further discussion of the consolidated ACL.

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 unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with rules and regulations of the Securities and Exchange Commission ("SEC") and include the activity of the Company and its wholly-owned subsidiaries, the Bank and Church Street Capital. The statements do not include all of the information and footnotes required by GAAP for complete financial statements. All adjustments have been made which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. Such adjustments are all of a normal and recurring nature. All significant inter-company accounts and transactions have been eliminated in consolidation. The results of operations for the three months ended March 31, 2024 are not necessarily indicative of the results that may be expected for the full year. These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited financial statements and the notes thereto as of December 31, 2023, included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

The Company reports its activities as 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.

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 on historical experience and assumptions believed to be reasonable regarding the value of certain assets and liabilities that are not readily available from other sources. Estimates are evaluated on an ongoing

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

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

basis. Actual results may materially differ from these estimates under different assumptions or conditions. The Company's significant accounting policies are described in the "Notes to the Consolidated Financial Statements" included in our Annual Report on Form 10-K for the year ended December 31, 2023. There have been no changes to our significant accounting policies during the three months ended March 31, 2024.

Recently issued accounting pronouncements:

In December 2023, the FASB issued Accounting Standards Update ("ASU") 2023-07, "Segment Reporting (Topic 280), Improvements to Reportable Segment Disclosures" ("ASU 2023-07"). ASU 2023-07 requires public entities to disclose significant segment expenses, an amount and description for other segment items, the title and position of the entity's chief operating decision maker ("CODM") and an explanation of how the CODM uses the reported measures of profit or loss to assess segment performance, and, on an interim basis, certain segment related disclosures that previously were required only on an annual basis. ASU 2023-07 also clarifies that entities with a single reportable segment are subject to both new and existing segment reporting requirements and that an entity is permitted to disclose multiple measures of segment profit or loss, provided that certain criteria are met. ASU 2023-07 is effective for the Company for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The Company will update its segment related disclosures upon adoption.

In December 2023, the FASB issued Accounting Standards Update 2023-09, "Income Taxes (Topic 740), Improvements to Income Tax Disclosures" ("ASU 2023-09"). ASU 2023-09 requires public entities to disclose in their rate reconciliation table additional categories of information about federal, state and foreign income taxes and to provide more details about the reconciling items in some categories if items meet a quantitative threshold. ASU 2023-09 also requires all entities to disclose income taxes paid, net of refunds, disaggregated by federal, state and foreign taxes for annual periods and to disaggregate the information by jurisdiction based on quantitative thresholds, among other things. ASU 2023-09 is effective for the Company for fiscal years beginning after December 15, 2024 with early adoption permitted. The Company will update its income tax disclosures upon adoption.

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.

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

Note 2 - Pending Acquisition**Pending Acquisition of Integrated Financial Holdings, Inc.**

On March 27, 2024, the Company and Integrated Financial Holdings, Inc., a North Carolina corporation ("IFHI"), entered into an Agreement and Plan of Merger and Reorganization (the "Merger Agreement"). The Merger Agreement provides that, upon the terms and conditions thereof, IFHI will merge with and into the Company (the "Merger"), with the Company continuing as the surviving corporation in the Merger. IFHI is a financial holding company based in Raleigh, North Carolina with total assets of approximately \$548 million at December 31, 2023. IFHI is the holding company for West Town Bank & Trust, an Illinois state-chartered bank. West Town Bank & Trust provides banking services through its full-service office located in the greater Chicago area and is a nationwide lender in government guaranteed lending across both U.S. Department of Agriculture ("USDA") and U.S. Small Business Administration ("SBA") government guaranteed lending. IFHI is also the parent company of Windsor Advantage, LLC, a loan service provider that offers community banks and credit unions with a comprehensive outsourced SBA 7(a) and USDA lending platform. IFHI is registered with and supervised by the Board of Governors of the Federal Reserve ("Federal Reserve"). West Town Bank & Trust's primary regulators are the Illinois Department of Financial and Professional Regulation and the FDIC. Following the Merger, West Town Bank & Trust, will merge with and into the Bank, with the Bank as the surviving bank.

During the three months ended March 31, 2024, the Company incurred merger-related expenses related to the planned acquisition of IFHI totaling \$0.7 million. The Merger is expected to close in the fourth quarter 2024 subject to regulatory approval.

Note 3 - 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; however, on March 15, 2020, the Federal Reserve announced that, due to economic conditions, reserve requirement ratios for all depository institutions would be reduced to zero percent effective March 26, 2020. The reserve requirement is still at zero percent as of March 31, 2024.

Note 4 - Investment Securities

The following table summarizes the amortized cost, fair value and allowance for credit losses of securities available for sale at March 31, 2024 and December 31, 2023, respectively, and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss):

Capital Bancorp, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

Note 4 - Investment Securities (continued)

(in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
March 31, 2024					
U.S. Treasuries	\$ 141,347	\$ —	\$ (12,664)	\$ —	\$ 128,683
Municipal	11,699	—	(2,445)	—	9,254
Corporate	5,000	—	(543)	—	4,457
Asset-backed securities	6,601	18	(38)	—	6,581
Mortgage-backed securities	55,546	—	(2,267)	—	53,279
Total	\$ 220,193	\$ 18	\$ (17,957)	\$ —	\$ 202,254
December 31, 2023					
U.S. Treasuries	\$ 161,420	\$ —	\$ (12,192)	\$ —	\$ 149,228
Municipal	11,699	4	(2,331)	—	9,372
Corporate	5,000	—	(587)	—	4,413
Asset-backed securities	7,069	13	(37)	—	7,045
Mortgage-backed securities	40,491	—	(2,220)	—	38,271
Total	\$ 225,679	\$ 17	\$ (17,367)	\$ —	\$ 208,329

There were no securities sold during the three months ended March 31, 2024 or the three months ended March 31, 2023. There was no ACL required on available for sale debt securities in an unrealized loss position at March 31, 2024 and December 31, 2023.

The amortized cost and fair value of debt securities are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

(in thousands)

	March 31, 2024		December 31, 2023	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	\$ 29,962	\$ 29,211	\$ 39,918	\$ 39,294
One to five years	91,580	83,076	101,688	93,218
Five to ten years	28,661	24,132	26,215	22,511
Beyond ten years	7,843	5,975	10,298	7,990
Asset-backed securities ⁽¹⁾	6,601	6,581	7,069	7,045
Mortgage-backed securities ⁽¹⁾	55,546	53,279	40,491	38,271
Total	\$ 220,193	\$ 202,254	\$ 225,679	\$ 208,329

⁽¹⁾ Asset-backed and Mortgage-backed securities are due in monthly installments.

There were no securities pledged at March 31, 2024 and December 31, 2023 to secure public deposits and repurchase agreements. Pledged securities at the Federal Reserve's Bank Term Funding Program ("BTFP") totaled \$170.7 million at December 31, 2023 with no securities pledged as of March 31, 2024 as the program ended during the first quarter 2024.

At March 31, 2024 and December 31, 2023, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

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

Note 4 - Investment Securities (continued)

The following table summarizes debt securities available for sale in an unrealized loss position for which an ACL has not been recorded at March 31, 2024 and December 31, 2023, aggregated by major security type and length of time in a continuous unrealized loss position:

(in thousands)	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2024						
U.S. Treasuries	\$ —	\$ —	\$ 128,683	\$ (12,664)	\$ 128,683	\$ (12,664)
Municipal	894	(3)	8,360	(2,442)	9,254	(2,445)
Corporate	—	—	4,457	(543)	4,457	(543)
Asset-backed securities	—	—	4,760	(38)	4,760	(38)
Mortgage-backed securities	21,234	(194)	32,045	(2,073)	53,279	(2,267)
Total	\$ 22,128	\$ (197)	\$ 178,305	\$ (17,760)	\$ 200,433	\$ (17,957)
December 31, 2023						
U.S. Treasuries	\$ —	\$ —	\$ 149,228	\$ (12,192)	\$ 149,228	\$ (12,192)
Municipal	—	—	8,473	(2,331)	8,473	(2,331)
Corporate	—	—	4,413	(587)	4,413	(587)
Asset-backed securities	—	—	5,154	(37)	5,154	(37)
Mortgage-backed securities	6,057	(8)	32,214	(2,212)	38,271	(2,220)
Total	\$ 6,057	\$ (8)	\$ 199,482	\$ (17,359)	\$ 205,539	\$ (17,367)

As of March 31, 2024, management determined the Company does not have the intent to sell, nor is it more likely than not that it will be required to sell, available for sale debt securities in an unrealized loss position at March 31, 2024 before it is able to recover the amortized cost basis. Further, management reviewed the Company's holdings as of March 31, 2024 and concluded there were no credit-related declines in fair value. Additional information related to the types of securities held at March 31, 2024, other than securities issued or guaranteed by U.S. Government entities or agencies, is as follows:

Corporate Securities — There have been no payment defaults on any of the Company's holdings of corporate debt securities. There are five securities all of which are subordinated debt of other financial institutions with face amounts ranging from \$0.5 million to \$2 million.

Municipal Securities — All of the Company's holdings of municipal bonds were investment grade and there have been no payment defaults. Summary ratings information at March 31, 2024, based on the amortized cost basis and reflecting the lowest enhanced or underlying rating by Moody's, Standard & Poors or Fitch, is as follows: AAA - 82% of the portfolio; AA+ - 8%; AA - 10%.

Asset-backed Securities — There were three investment grade asset-backed securities, and there have been no payment defaults on these securities.

As such, it is deemed the above listed securities are not in an unrealized loss position due to credit-related issues and no further analysis is warranted as of March 31, 2024.

Capital Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5 - Portfolio Loans Receivable and Allowance for Credit Losses

The following is a summary of the major categories of total loans outstanding:

(in thousands)	March 31, 2024		December 31, 2023	
	Amount	Percent	Amount	Percent
Real estate:				
Residential	\$ 577,112	29 %	\$ 573,104	30 %
Commercial	736,316	37 %	684,229	35 %
Construction	290,016	15 %	290,108	15 %
Commercial and Industrial	254,577	13 %	239,208	13 %
Credit card, net of reserve ⁽¹⁾	111,898	6 %	123,331	7 %
Other consumer	738	— %	950	— %
Portfolio loans receivable, gross	1,970,657	100 %	1,910,930	100 %
Deferred origination fees, net	(6,132)		(7,642)	
Allowance for credit losses	(29,350)		(28,610)	
Portfolio loans receivable, net	\$ 1,935,175		\$ 1,874,678	

⁽¹⁾ Credit card loans are presented net of reserve for interest and fees.

The following tables set forth the changes in the ACL and an allocation of the ACL by loan segment class for the three months ended March 31, 2024 and March 31, 2023.

(in thousands)	Beginning Balance	Provision (Release of Provision) for Credit Losses	Charge-Offs	Recoveries	Ending Balance
Three Months Ended March 31, 2024					
Real estate:					
Residential	\$ 5,518	\$ 633	\$ (225)	\$ —	\$ 5,926
Commercial	10,316	807	—	—	11,123
Construction	2,271	28	—	—	2,299
Commercial and Industrial	4,406	(306)	(98)	—	4,002
Credit card	6,087	1,567	(1,768)	104	5,990
Other consumer	12	(2)	—	—	10
Total	\$ 28,610	\$ 2,727	\$ (2,091)	\$ 104	\$ 29,350

Three Months Ended March 31, 2023					
Real estate:					
Residential	\$ 4,283	\$ 1,125	\$ —	\$ —	\$ 5,408
Commercial	12,039	(2,165)	(943)	—	8,931
Construction	1,809	(56)	—	—	1,753
Commercial and Industrial	4,008	940	—	10	4,958
Credit card	5,033	1,818	(1,702)	2	5,151
Other consumer	17	(2)	—	—	15
Total	\$ 27,189	\$ 1,660	\$ (2,645)	\$ 12	\$ 26,216

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

Note 5 - Portfolio Loans Receivable and Allowance for Credit Losses (continued)

Past due loans, segregated by age and class of loans, as of March 31, 2024 and December 31, 2023 were as follows:

Portfolio Loans Past Due

(in thousands)

	Loans 30-59 Days Past Due	Loans 60-89 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	Nonaccrual Loans
March 31, 2024								
Real estate:								
Residential	\$ 2,479	\$ 818	\$ 6,303	\$ 9,600	\$ 567,512	\$ 577,112	\$ —	\$ 6,762
Commercial	1,391	11,610	551	13,552	722,764	736,316	—	3,064
Construction	—	661	3,876	4,537	285,479	290,016	—	3,868
Commercial and Industrial	2,008	1,353	448	3,809	250,768	254,577	—	667
Credit card	5,544	5,494	621	11,659	100,239	111,898	621	—
Other consumer	—	—	—	—	738	738	—	—
Total	\$ 11,422	\$ 19,936	\$ 11,799	\$ 43,157	\$ 1,927,500	\$ 1,970,657	\$ 621	\$ 14,361
December 31, 2023								
Real estate:								
Residential	\$ 2,201	\$ 3,096	\$ 11,066	\$ 16,363	\$ 556,741	\$ 573,104	\$ 17	\$ 11,398
Commercial	1,577	322	582	2,481	681,748	684,229	—	582
Construction	—	1,165	3,296	4,461	285,647	290,108	—	3,288
Commercial and Industrial	1,356	74	454	1,884	237,324	239,208	—	774
Credit card	7,767	6,877	519	15,163	108,168	123,331	519	—
Other consumer	—	—	—	—	950	950	—	—
Total	\$ 12,901	\$ 11,534	\$ 15,917	\$ 40,352	\$ 1,870,578	\$ 1,910,930	\$ 536	\$ 16,042

There were \$2.4 million and \$8.1 million of loans secured by one-to-four family residential properties in the process of foreclosure as of March 31, 2024 and December 31, 2023, respectively.

The increase in loans 60-89 days past due and special mention loan levels at March 31, 2024 from December 31, 2023 includes a single owner-occupied commercial real estate loan relationship with a total outstanding exposure amount of \$11.6 million. The borrower fell behind in payments due to unexpected timing delays in the collection of outstanding receivables. Payments have resumed and the borrower remains actively engaged with the Company in resolving the past due status.

Capital Bancorp, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

Note 5 - Portfolio Loans Receivable and Allowance for Credit Losses (continued)

The following presents the nonaccrual loans as of March 31, 2024 and December 31, 2023:

(in thousands)	March 31, 2024			
	Nonaccrual with No Allowance for Credit Loss	Nonaccrual with an Allowance for Credit Loss	Total Nonaccrual Loans	Interest Recognized on Nonaccrual Loans
Real estate:				
Residential	\$ 6,111	\$ 651	\$ 6,762	\$ 221
Commercial	3,064	—	3,064	93
Construction	3,868	—	3,868	180
Commercial and Industrial	439	228	667	56
Total	<u>\$ 13,482</u>	<u>\$ 879</u>	<u>\$ 14,361</u>	<u>\$ 550</u>
	December 31, 2023			
	Nonaccrual with No Allowance for Credit Loss	Nonaccrual with an Allowance for Credit Loss	Total Nonaccrual Loans	Interest Recognized on Nonaccrual Loans
Real estate:				
Residential	\$ 11,152	\$ 246	\$ 11,398	\$ 236
Commercial	582	—	582	46
Construction	3,288	—	3,288	185
Commercial and Industrial	598	176	774	71
Total	<u>\$ 15,620</u>	<u>\$ 422</u>	<u>\$ 16,042</u>	<u>\$ 538</u>

The Company has certain loans for which repayment is dependent upon the operation or sale of collateral, as the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan. The following provides more detail about the types of collateral that secure collateral dependent loans:

- Residential real estate loans are primarily secured by owner-occupied primary residences and, to a lesser extent, investor-owned residences.
- Commercial real estate loans can be secured by either owner-occupied commercial real estate or non-owner occupied investment commercial real estate. Typically, owner-occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Non-owner occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate.
- Construction loans are typically secured by owner-occupied commercial real estate or non-owner occupied investment real estate. Typically, owner-occupied construction loans are secured by office buildings, warehouses, manufacturing facilities, and other commercial and industrial properties that are in process of construction. Non-owner occupied commercial construction loans are generally secured by office buildings and complexes, multi-family complexes, land under development, and other commercial and industrial real estate in process of construction.
- Commercial and industrial loans are generally secured by equipment, inventory, accounts receivable, and other commercial property.

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

Note 5 - Portfolio Loans Receivable and Allowance for Credit Losses (continued)**Collateral dependent loans amortized cost**

(in thousands)	March 31, 2024	December 31, 2023
Real estate:		
Residential	\$ 5,345	\$ 11,152
Commercial	3,064	582
Construction	5,038	3,288
Commercial and Industrial	537	657
Total	<u>\$ 13,984</u>	<u>\$ 15,679</u>

Of the collateral dependent loans as of March 31, 2024, a specific reserve of \$405 thousand and \$150 thousand was assessed for residential real estate and commercial and industrial loans, respectively. Of the collateral dependent loans as of December 31, 2023, a specific reserve of \$115 thousand was assessed for commercial and industrial loans. The Company had no modifications on loans to borrowers experiencing financial difficulty during the three months ended March 31, 2024 or the three months ended March 31, 2023.

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 general economic conditions in the Company's market. From a credit risk standpoint, the Company utilizes a risk grading matrix to assign a risk grade to each of its loans. The classifications of loans reflect a judgment about the risk of expected credit loss associated with each loan. Credit quality indicators are reviewed and adjusted regularly to account for the degree of risk and expected credit loss that the Company believes to be appropriate for each financial asset.

A description of the general characteristics of loans characterized as classified is as follows:

Pass

Loans characterized as pass includes loans graded exceptional, very good, good, satisfactory and pass/watch. The Company believes that there is a low likelihood of credit deterioration related to those loans that are considered pass.

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.

Note 5 - Portfolio Loans Receivable and Allowance for Credit Losses (continued)

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.

Doubtful

A doubtful loan has all the weaknesses associated with 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 most recent credit quality indicator analysis. Classified loans include Special Mention, Substandard and Doubtful loans. Pass classified loans include loans graded exceptional, very good, good, satisfactory, and pass/watch. Credit card loans are ungraded as they are not individually graded. Charge-offs presented represent gross charge-offs recognized in the current period:

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

Note 5 - Portfolio Loans Receivable and Allowance for Credit Losses (continued)

March 31, 2024 (in thousands)	Term Loans by Origination Year						Revolving	Total
	2024	2023	2022	2021	2020	Prior		
Residential – Real estate								
Pass	\$ 29,966	\$ 134,102	\$ 132,476	\$ 76,409	\$ 75,128	\$ 117,615	\$ —	\$ 565,696
Special Mention	—	—	—	132	3,647	285	—	4,064
Substandard	—	—	33	332	—	6,987	—	7,352
Doubtful	—	—	—	—	—	—	—	—
Total	29,966	134,102	132,509	76,873	78,775	124,887	—	577,112
Commercial – Real estate								
Pass	52,595	63,615	172,972	141,121	77,031	208,492	—	715,826
Special Mention	—	—	18,495	—	—	801	—	19,296
Substandard	—	—	—	—	—	1,194	—	1,194
Doubtful	—	—	—	—	—	—	—	—
Total	52,595	63,615	191,467	141,121	77,031	210,487	—	736,316
Construction – Real estate								
Pass	16,217	144,267	59,095	41,338	15,234	8,981	—	285,132
Special Mention	—	661	—	—	—	—	—	661
Substandard	—	—	—	—	1,568	2,655	—	4,223
Doubtful	—	—	—	—	—	—	—	—
Total	16,217	144,928	59,095	41,338	16,802	11,636	—	290,016
Commercial and Industrial								
Pass	24,939	71,139	66,282	27,157	8,436	51,796	—	249,749
Special Mention	—	—	805	—	2,367	312	—	3,484
Substandard	—	46	619	207	—	472	—	1,344
Doubtful	—	—	—	—	—	—	—	—
Total	24,939	71,185	67,706	27,364	10,803	52,580	—	254,577
Other consumer								
Pass	—	—	262	134	111	231	—	738
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Total	—	—	262	134	111	231	—	738
Credit card								
Ungraded	—	—	—	—	—	—	111,898	111,898
Portfolio loans receivable, gross	\$ 123,717	\$ 413,830	\$ 451,039	\$ 286,830	\$ 183,522	\$ 399,821	\$ 111,898	\$ 1,970,657

March 31, 2024 (in thousands)	2024	2023	2022	2021	2020	Prior	Revolving	Total
Gross Charge-offs								
Residential	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 225	\$ —	\$ 225
Commercial and Industrial	—	98	—	—	—	—	—	98
Credit card	—	—	—	—	—	—	1,768	1,768
Total	\$ —	\$ 98	\$ —	\$ —	\$ —	\$ 225	\$ 1,768	\$ 2,091

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

Note 5 - Portfolio Loans Receivable and Allowance for Credit Losses (continued)

December 31, 2023 (in thousands)	Term Loans by Origination Year						Revolving	Total
	2023	2022	2021	2020	2019	Prior		
Residential – Real estate								
Pass	\$ 140,394	\$ 137,362	\$ 76,556	\$ 76,938	\$ 36,122	\$ 88,055	\$ —	\$ 555,427
Special Mention	—	—	134	3,670	1,176	288	—	5,268
Substandard	—	33	—	—	26	12,350	—	12,409
Doubtful	—	—	—	—	—	—	—	—
Total	140,394	137,395	76,690	80,608	37,324	100,693	—	573,104
Commercial – Real estate								
Pass	62,095	185,776	145,756	68,748	96,238	116,347	—	674,960
Special Mention	—	6,897	—	—	805	985	—	8,687
Substandard	—	—	—	—	582	—	—	582
Doubtful	—	—	—	—	—	—	—	—
Total	62,095	192,673	145,756	68,748	97,625	117,332	—	684,229
Construction – Real estate								
Pass	142,157	72,240	46,180	16,859	6,246	2,517	—	286,199
Special Mention	—	—	—	—	—	614	—	614
Substandard	—	—	—	1,254	597	1,444	—	3,295
Doubtful	—	—	—	—	—	—	—	—
Total	142,157	72,240	46,180	18,113	6,843	4,575	—	290,108
Commercial and Industrial								
Pass	70,540	71,689	28,007	9,364	18,036	37,392	—	235,028
Special Mention	—	156	—	2,406	47	273	—	2,882
Substandard	30	814	211	—	42	201	—	1,298
Doubtful	—	—	—	—	—	—	—	—
Total	70,570	72,659	28,218	11,770	18,125	37,866	—	239,208
Other consumer								
Pass	75	278	147	116	—	334	—	950
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Total	75	278	147	116	—	334	—	950
Credit card								
Ungraded	—	—	—	—	—	—	123,331	123,331
Portfolio loans receivable, gross	\$ 415,291	\$ 475,245	\$ 296,991	\$ 179,355	\$ 159,917	\$ 260,800	\$ 123,331	\$ 1,910,930

December 31, 2023 (in thousands)	2023	2022	2021	2020	2019	Prior	Revolving	Total
Gross Charge-offs								
Residential	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 670	\$ —	\$ 670
Commercial	—	—	—	—	943	—	—	943
Commercial and Industrial	—	98	—	—	—	—	—	98
Credit card	—	—	—	—	—	—	7,076	7,076
Total	\$ —	\$ 98	\$ —	\$ —	\$ 943	\$ 670	\$ 7,076	\$ 8,787

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

Note 5 - Portfolio Loans Receivable and Allowance for Credit Losses (continued)

Outstanding loan commitments were as follows:

(in thousands)	March 31, 2024	December 31, 2023
Unused lines of credit		
Real Estate:		
Residential	\$ 17,812	\$ 15,436
Residential - Home Equity	43,225	43,892
Commercial	29,542	20,424
Construction	116,614	98,777
Commercial and Industrial	52,627	42,751
Credit card ⁽¹⁾	128,374	114,882
Other consumer	311	310
Total	<u>\$ 388,505</u>	<u>\$ 336,472</u>
Letters of credit	<u>\$ 4,641</u>	<u>\$ 4,641</u>

⁽¹⁾ Outstanding loan commitments in the credit card portfolio include \$108.4 million and \$98.2 million in secured and partially secured balances as of March 31, 2024 and December 31, 2023, respectively.

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, at any given time, draw upon their lines in full. Loan commitments generally have variable interest rates, fixed expiration dates, and may require payment of a 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 with regard to 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 unfunded commitments and certain off-balance sheet items such as unfunded lines of credit, which is reflected in other liabilities, with increases or decreases in the reserve being charged to or released from operating expense. Activity for this account is as follows for the periods presented:

(in thousands)	Three months ended	
	March 31, 2024	March 31, 2023
Balance at beginning of period	\$ 806	\$ 1,682
Impact of adopting the CECL standard on January 1, 2023	—	(775)
Provision for (release of) credit losses on unfunded commitments	142	(19)
Balance at end of period	<u>\$ 948</u>	<u>\$ 888</u>

The Company makes representations and warranties that loans sold to investors meet the investors' program 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 non-compliance, early payment default, and fraud or borrower misrepresentations.

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

Note 5 - Portfolio Loans Receivable and Allowance for Credit Losses (continued)

The Company maintains a 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:

(in thousands)	Three months ended	
	March 31, 2024	March 31, 2023
Balance at beginning of period	\$ 985	\$ 1,174
Provision for mortgage loan put-back reserve	13	5
Balance at end of period	\$ 998	\$ 1,179

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 customers have locked into that interest rate. The Company then locks the loan and rate in with an investor and commits to deliver the loan if settlement occurs (Best Efforts). 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 to be 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 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.

There were no outstanding derivative instruments as of March 31, 2024 and December 31, 2023.

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 four of its full service branches and four other locations for corporate/administration activities, operations, and loan production. All property leases under lease agreements have 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 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 historical weighted average discount rate was 3.87% at March 31, 2024 and 3.79% at December 31, 2023. 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.

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

Note 7 - Leases (continued)

As of March 31, 2024, the Company's net lease ROU assets and related lease liabilities were \$3.0 million and \$3.5 million, respectively, compared to December 31, 2023 balances of \$3.6 million of ROU assets and \$3.8 million of lease liabilities, and have remaining terms ranging from one to nine years, including extension options that the Company is reasonably certain will be exercised. As of March 31, 2024, the Company had not entered into any material leases that have not yet commenced. The Company's lease information is summarized as follows:

(in thousands)	March 31, 2024	December 31, 2023
Lease Right of Use Asset:		
Lease asset	\$ 6,474	\$ 6,810
Less: Accumulated amortization	(3,461)	(3,223)
Net lease asset	<u>\$ 3,013</u>	<u>\$ 3,587</u>
Lease Liability:		
Lease liability	\$ 6,891	6,892
Less: Accumulated amortization	(3,397)	(3,101)
Net lease liability	<u>\$ 3,494</u>	<u>\$ 3,791</u>

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

(in thousands)	March 31, 2024
Amounts due in:	
2024	\$ 827
2025	715
2026	665
2027	396
2028	266
2029 and thereafter	1,182
Total future lease payments	<u>4,051</u>
Discount of cash flows	(557)
Present value of net future lease payments	<u>\$ 3,494</u>

Note 8 - Fair Value

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date. This includes certain U.S. Treasury and other U.S. Government and government agency securities actively traded in over-the-counter markets.

Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

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

Note 8 - Fair Value (continued)

Level 3 - Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair value on a recurring basis:

Investment securities available for sale - The fair values for investment securities available for sale are provided by an independent pricing service and are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing, which is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

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

Derivative financial instruments - The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2). Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services.

Capital Bancorp, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

Note 8 - Fair Value (continued)

The Company has categorized its financial instruments measured at fair value on a recurring basis as of March 31, 2024 and December 31, 2023 as follows:

(in thousands)

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2024				
Investment securities available for sale				
U.S. Treasuries	\$ 128,683	\$ 128,683	\$ —	\$ —
Municipal	9,254	—	9,254	—
Corporate	4,457	—	4,457	—
Asset-backed securities	6,581	—	6,581	—
Mortgage-backed securities	53,279	—	53,279	—
Total	\$ 202,254	\$ 128,683	\$ 73,571	\$ —
Loans held for sale	\$ 10,303	\$ —	\$ 10,303	\$ —
Derivative assets	\$ —	\$ —	\$ —	\$ —
Derivative liabilities	\$ —	\$ —	\$ —	\$ —
December 31, 2023				
Investment securities available for sale				
U.S. Treasuries	\$ 149,228	\$ 149,228	\$ —	\$ —
Municipal	9,372	—	9,372	—
Corporate	4,413	—	4,413	—
Asset-backed securities	7,045	—	7,045	—
Mortgage-backed securities	38,271	—	38,271	—
Total	\$ 208,329	\$ 149,228	\$ 59,101	\$ —
Loans held for sale	\$ 7,481	\$ —	\$ 7,481	\$ —
Derivative assets	\$ —	\$ —	\$ —	\$ —
Derivative liabilities	\$ —	\$ —	\$ —	\$ —

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

	March 31, 2024	December 31, 2023
Aggregate fair value	\$ 10,303	\$ 7,481
Contractual principal	7,425	5,168
Difference	\$ 2,878	\$ 2,313

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

Note 8 - Fair Value (continued)

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. As of March 31, 2024 and December 31, 2023, there were no held for sale loans which were classified as nonaccrual.

Fair value measurements on a nonrecurring basis

Individually evaluated loans - The Company has measured expected credit losses based on the fair value of the loan's collateral and discounted cash flow analysis, where appropriate. Fair value of the collateral 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 March 31, 2024 and December 31, 2023, the fair values consist of loan balances of \$14.4 million and \$16.0 million, with specific reserves of \$879 thousand and \$422 thousand, respectively.

Foreclosed real estate - The Company's foreclosed real estate is measured at fair value less cost to sell. Fair value is determined based on offers and/or appraisals. Cost to sell the real estate is based on standard market factors. The Company categorizes its foreclosed real estate as Level 3. As of March 31, 2024 and December 31, 2023, there was no foreclosed real estate held by the Company.

The Company has categorized its financial instruments measured at fair value on a nonrecurring basis as of March 31, 2024 and December 31, 2023 as follows:

(in thousands)	March 31, 2024	December 31, 2023
Individually evaluated loans for credit loss, net		
Level 3 inputs	13,481	15,620
Total	<u>\$ 13,481</u>	<u>15,620</u>

The following table provides information describing the unobservable inputs used in Level 3 fair value measurements at March 31, 2024 and December 31, 2023:

Unobservable Inputs

	Valuation Technique	Unobservable Inputs	Range of Inputs
Individually evaluated loans	Appraised Value/Discounted Cash Flows	Discounts to appraisals or cash flows for estimated holding and/or selling costs	0 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.

The information used to determine fair value is highly subjective in nature and, therefore, the results are imprecise. 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.

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

Note 8 - Fair Value (continued)

As of March 31, 2024, the techniques used by the Company to estimate the exit price of the loan portfolio consists of similar procedures to those used as of December 31, 2023. 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, individually analyzed loans, and all other loans. The results are then adjusted to account for credit risk as described above, and a further credit risk discount is 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.

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 investments 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.

Capital Bancorp, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

Note 8 - Fair Value (continued)

(in thousands)	March 31, 2024		December 31, 2023	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Level 1				
Cash and due from banks	\$ 12,361	\$ 12,361	\$ 14,513	\$ 14,513
Interest-bearing deposits at other financial institutions	72,787	72,787	39,044	39,044
Federal funds sold	56	56	407	407
Level 3				
Portfolio loans receivable, net	\$ 1,935,175	\$ 1,902,408	\$ 1,874,678	\$ 1,855,158
Restricted investments	4,441	4,441	4,353	4,353
Financial liabilities				
Level 1				
Noninterest-bearing deposits	\$ 665,812	\$ 665,812	\$ 617,373	\$ 617,373
Level 3				
Interest-bearing deposits	\$ 1,339,883	\$ 1,339,795	\$ 1,278,623	\$ 1,280,682
FHLB advances and other borrowed funds	34,062	31,620	49,062	46,634

Note 9 - Segments

The Company's reportable segments represent business units with discrete financial information whose results are regularly reviewed 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.

Effective January 1, 2024, the Company allocated certain expenses previously recorded directly to the Commercial Bank segment to the other segments. These expenses are for shared services also consumed by OpenSky™, CBHL, and Corporate. The Company performs an allocation process based on several metrics the Company believes more accurately ascribe shared service overhead to each segment. The Company believes this reflects the cost of support for each segment that should be considered in assessing segment performance. Historical information has been recast to reflect financial information consistently with the 2024 presentation.

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

Note 9 - Segments (continued)

The following schedule presents financial information for each reportable segment at March 31, 2024 and March 31, 2023.

For the Three Months Ended March 31, 2024

(in thousands)	Commercial Bank	CBHL	OpenSky™	Corporate ⁽²⁾	Eliminations	Consolidated
Interest income	\$ 32,529	\$ 83	\$ 14,921	\$ 899	\$ (63)	\$ 48,369
Interest expense	13,154	41	—	229	(63)	13,361
Net interest income	19,375	42	14,921	670	—	35,008
Provision for credit losses	1,109	—	1,559	59	—	2,727
Provision for credit losses on unfunded commitments	142	—	—	—	—	142
Net interest income after provision	18,124	42	13,362	611	—	32,139
Noninterest income	704	1,352	3,915	1	—	5,972
Noninterest expense ⁽¹⁾	12,259	2,105	13,599	1,524	—	29,487
Net income (loss) before taxes	\$ 6,569	\$ (711)	\$ 3,678	\$ (912)	\$ —	\$ 8,624

Total assets	\$ 2,160,051	\$ 10,785	\$ 105,318	\$ 281,766	\$ (233,682)	\$ 2,324,238
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For the Three Months Ended March 31, 2023

Interest income	\$ 26,300	\$ 77	\$ 16,130	\$ 978	\$ (69)	\$ 43,416
Interest expense	8,739	30	—	229	(69)	8,929
Net interest income	17,561	47	16,130	749	—	34,487
(Release of) provision for credit losses	(161)	—	1,821	—	—	1,660
Release of credit losses on unfunded commitments	(19)	—	—	—	—	(19)
Net interest income after provision	17,741	47	14,309	749	—	32,846
Noninterest income	489	1,327	4,210	—	—	6,026
Noninterest expense ⁽¹⁾	11,759	2,336	11,738	389	—	26,222
Net income (loss) before taxes	\$ 6,471	\$ (962)	\$ 6,781	\$ 360	\$ —	\$ 12,650

Total assets	\$ 2,074,634	\$ 10,193	\$ 106,761	\$ 257,048	\$ (203,350)	\$ 2,245,286
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⁽¹⁾ Noninterest expense includes \$6.1 million and \$5.9 million in data processing expense in OpenSky's™ segment for the three months ended March 31, 2024 and 2023, respectively.
⁽²⁾ The Corporate segment invests idle cash in revenue producing assets including interest-bearing cash accounts, loan participations and other appropriate investments for the Company.

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

In this Quarterly Report on Form 10-Q, unless we state otherwise or the context otherwise requires, references to "we," "our," "us," "the Company" and "Capital" refer to Capital Bancorp, Inc. and its wholly owned subsidiaries, Capital Bank, N.A., which we sometimes refer to as "Capital Bank," "the Bank" or "our Bank," and Church Street Capital, LLC. "Church Street Capital" or "CSC" refer to our wholly-owned subsidiary, Church Street Capital, LLC.

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") 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 unaudited consolidated financial statements and the related notes and the Company's Annual Report on Form 10-K for the year ended December 31, 2023. The results for the three months ended March 31, 2024 are not necessarily indicative of the results expected for the year ending December 31, 2024.

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," "endeavor," "plan," "estimate," "could," "project," "seek," "should," "will," or "would," or the negative of these words and phrases or similar words and phrases.

These forward-looking statements are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those projected. These risks and uncertainties, some of which are beyond our control, include, but are not limited to:

General Economic Conditions

- economic conditions (including the interest rate environment, government economic and monetary policies, the strength of global financial markets and inflation/deflation) that impact the financial services industry as a whole and/or our business;
- adverse developments in the banking industry such as, for example, by high-profile bank failures and the potential impact of such developments on customer confidence, liquidity, and regulatory responses to these developments;
- the concentration of our business in the Washington, D.C. and Baltimore, Maryland metropolitan areas and the effect of changes in economic, political and environmental conditions on these markets;
- interest rate risk associated with our business, including sensitivity of our interest earning assets and interest-bearing liabilities to changes in interest rates, and the impact to our earnings from changes in interest rates;

- geopolitical conditions, including acts or threats of terrorism, actions taken by the U.S. or other governments in response to acts or threats of terrorism and/or military conflicts, including the ongoing wars in Ukraine and the Middle East, which could impact business and economic conditions in the U.S. and abroad;
- the impact of recent or future changes in the Federal Deposit Insurance Corporation (“FDIC”) insurance assessment rate or the rules and regulations related to the calculation of the FDIC insurance assessment amount, including any special assessments;
- potential changes in federal policy and at regulatory agencies as a result of the upcoming 2024 presidential election;

General Business Operations

- the effect of acquisitions we may make, such as our pending acquisition of Integrated Financial Holdings, Inc. (“IFHI”), including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions, and/or the failure to effectively integrate an acquisition target into our operations;
- risks related to the proposed merger with IFHI including, among others, (i) failure to complete the merger with IFHI or unexpected delays related to the merger or either party’s inability to satisfy closing conditions required to complete the merger, (ii) certain restrictions during the pendency of the proposed merger with IFHI that may impact the parties’ ability to pursue certain business opportunities or strategic transactions, (iii) diversion of management’s attention from ongoing business operations and opportunities, (iv) cost savings and any revenue synergies from the merger may not be fully realized or may take longer than anticipated to be realized, (v) the integration of each party’s management, personnel and operations will not be successfully achieved or may be materially delayed or will be more costly or difficult than expected, (vi) deposits attrition, customer or employee loss and/or revenue loss as a result of the proposed merger, and (vii) expenses related to the proposed merger being greater than expected;
- 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;
- adequacy of reserves, including our allowance for credit losses (“ACL”);
- deterioration of our asset quality;
- risks associated with our residential mortgage banking business;
- risks associated with our OpenSky™ credit card division, including compliance with applicable consumer finance and fraud prevention regulations;
- 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 credit losses or to write-down assets;
- changes in the value of collateral securing our loans;
- our dependence on our management team and board of directors and changes in management and board composition;
- liquidity and operations risks associated with our business;
- our ability to maintain important customer deposit relationships and our reputation;

- operational risks associated with our business;
- strategic acquisitions we may undertake to achieve our goals;
- 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;
- fluctuations in the fair value of our investment securities;
- potential exposure to fraud, negligence, computer theft and cyber-crime;
- cybersecurity threats and incidents and related potential costs and risks, including reputation, financial and litigation risks;
- the adequacy of our risk management framework;
- 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;
- increased competition in the financial services industry, particularly from regional and national institutions;
- changes to state rent control laws, which may impact the credit quality of multifamily housing loans;
- our involvement from time to time in legal proceedings, examinations and remedial actions by regulators;
- changes in the laws, rules, regulations, interpretations or policies relating to financial institution, accounting, tax, trade, monetary and fiscal matters;
- the financial soundness of other financial institutions;
- further government intervention in the U.S. financial system;
- climate change, including the enhanced regulatory, compliance, credit and reputational risks and costs associated therewith; and
- natural disasters and adverse weather, acts of terrorism, an outbreak of hostilities or other international or domestic calamities, and other matters beyond our control.

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 and/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, 2023 and those referenced herein and in other reports on file with the Securities and Exchange Commission (“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.

Critical Accounting Policies

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and conform to general practices within the banking industry. The Company’s financial position and results of operations are affected by management’s application of accounting policies, including estimates, assumptions and judgments made to arrive at the carrying value of assets and liabilities and amounts reported for revenues, expenses and related disclosures. Different assumptions in the application of these policies could result in material changes in the Company’s consolidated financial position and/or results of operations. The Company evaluates its critical accounting estimates and assumptions on an ongoing basis and updates them, as deemed necessary. Management has discussed the Company’s critical accounting policies and estimates with the Audit Committee of the Board of Directors of the Company.

The Company’s accounting policies are fundamental to understanding the Company’s consolidated financial position and consolidated results of operations. Accordingly, the Company’s significant accounting policies are discussed in detail in Note 1 “Nature of Business and Basis of Presentation” in the “Notes to the Consolidated Financial Statements” contained in Item 8 “Financial Statements and Supplementary Data” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2023.

Overview

We are Capital Bancorp, Inc., a bank holding company and a Maryland corporation incorporated in 1998, operating primarily through our wholly-owned subsidiary, Capital Bank, N.A., a commercial-focused community bank based in the Washington D.C. and Baltimore metropolitan areas. The Bank is headquartered in Rockville, Maryland and received its charter in 1999 and began operations in 1999. We serve businesses, not-for-profit associations, entrepreneurs and others throughout the Washington, D.C. and Baltimore, Maryland metropolitan areas through four commercial bank branches, one mortgage office, and two loan production offices.

The Company currently operates three divisions: Commercial Banking, Capital Bank Home Loans, and OpenSky™. 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 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 endeavor to provide quality service, customized solutions and tailored advice to commercial clients in our operating markets, primarily in the Washington, D.C. and Baltimore metropolitan areas.

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

Our OpenSky™ division provides secured, partially secured and unsecured credit cards on a nationwide basis to under-banked populations and those looking to rebuild their credit scores. OpenSky™ cards operate on a digital and mobile enabled platform with almost all marketing and application procedures being conducted through website and mobile applications. For the secured credit card, a deposit equal to the full credit limit of the card is made, upon account opening, into a noninterest-bearing demand account with the Bank 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 supplementary to their secured line of credit.

Capital

As of March 31, 2024, 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. There are no conditions or events since that notification that management believes would change the Bank’s classification. We closely monitor our capital position and intend to take appropriate steps to ensure that our level of capital remains strong.

Pending Acquisition of Integrated Financial Holdings, Inc.

On March 27, 2024, the Company entered into an Agreement and Plan of Merger and Reorganization (the “Merger Agreement”) with IFHI, pursuant to which IFHI will merge with and into the Company (the “Merger”), with the Company surviving the Merger. Following the Merger, IFHI’s wholly-owned bank subsidiary, West Town Bank & Trust, will be merged with and into Capital Bank, with Capital Bank as the surviving institution. West Town Bank & Trust provides banking services through its full-service office located in North Riverside, Illinois and is a nationwide lender in government guaranteed lending across both U.S. Department of Agriculture (“USDA”) and U.S. Small Business Administration (“SBA”) government guaranteed lending. IFHI is also the parent company of Windsor Advantage, LLC, a loan service provider that offers community banks and credit unions with a comprehensive outsourced SBA 7(a) and USDA lending platform.

In accordance with the terms of the Merger Agreement, IFHI’s shareholders will have the right to receive (i) 1.115 shares of the Company’s common stock, and (ii) subject to certain adjustments, \$5.36 in cash, as well as cash in lieu of fractional shares of the Company’s common stock. Closing of the transaction, which is expected to occur in the fourth quarter of 2024, is contingent upon shareholder approval and receipt of all necessary regulatory approvals, along with the satisfaction of other customary closing conditions. IFHI is headquartered in Raleigh, North Carolina with \$548 million in total assets, \$400 million in gross loans and \$436 million in total deposits as of December 31, 2023. IFHI operates one banking office located in North Riverside, Illinois.

Results of Operations

Non-GAAP Financial Measures

This document contains non-GAAP financial measures denoted throughout our MD&A by reference to “non-GAAP.” We believe these non-GAAP financial measures provide useful information to investors because they are used by management to evaluate our operating performance and make day-to-day operating decisions. In addition, we believe our non-GAAP results in any given reporting period reflect our on-going financial performance in that period and, accordingly, are useful to consider in addition to our

GAAP financial results. We further believe the presentation of non-GAAP results increases comparability of period-to-period results.

Other companies may use similarly titled non-GAAP financial measures that may be calculated differently from the way we calculate such measures. Accordingly, our non-GAAP financial measures may not be comparable to similar measures used by such companies. We caution investors not to place undue reliance on such non-GAAP financial measures, but to consider them with the most directly comparable GAAP measures. Non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation or as a substitute for our results reported under GAAP.

For more information on the computation of non-GAAP financial measures, see “Non-GAAP Financial Measures and Reconciliations.”

Net Income

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

	Three Months Ended March 31,		
	2024	2023	% Change
(in thousands)			
Interest income	\$ 48,369	\$ 43,416	11.4 %
Interest expense	13,361	8,929	49.6 %
Net interest income	35,008	34,487	1.5 %
Provision for credit losses	2,727	1,660	64.3 %
Provision for (release of) credit losses on unfunded commitments	142	(19)	
Net interest income after provision	32,139	32,846	(2.2)%
Noninterest income	5,972	6,026	(0.9)%
Noninterest expenses	29,487	26,222	12.5 %
Net income before income taxes	8,624	12,650	(31.8)%
Income tax expense	2,062	2,915	(29.3)%
Net income	\$ 6,562	\$ 9,735	(32.6)%

Net income for the three months ended March 31, 2024 was \$6.6 million, compared to net income of \$9.7 million for the same period in 2023, a 32.6% decrease. Net income, as adjusted (non-GAAP, excluding merger-related expenses), was \$7.1 million for the three months ended March 31, 2024. Net interest income increased by \$0.5 million, or 1.5%, to \$35.0 million when comparing the three months ended March 31, 2024 to the three months ended March 31, 2023, primarily due to increased average balances of \$174.7 million in portfolio loans partially offset by significant increases in the cost of funding. For more information on the computation of non-GAAP financial measures, see “Non-GAAP Financial Measures and Reconciliations.”

The provision for credit losses for the three months ended March 31, 2024 was \$2.7 million, an increase of \$1.1 million from the same period in 2023. Net charge-offs for the three months ended March 31, 2024 were \$2.0 million, or 0.41% on an annualized basis of average portfolio loans, compared to \$2.6 million, or 0.61% on an annualized basis of average loans for the same period in 2023. Of the \$2.0 million in net charge-offs during the quarter, \$1.2 million related to secured and partially secured cards in the credit card portfolio and \$0.5 million related to unsecured cards.

For the three months ended March 31, 2024, noninterest income of \$6.0 million decreased \$0.1 million, or 0.9%, from the same period in 2023. Credit card fees of \$3.9 million decreased \$0.3 million primarily related to lower interchange and other fee income.

Noninterest expense was \$29.5 million for the three months ended March 31, 2024, as compared to \$26.2 million for the three months ended March 31, 2023. The change includes increases in advertising expense of \$1.5 million, merger-related expenses of \$0.7 million, other operating expense of \$0.5 million, occupancy and equipment expenses of \$0.4 million, salaries and employee benefits expenses of \$0.4 million and data processing expense of \$0.2 million, partially offset by a decrease in professional fees of \$0.4 million.

Net Interest Income and Net Margin Analysis

Net interest income is the difference between interest income on earning assets and the cost of funds supporting those assets. Interest earning assets are composed primarily of loans, loans held for sale, investment securities, and interest-bearing deposits with banks. The cost of funds represents interest expense on deposits and borrowings, which consist of federal funds purchased, advances from the Federal Home Loan Bank ("FHLB") and subordinated notes. Noninterest-bearing deposits and capital also provide sources of funding.

We analyze our ability to maximize income generated from interest earning assets and control the interest expenses associated with our liabilities, measured as net interest income, through our net interest margin and net interest spread. Net interest margin is a ratio calculated as net interest income annualized 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 mix 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 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 metropolitan areas. Our ability to respond to changes in these factors by using effective asset-liability management techniques is critical to maintaining the stability of net interest income and net interest margin.

The table below presents the average balances and weighted average rates of the major categories of the Company's assets, liabilities, and stockholders' equity for the three months ended March 31, 2024 and 2023. Weighted average yields are derived by dividing annualized income by the average balance of the related assets, and weighted average rates are derived by dividing annualized expense by the average balance of the related liabilities, for the periods shown. Average outstanding balances are derived by utilizing average daily balances for the time period shown. The weighted average yields and rates include amortization of fees, costs, premiums and discounts, which are considered adjustments to yield/rates. Weighted average yields on tax-exempt securities are not calculated on a fully taxable equivalent basis.

AVERAGE BALANCE SHEET AND NET INTEREST ANALYSIS

	Three Months Ended March 31,					
	2024			2023		
	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate ⁽¹⁾	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate ⁽¹⁾
(\$ in thousands)						
Assets						
Interest earning assets:						
Interest-bearing deposits	\$ 84,531	\$ 1,049	4.99 %	\$ 62,566	\$ 615	3.99 %
Federal funds sold	56	1	7.18	2,054	18	3.62
Investment securities	233,231	1,251	2.16	274,685	1,377	2.03
Restricted investments	4,601	77	6.73	7,346	130	7.17
Loans held for sale	4,872	83	6.85	4,695	77	6.65
Portfolio loans receivable ⁽²⁾⁽³⁾	1,927,372	45,908	9.58	1,752,638	41,199	9.53
Total interest earning assets	2,254,663	48,369	8.63	2,103,984	43,416	8.37
Noninterest earning assets	44,571			40,265		
Total assets	\$ 2,299,234			\$ 2,144,249		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Interest-bearing demand accounts	\$ 183,217	\$ 110	0.24 %	\$ 186,184	\$ 70	0.15 %
Savings	4,841	1	0.08	6,502	1	0.05
Money market accounts	682,414	7,136	4.21	604,864	4,587	3.08
Time deposits	449,963	5,586	4.99	319,449	3,096	3.93
Borrowed funds	58,963	528	3.60	118,379	1,175	4.02
Total interest-bearing liabilities	1,379,398	13,361	3.90	1,235,378	8,929	2.93
Noninterest-bearing liabilities:						
Noninterest-bearing liabilities	23,820			22,355		
Noninterest-bearing deposits	637,124			654,025		
Stockholders' equity	258,892			232,491		
Total liabilities and stockholders' equity	\$ 2,299,234			\$ 2,144,249		
Net interest spread			4.73 %			5.44 %
Net interest income		\$ 35,008			\$ 34,487	
Net interest margin⁽⁴⁾			6.24 %			6.65 %

⁽¹⁾ Annualized.

⁽²⁾ Includes nonaccrual loans.

⁽³⁾ For the three months ended March 31, 2024 and 2023, collectively, portfolio loans yield excluding credit card loans was 6.96% and 6.30%, respectively.

⁽⁴⁾ For the three months ended March 31, 2024 and 2023, collectively, credit card loans accounted for 239 and 284 basis points of the reported net interest margin, respectively.

The net interest margin decreased 41 basis points to 6.24% for the three months ended March 31, 2024 from the same period in 2023 as interest income on credit cards decreased \$1.4 million. Net interest margin, excluding credit card loans, increased to 3.85% for the three months ended March 31, 2024, compared to 3.81% for the same period in 2023. For more information on the computation of non-GAAP financial measures, see "Non-GAAP Financial Measures and Reconciliations."

For the three months ended March 31, 2024, average interest earning assets increased \$150.7 million, or 7.2%, to \$2.3 billion as compared to the same period in 2023, and the average yield on interest earning assets increased to 8.63%, a 26 basis point increase from 8.37%. Compared to the same period in the prior year, average interest-bearing liabilities increased \$144.0 million, or 11.7%, and the average cost of interest-bearing liabilities increased to 3.90%, a 97 basis point increase from 2.93%.

The rate/volume table below presents the composition of the change in net interest income for the periods indicated, as allocated between the change in net interest income due to changes in the volume of average earning assets and interest-bearing liabilities, and the changes in net interest income due to changes in interest rates.

RATE/VOLUME ANALYSIS OF NET INTEREST INCOME

	Three Months Ended March 31, 2024 Compared to March 31, 2023		
	Change Due To		Interest Variance
	Volume	Rate	
<i>(in thousands)</i>			
Interest Income:			
Interest-bearing deposits	\$ 278	\$ 156	\$ 434
Federal funds sold	(36)	19	(17)
Investment securities available for sale	(215)	89	(126)
Restricted investments	(45)	(8)	(53)
Loans held for sale	4	2	6
Portfolio loans receivable excluding credit card loans	3,334	2,727	6,061
Credit card loans	(571)	(781)	(1,352)
Total interest income	2,749	2,204	4,953
Interest Expense:			
Interest-bearing demand accounts	(2)	42	40
Savings	—	—	—
Money market accounts	812	1,737	2,549
Time deposits	1,648	842	2,490
Borrowed funds	(520)	(127)	(647)
Total interest expense	1,938	2,494	4,432
Net interest income	\$ 811	\$ (290)	\$ 521

Total interest income was impacted by the effect of increases in market interest rates and growth in average balances when comparing the three months ended March 31, 2024 to the same period in 2023. The loan portfolio, excluding credit cards, continued to experience growth through the three months ended March 31, 2024, which contributed an additional \$6.1 million in interest income. On a standalone basis, interest income attributable to the credit card portfolio decreased by \$1.4 million when comparing the three months ended March 31, 2024 to the three months ended March 31, 2023, as credit card loan balances and corresponding late charges declined. Increased interest rates also contributed \$2.5 million to increased interest expense, including \$1.7 million from increased rates on money market accounts comparing the three months ended March 31, 2024 to the prior year, substantially offsetting the increase in total interest income. The increase in the amount of time deposits contributed an additional \$1.6 million to the increase in interest expense.

Provision for Credit Losses

The provision for credit losses represents the amount of expense charged to current earnings to fund the ACL. The amount for credit losses is based on many factors which reflect management's assessment of the risk in the loan portfolio. Those factors include historical losses, forecasted cash flows, economic conditions and trends, the value and adequacy of collateral, volume and mix of the portfolio, performance of the portfolio, and internal loan processes of the Company and Bank. For a description of the factors

taken into account by our management in determining the ACL, see Note 1 “Nature of Business and Basis of Presentation” to the “Notes to Unaudited Consolidated Financial Statements.”

For the three months ended March 31, 2024, the provision for credit losses was \$2.7 million, an increase of \$1.1 million from the same period in 2023. Net charge-offs for the three months ended March 31, 2024 were \$2.0 million, or 0.41% on an annualized basis of average portfolio loans, compared to \$2.6 million, or 0.61% on an annualized basis of average portfolio loans for the same period in 2023. Of the \$2.0 million in net charge-offs during the quarter, \$1.2 million related to secured and partially secured cards in the credit card portfolio and \$0.5 million related to unsecured cards.

Although the majority of OpenSky™ credit cards are secured, losses may occur. Some losses result from identity fraud, payment fraud and funding fraud. In addition, losses are sometimes incurred when customers exceed established credit limits as a consequence of certain VISA membership policies that allow cardholders to incur certain charges, such as, for example, rental car charges, gas station charges and hotel deposits, that may exceed card limits. Finally, losses to our credit card portfolio may arise if cardholders cease to maintain the account in good standing with timely payments.

The ACL as a percent of portfolio loans was 1.49% at March 31, 2024 as compared to 1.50% at December 31, 2023. The maintenance of a high-quality loan portfolio, with an adequate allowance for expected credit losses, will continue to be a primary objective for the Company. See additional discussion regarding the Company’s ACL and reserve for unfunded commitments credit exposures at March 31, 2024 in “Financial Condition - Allowance for Credit Losses.”

Noninterest Income

Our primary sources of recurring noninterest income are 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:

	Three Months Ended March 31,		
	2024	2023	% Change
<i>(in thousands)</i>			
Noninterest income:			
Service charges on deposit accounts	\$ 207	\$ 229	(9.6)%
Credit card fees	3,881	4,210	(7.8)
Mortgage banking revenue	1,453	1,155	25.8
Other income	431	432	(0.2)
Total noninterest income	<u>\$ 5,972</u>	<u>\$ 6,026</u>	<u>(0.9)%</u>

For the three months ended March 31, 2024, credit card fees of \$3.9 million declined by \$0.3 million as compared to the three months ended March 31, 2023, primarily related to lower interchange and other fee income. Mortgage banking revenue increased \$0.3 million for the three months ended March 31, 2024 due to an increase in home loan sales as compared to the prior year.

The Bank’s CBHL division experienced an increase of 17.2% in mortgage originations during the three months ended March 31, 2024 when compared to the same period in the prior year. Origination volumes increased \$7.6 million, to \$52.1 million, in the first quarter of 2024, when compared to

\$44.4 million in the first quarter of 2023. Gain on sale margins increased from 3.02% for the three months ended March 31, 2023, to 3.07% for the three months ended March 31, 2024.

Mortgage loans sold are subject to repurchase in circumstances where documentation is deficient or the underlying loan becomes delinquent or pays off within a specified period following loan funding and sale. The Bank has established a reserve under GAAP for possible repurchases. The reserve was \$1.0 million at March 31, 2024 and December 31, 2023. The Bank did not repurchase any loans during the three months ended March 31, 2024 or 2023. The Bank does not originate “sub-prime” mortgage loans and has no exposure to this market segment.

Noninterest Expense

Generally, noninterest expense is comprised of all employee expenses and costs associated with operating our facilities, obtaining and retaining customer relationships and providing bank services, with the largest component being 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:

	Three Months Ended March 31,		
	2024	2023	% Change
<i>(in thousands)</i>			
Noninterest expense:			
Salaries and employee benefits	\$ 12,907	\$ 12,554	2.8 %
Occupancy and equipment	1,613	1,213	33.0
Professional fees	1,947	2,374	(18.0)
Data processing	6,761	6,530	3.5
Advertising	2,032	517	293.0
Loan processing	371	349	6.3
Foreclosed real estate expenses, net	1	6	
Merger-related expenses	712	—	
Operational losses	931	964	(3.4)
Other operating	2,212	1,715	29.0
Total noninterest expenses	\$ 29,487	\$ 26,222	12.5

Noninterest expense was \$29.5 million for the three months ended March 31, 2024, as compared to \$26.2 million for the three months ended March 31, 2023, an increase of \$3.3 million. The change includes increases in advertising expense of \$1.5 million, merger-related expenses of \$0.7 million, other operating expense of \$0.5 million, occupancy and equipment expenses of \$0.4 million, salaries and employee benefits expenses of \$0.4 million and data processing expense of \$0.2 million, partially offset by a decrease professional fees of \$0.4 million.

Income Tax Expense

The amount of income tax expense we incur is influenced by our pre-tax income and our nondeductible expenses. Deferred tax assets and liabilities are reflected at enacted tax rates in effect for the period in which the deferred tax assets and liabilities are expected to be realized or settled. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized.

Income tax expense was \$2.1 million for the three months ended March 31, 2024 compared to \$2.9 million for the three months ended March 31, 2023. Our effective tax rates increased from 23.0% for the

three months ended March 31, 2023 to 23.9% for the three months ended March 31, 2024, primarily attributable to the application of differing state income tax rates.

Financial Condition

The following table summarizes the Company's financial condition at the dates indicated.

(in thousands)	March 31, 2024	December 31, 2023	\$ Change	% Change
Total assets	\$ 2,324,238	\$ 2,226,176	\$ 98,062	4.4 %
Investment securities available for sale	202,254	208,329	(6,075)	(2.9)
Mortgage loans held for sale	10,303	7,481	2,822	37.7
Portfolio loans receivable, net of deferred fees and costs	1,964,525	1,903,288	61,237	3.2
Allowance for credit losses	29,350	28,610	740	2.6
Deposits	2,005,695	1,895,996	109,699	5.8
FHLB borrowings	22,000	22,000	—	—
Other borrowed funds	12,062	27,062	(15,000)	(55.4)
Total stockholders' equity	259,465	254,860	4,605	1.8
Tangible common equity ⁽¹⁾	259,465	254,860	4,605	1.8
Equity to total assets at end of period	11.16 %	11.45 %		(2.5)
Weighted average number of basic shares outstanding	13,919	13,897		0.2
Weighted average number of diluted shares outstanding	13,919	13,989		(0.5)
Common shares outstanding	13,890	13,923		(0.2)
Book value per share	18.68	18.31		2.0
Tangible book value per share ⁽¹⁾	18.68	18.31		2.0
Dividends per share	0.08	0.08		0.0

⁽¹⁾ See "Non-GAAP Financial Measures and Reconciliations" for a reconciliation of non-GAAP measures.

Total assets at March 31, 2024 increased \$98.1 million from the balance at December 31, 2023. Net portfolio loans, which exclude mortgage loans held for sale, totaled \$2.0 billion as of March 31, 2024, an increase of \$61.2 million, or 3.2%, from \$1.9 billion at December 31, 2023. Mortgage loans held for sale increased \$2.8 million, or 37.7%, when comparing the period end balances at March 31, 2024 to December 31, 2023.

Investment Securities

The Company uses its 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. As of March 31, 2024, all securities were classified as available for sale.

To supplement interest income earned on our loan portfolio, the Company invests in U.S. Treasuries, high-quality mortgage-backed securities, government agency bonds, asset-backed securities and high-

quality municipal and corporate bonds. The asset-backed securities are comprised of student loan collateral issued by the Federal Family Education Loan Program, which includes a minimum of a 97% government repayment guarantee, as well as additional support in excess of the government guaranteed portion.

The following tables summarize the contractual maturities, without consideration of call features or pre-refunding dates, and weighted-average yields of investment securities at March 31, 2024 and the amortized cost and carrying value of those securities as of the indicated dates. The weighted average yields were calculated by multiplying the amortized cost of each individual security by its yield, dividing that figure by the portfolio total, and then summing the value of these results to arrive at the weighted average yield. Yields on tax-exempt investments are not calculated on a fully tax equivalent basis.

INVESTMENT MATURITIES

March 31, 2024 (in thousands)	One Year or Less		More Than One Year Through Five Years		More Than Five Years Through Ten Years		More Than Ten Years		Total		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
Securities Available for Sale:											
U.S. Treasuries	\$ 29,962	1.17 %	\$ 90,683	1.28 %	\$ 20,702	1.47 %	\$ —	— %	\$ 141,347	\$ 128,683	1.28 %
Municipal	—	—	898	4.89	2,959	4.38	7,842	1.94	11,699	9,254	2.78
Corporate	—	—	—	—	5,000	4.31	—	—	5,000	4,457	4.31
Asset-backed securities	—	—	—	—	—	—	6,601	6.44	6,601	6,581	6.44
Mortgage-backed securities	—	—	29,304	4.84	13,748	2.92	12,494	3.33	55,546	53,279	4.03
Total	\$ 29,962	1.17 %	\$ 120,885	2.17 %	\$ 42,409	2.48 %	\$ 26,937	3.69 %	\$ 220,193	\$ 202,254	2.31 %

As described in Note 4 - "Investment Securities" in the "Notes to Unaudited Consolidated Financial Statements," at March 31, 2024 management determined the Company does not have the intent to sell, nor is it more likely than not that it will be required to sell, available for sale debt securities in an unrealized loss position at March 31, 2024 before it is able to recover the amortized cost basis. Further, management reviewed the Company's holdings as of March 31, 2024 and concluded there were no credit-related declines in fair value. Additional information related to the types of securities held at March 31, 2024, other than securities issued or guaranteed by U.S. Government entities or agencies, is as follows:

Corporate Securities – There have been no payment defaults on any of the Company's holdings of corporate debt securities. There are five securities all of which are subordinated debt of other financial institutions with face amounts ranging from \$0.5 million to \$2 million.

Municipal Securities – All of the Company's holdings of municipal bonds were investment grade and there have been no payment defaults. Summary ratings information at March 31, 2024, based on the amortized cost basis and reflecting the lowest enhanced or underlying rating by Moody's, Standard & Poors or Fitch, is as follows: AAA – 82% of the portfolio; AA+ – 8%; AA – 10%.

Asset-backed Securities – There were three investment grade asset-backed securities, and there have been no payment defaults on these securities.

As such, it is deemed the above listed securities are not in an unrealized loss position due to credit-related issues and no further analysis is warranted as of March 31, 2024.

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 secured by corresponding deposits at the Bank and, to a 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. Our credit card portfolio supplements our traditional lending products with enhanced yields. Our lending activities, outside of credit cards, are principally directed to our market area consisting of the Washington, D.C. and Baltimore, Maryland metropolitan areas.

Residential Real Estate Loans. One-to-four family mortgage loans are primarily secured by owner-occupied primary and secondary residences and, to a lesser extent, investor-owned residences. Residential loans are originated through the commercial sales teams and CBHL 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%.

Commercial Real Estate Loans. Commercial real estate loans are originated on owner-occupied and non-owner-occupied properties. These loans may be adversely affected by conditions in the real estate markets or in the general economy. Business equity lines of credit totaling \$14.8 million as of March 31, 2024 and \$14.1 million as of December 31, 2023, are included in the commercial real estate loan category. Business equity lines of credit are commercial purpose lines of credit primarily secured by the business owners residential properties. Lender finance loans totaling \$13.5 million as of March 31, 2024 and \$11.1 million as of December 31, 2023, are also included in the commercial real estate loan category. Lender finance loans are loans to companies used to purchase finance receivables or extend finance receivables to the underlying obligors and are secured primarily by the finance receivables held by our borrowers. The primary sources of repayment are the operating incomes of the borrowers and the collection of the finance receivables securing the loans. Commercial loans that are secured by owner-occupied commercial real estate and primarily collateralized by operating cash flows are included in the commercial real estate loan category. As of March 31, 2024, there were approximately \$330.8 million of owner-occupied commercial real estate loans, representing approximately 16.8% of the loan portfolio as compared to \$307.9 million, or 16.1% of the loan portfolio at December 31, 2023. 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 five 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 diverse in 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 its CBHL division. 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, although exceptions are sometimes made. The Company performs a

stress test of the construction loan portfolio at least once a year, and underlying real estate conditions are monitored as well as trends in sales outcomes versus underwriting valuations as part of ongoing risk management efforts. The borrowers' progress in construction buildout is monitored against 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. Through the OpenSky™ credit card division, the Company offers secured, partially secured, and unsecured 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. The secured 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. For the partially secured lines of credit, the Bank offers certain customers an unsecured line in excess of their secured line of credit by using a proprietary scoring model, which considers credit score and repayment history (typically a minimum of six months of on-time payments, but ultimately determined on a case-by-case basis). Partially secured and unsecured credit cards are only extended to existing secured card customers who have demonstrated sound credit behaviors. Approximately \$85.7 million and \$95.3 million in secured and partially secured credit card balances were protected by savings deposits held by the Company as of March 31, 2024 and December 31, 2023, respectively. Unsecured balances were \$28.5 million and \$30.8 million, respectively, at the same dates.

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

Purchased Credit Deterioration. There were no loans purchased with credit deterioration during the three months ended March 31, 2024 or the three months ended March 31, 2023.

The repayment of loans is a source of additional liquidity for the Company. The following table details contractual maturities of our portfolio loans, along with an analysis of loans maturing after one year categorized by rate characteristic. Loans with adjustable interest rates are shown as maturing in the period during which the contract is due. The table does not reflect the effects of possible prepayments.

As of March 31, 2024					
(in thousands)	One Year or Less	One to Five Years	Over Five Years to Fifteen Years	After Fifteen Years	Total
	Amount	Amount	Amount	Amount	
Real estate:					
Residential	\$ 117,022	\$ 214,444	\$ 84,788	\$ 160,858	\$ 577,112
Commercial	139,066	328,608	263,302	3,040	734,016
Construction	240,309	49,457	2,550	—	292,316
Commercial and Industrial	83,345	74,197	79,978	17,057	254,577
Credit card	111,898	—	—	—	111,898
Other consumer	206	300	232	—	738
Total portfolio loans, gross	<u>\$ 691,846</u>	<u>\$ 667,006</u>	<u>\$ 430,850</u>	<u>\$ 180,955</u>	<u>\$ 1,970,657</u>

Loans above maturing after one year categorized by rate characteristic:		Predetermined Interest Rates	Floating or Variable Rates	Total
Real estate:				
Residential		\$ 267,521	\$ 192,569	\$ 460,090
Commercial		377,881	217,069	594,950
Construction		5,721	46,286	52,007
Commercial and Industrial		97,497	73,735	171,232
Other consumer		508	24	532
Total portfolio loans, gross		<u>\$ 749,128</u>	<u>\$ 529,683</u>	<u>\$ 1,278,811</u>

Multi-family loans totaled \$153.4 million at March 31, 2024 and are included in the real estate residential loan category. At March 31, 2024, the Company has approximately \$52.2 million in multi-family loans in the District of Columbia with tenants that could have some form of rent stabilization or rent control. Under the Rent Control Act in the District of Columbia, properties built prior to 1975 limit rent increases to no more than annually unless a unit becomes vacant, and increases are generally limited to the Consumer Price Index plus 2% not to exceed 10%. Further, there must be at least 30 days' notice of rent increase. The Company does not have any multi-family loans in New York City or New York state.

The following tables present non-owner-occupied and owner-occupied commercial real estate loans and multi-family loans and the weighted average loan-to-value ("LTV") and fixed rate maturities by year and loan type:

Non-owner-occupied commercial real estate loans, including multi-family

As of March 31, 2024					
(in thousands)	Amount	Average Loan Size	Weighted Average LTV ⁽¹⁾	% of Non-Owner-Occupied Commercial Real Estate Loans	% of Total Portfolio Loans, Gross
Loan type:					
Multi-family	\$ 153,400	\$ 1,826	47.3 %	Not Applicable	7.8 %
Retail	\$ 111,775	\$ 1,471	50.0 %	29.6 %	5.7 %
Mixed use	93,393	1,197	47.6 %	24.8 %	4.7 %
Industrial	62,450	1,135	46.8 %	16.6 %	3.2 %
Hotel	60,436	3,555	44.6 %	16.0 %	3.1 %
Office	11,812	492	52.9 %	3.1 %	0.6 %
Other ⁽²⁾	37,358	1,624	42.3 %	9.9 %	1.9 %
Total non-owner-occupied commercial real estate loans	\$ 377,224	\$ 1,382	47.3 %	100.0 %	19.1 %
Total portfolio loans, gross	\$ 1,970,657				

Scheduled maturities of fixed rate non-owner-occupied commercial real estate loans, including multi-family

As of March 31, 2024						
(in thousands)	2024	2025	2026	2027	2028 and Onwards	Total
Loan type:						
Multi-family	\$ 7,621	\$ 8,638	\$ 17,648	\$ 21,563	\$ 40,388	\$ 95,858
Retail	\$ 16,090	\$ 852	\$ 11,329	\$ 18,556	\$ 26,553	\$ 73,380
Mixed use	8,461	3,818	22,406	9,296	18,733	62,714
Industrial	2,123	8,265	7,619	9,615	12,251	39,873
Hotel	3,618	—	—	3,594	21,045	28,257
Office	845	1,985	573	3,041	1,835	8,279
Other	8,817	1,003	4,922	2,467	2,697	19,906
Total fixed rate non-owner-occupied commercial real estate loans	\$ 39,954	\$ 15,923	\$ 46,849	\$ 46,569	\$ 83,114	\$ 232,409

Owner-occupied commercial real estate loans

As of March 31, 2024					
(in thousands)	Amount	Average Loan Size	Weighted Average LTV ⁽¹⁾	% of Owner-Occupied Commercial Real Estate Loans	% of Total Portfolio Loans, Gross
Loan type:					
Industrial	\$ 79,066	\$ 1,198	47.4 %	23.9 %	4.0 %
Office	43,209	635	47.0 %	13.1 %	2.2 %
Retail	43,688	794	54.2 %	13.2 %	2.2 %
Mixed use	17,763	935	62.4 %	5.4 %	0.9 %
Other ⁽³⁾	147,114	3,269	57.6 %	44.4 %	7.5 %
Total owner-occupied commercial real estate loans	\$ 330,840	\$ 1,308	53.6 %	100.0 %	16.8 %
Total portfolio loans, gross	\$ 1,970,657				

Scheduled maturities of fixed rate owner-occupied commercial real estate loans

		As of March 31, 2024					
(in thousands)	2024	2025	2026	2027	2028 and Onwards	Total	
Loan type:							
Industrial	\$ 5,575	\$ —	\$ 10,141	\$ 7,381	\$ 34,696	\$ 57,793	
Office	143	2,867	860	2,282	26,515	32,667	
Retail	6,037	1,030	1,023	5,862	20,368	34,320	
Mixed use	—	—	1,116	901	10,796	12,813	
Other	25,850	2,540	22,249	10,465	26,769	87,873	
Total fixed rate owner-occupied commercial real estate loans	\$ 37,605	\$ 6,437	\$ 35,389	\$ 26,891	\$ 119,144	\$ 225,466	

⁽¹⁾ Weighted average LTV is calculated by reference to the most recent available appraisal of the property securing each loan.

⁽²⁾ Other non-owner-occupied commercial real estate loans include a land loan of \$8.9 million, skilled nursing loans of \$9.9 million, special purpose loans of \$6.4 million, and other loans of \$12.2 million.

⁽³⁾ Other owner-occupied commercial real estate loans include special purpose loans of \$56.9 million, skilled nursing loans of \$62.3 million, and other loans of \$27.9 million.

Nonperforming Assets

Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. In general, we place loans on nonaccrual status when they become 90 days past due. We also place loans on nonaccrual status if they are less than 90 days past due if the collection of principal or interest is in doubt. When the interest accrual is discontinued, all unpaid accrued interest is reversed from income. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are, in management's opinion, reasonably assured.

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 extended out beyond reasonable time frames, customer bankruptcy and lack of assets, and/or collateral deficiencies. Consumer credit card balances are moved into the charge off queue after they become more than 90 days past due and are charged off not later than 120 days after they become past due. Otherwise, loans that are past due for 180 days or more are charged off unless the loan is well secured and in the process of collection.

The Company believes its approach to lending and the management of nonperforming assets has resulted in sound asset quality and timely resolution of problem assets. The Company has established underwriting guidelines to be followed by our bankers, and routinely monitors our delinquency levels for any negative or adverse trends. There can be no assurance, however, that our loan portfolio will not become subject to increasing pressures from deteriorating borrower credit.

From a credit risk standpoint, we grade watchlist and problem loans into one of five credit quality indicators: pass/watch, special mention, substandard, doubtful or loss. The classifications of loans reflect a judgment about the risks of default and loss associated with each loan. Credit ratings are reviewed regularly and adjusted regularly to reflect the degree of risk and loss that our management believes to be appropriate for each credit. Our lending policy requires the routine monitoring of past due reports, daily overdraft reports, monthly maturing loans, monthly risk rating reports and internal loan review reports. The lending and credit management of the Bank meet periodically to review loans rated pass/watch. The focus of each meeting is to identify and promptly determine any necessary required action within this loan population, which consists of loans that, although considered satisfactory and performing to terms, may exhibit special risk features that warrant management's attention.

Management is intent on maintaining a strong credit review function and risk rating process. The Company has an experienced Credit Administration function, which provides independent analysis of credit requests and the management of problem credits. The Credit Department has developed and implemented analytical procedures for evaluating credit requests, has refined the Company's risk rating system, and continues to adapt and enhance the monitoring of the loan portfolio. The loan portfolio analysis process is intended to contribute to the identification of weaknesses before they become more severe.

A special mention loan has potential weaknesses deserving of management's attention. If uncorrected, such weaknesses may, at a future date, impair the repayment prospects for the asset or our credit position.

Loans that are deemed special mention, substandard, doubtful or loss are listed in the Bank's Problem Loan Status Report. The Problem Loan Status Report provides a detailed summary of the borrower and guarantor status, loan accrual status, collateral evaluation and includes a description of the planned collection and administration program designed to mitigate the Bank's risk of loss and remove the loan from problem status. The Special Asset Committee reviews the Problem Loan Status Report on a quarterly basis for borrowers with an overall loan exposure in excess of \$250,000.

At March 31, 2024, the recorded investment in individually assessed loans was \$14.4 million, requiring a specific reserve of \$0.9 million. At December 31, 2023, the recorded investment in individually assessed loans was \$16.0 million, requiring a specific reserve of \$0.4 million. The \$16.0 million of individually assessed loans at December 31, 2023 included a single multi-unit residential real estate loan secured by four properties with a balance of \$7.6 million at December 31, 2023. During the three months ended March 31, 2024 the near complete resolution of a single nonperforming asset from \$7.6 million at December 31, 2023 to \$0.6 million at March 31, 2024 was partially offset by a \$5.4 million increase in nonperforming assets comprised of \$2.4 million of residential real estate secured loans and \$3.0 million of non-owner-occupied commercial real estate loans that the Company is proactively managing toward resolution.

Allowance for Credit Losses

We maintain an ACL that represents management's estimate of expected credit losses and risks inherent in our loan portfolio. The balance of the ACL is based on internally assigned risk classifications of loans, historical 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 loss rates.

A major consideration in the determination of the allowance for credit loss on the credit card portfolio is based on historical loss experience in that portfolio. The Company calculates the credit card ACL collectively, applying segmentation based on collateral positions: secured, partially secured, and unsecured.

The following table presents key ratios for the ACL and nonaccrual loans for the periods indicated:

(in thousands)	Allowance for credit losses to period end portfolio loans		Nonaccrual loans to total portfolio loans		Allowance for credit losses to nonaccrual loans	
	March 31, 2024	December 31, 2023	March 31, 2024	December 31, 2023	March 31, 2024	December 31, 2023
Real estate:						
Residential	1.03 %	0.96 %	1.17 %	1.99 %	88 %	48 %
Commercial	1.51	1.51	0.42	0.09	363	1,773
Construction	0.79	0.78	1.33	1.13	59	69
Commercial and Industrial	1.57	1.84	0.26	0.32	600	569
Credit card	5.35	4.94	—	—	—	—
Other consumer	1.36	1.26	—	—	—	—
Total	1.49 %	1.50 %	0.74 %	0.84 %	204 %	178 %

Total charge-offs for the quarters ended March 31, 2024 and March 31, 2023 were primarily due to credit card charge-offs resulting both from the aging of the portfolio and the shift from an almost exclusively secured card portfolio to a portfolio that also includes partially secured and unsecured exposures. Commercial and industrial loans experienced net charge-offs for the quarter ended March 31, 2024 of \$0.1 million. Residential real estate loans experienced net charge-offs for the quarter ended March 31, 2024 of \$0.2 million. There were \$0.9 million charge-offs for the commercial real estate loan portfolio for the quarter ended March 31, 2023. The following tables present a summary of the net charge-offs (recovery) of loans as a percentage of average loans for the periods indicated:

(in thousands)	Three Months Ended March 31,					
	2024			2023		
	Net Charge-offs (Recoveries)	Average Loans	Percent of average portfolio loans ⁽¹⁾	Net Charge-offs	Average Loans	Percent of average portfolio loans ⁽¹⁾
Real estate:						
Residential	\$ 225	\$ 572,665	— %	\$ —	\$ 508,267	— %
Commercial	—	706,880	—	943	665,310	0.56
Construction	—	295,836	—	—	247,191	—
Commercial and Industrial	98	238,514	0.17	(10)	211,399	(0.02)
Credit card	1,664	110,483	6.06	1,699	115,852	5.82
Other consumer	—	2,994	—	—	2,520	—
Total	\$ 1,987	\$ 1,927,372	0.41 %	\$ 2,632	\$ 1,750,539	0.60 %

⁽¹⁾ Annualized.

As the loan portfolio and ACL review processes continue to evolve, there may be changes to elements of the allowance and this may influence the overall level of the allowance maintained. Historically, the Bank has enjoyed a high-quality loan portfolio with relatively low levels of net charge-offs and low delinquency rates. The maintenance of a high-quality portfolio will continue to be a priority.

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

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

(in thousands)	March 31, 2024		December 31, 2023	
	Amount	Percent ⁽¹⁾	Amount	Percent ⁽¹⁾
Real estate:				
Residential	\$ 5,926	20 %	\$ 5,518	19 %
Commercial	11,123	38 %	10,316	36 %
Construction	2,299	8 %	2,271	8 %
Commercial and Industrial	4,002	14 %	4,406	16 %
Credit card	5,990	20 %	6,087	21 %
Other consumer	10	— %	12	— %
Total allowance for credit losses	<u>\$ 29,350</u>	<u>100 %</u>	<u>\$ 28,610</u>	<u>100 %</u>

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

Total Liabilities

Total liabilities at March 31, 2024 increased \$93.5 million from December 31, 2023, primarily due to growth in the deposit portfolio of \$109.7 million, partially offset by a \$15.0 million reduction in other borrowed funds.

Deposits

Deposits are a 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 and business banking officers. Our credit card customers are a significant source of low cost deposits. As of March 31, 2024 and December 31, 2023, our credit card customers accounted for \$171.8 million and \$173.9 million, or 25.8% and 28.2%, respectively, of our total noninterest-bearing deposit balances.

Major categories of interest-bearing deposits are as follows:

Interest-Bearing Deposits

(in thousands)	March 31, 2024	December 31, 2023
Interest-bearing demand accounts	\$ 193,963	\$ 199,308
Savings	4,525	5,211
Money markets	678,435	663,129
Brokered time deposits	160,641	142,356
Other time deposits	302,319	268,619
Total Interest-bearing deposits	<u>\$ 1,339,883</u>	<u>\$ 1,278,623</u>

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

	For the Three Months Ended March 31, 2024		For the Year Ended December 31, 2023	
	Average Balance	Average Rate ⁽¹⁾	Average Balance	Average Rate
(in thousands)				
Interest-bearing demand accounts	\$ 183,217	0.24 %	\$ 201,194	0.15 %
Savings	4,841	0.08	5,768	0.14
Money market accounts	682,414	4.21	642,013	3.66
Time deposits	449,963	4.99	360,464	4.39
Total interest-bearing deposits	1,320,435	3.91	1,209,439	3.28
Noninterest-bearing demand accounts	637,124		655,013	
Total deposits	\$ 1,957,559	2.64 %	\$ 1,864,452	2.13 %

⁽¹⁾ Annualized.

Deposit costs increased 51 basis points during the three months ended March 31, 2024 owing in large part to a series of interest rate increases implemented by the Federal Reserve beginning in early 2022 and the corresponding move from savings accounts to higher rate money market accounts and time deposits. In addition, average noninterest-bearing deposit balances decreased \$17.9 million when compared to December 31, 2023, largely due to the decision by some depositors to move balances from noninterest-bearing deposit accounts to interest-bearing deposit accounts.

The following table presents the maturities of our certificates of deposit as of March 31, 2024.

	Three Months or Less	Over Three Through Six Months	Over Six Through Twelve Months	Over Twelve Months	Total
(in thousands)					
\$250,000 or more	\$ 13,625	\$ 20,798	\$ 42,709	\$ 44,465	\$ 121,597
Less than \$250,000	172,969	64,487	97,383	6,524	341,363
Total	\$ 186,594	\$ 85,285	\$ 140,092	\$ 50,989	\$ 462,960

At March 31, 2024, the Company had \$463.0 million in total time deposits, an increase of \$52.0 million from December 31, 2023. Total brokered time deposits of \$160.6 million at March 31, 2024 increased \$18.3 million from \$142.4 million at December 31, 2023. Total brokered time deposits as a percentage of total deposits was 8.0% at March 31, 2024.

As of March 31, 2024 and December 31, 2023, based on the methodologies and assumptions used for the Bank's regulatory reporting requirements, approximately \$855.7 million or 42.7% and \$789.4 million or 41.6%, respectively, of the deposit portfolio was uninsured. Uninsured deposits are comprised of the portion of account balances that are in excess of FDIC insurance limits.

Deposits securing our OpenSky™ card lines of credit and deposits from title companies represent the largest concentrations in the deposit portfolio. As of March 31, 2024, these deposits represented 9% and 13% of deposits, respectively. As of December 31, 2023, these concentrations were 9% and 12% of deposits.

Borrowings

We 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 March 31, 2024, approximately \$544.1 million in real estate loans were pledged as collateral to the FHLB and our total borrowing capacity from the FHLB was \$469.7 million. As of March 31, 2024, no investment securities were pledged with the FHLB. We utilize these borrowings to meet liquidity needs and to fund certain fixed rate loans in our portfolio. As of March 31, 2024, we had \$22.0 million in outstanding advances and \$447.7 million in available borrowing capacity from the FHLB.

Other Borrowed Funds. The Company has also issued junior subordinated debentures and other subordinated notes. At March 31, 2024, these other borrowings amounted to \$12.1 million, consisting of Floating Rate Junior Subordinated Deferrable Interest Debentures and subordinated notes.

At March 31, 2024, our Floating Rate Junior Subordinated Deferrable Interest Debentures amounted to \$2.1 million. The Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Floating Rate 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 Floating Rate Debentures has not changed since issuance, and they accrue interest at a floating rate equal to the three-month CME Term SOFR plus a spread adjustment of 0.26161% (or 26.161 bps) plus 187 basis points, payable quarterly. As of March 31, 2024, the rate for the Floating Rate Debentures was 7.52%.

On November 30, 2020, the Company issued \$10.0 million in subordinated notes due in 2030 (the "Notes"). The Notes have a ten year term and have a fixed rate of 5.00% for the first five years; thereafter, the rate resets quarterly to a benchmark rate, which is expected to be the three-month SOFR, plus 490 basis points. The Notes may be redeemed in part or in whole, upon the occurrence of certain events.

Federal Reserve Bank of Richmond. 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 \$17.9 million as of March 31, 2024. Certain commercial loans are pledged under this arrangement. During the first quarter of 2023, we established a line of credit under the Federal Reserve Bank's Bank Term Funding Program ("BTFP"). As of March 31, 2024 participation in the BTFP has concluded and the Company has no outstanding balances under the BTFP at March 31, 2024.

The Company also has available lines of credit of \$76.0 million with other correspondent banks at March 31, 2024, as well as access to certificate of deposit funding through financial intermediaries. There were no outstanding balances on the lines of credit from correspondent banks at March 31, 2024.

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 addresses 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, operational, 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 risk 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 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 that can be used to meet liquidity needs in situations of stress; 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 assure 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 March 31, 2024, we had \$447.7 million of available borrowing capacity from the FHLB, \$17.9 million of available borrowing capacity from the Federal Reserve Bank of Richmond Borrower in Custody program and available lines of credit of \$76.0 million with other correspondent banks. Further, unpledged investment securities available as collateral for potential additional borrowings totaled \$202.3 million at March 31, 2024. Cash and cash equivalents were \$85.2 million at March 31, 2024.

Capital Resources

Stockholders' equity increased \$4.6 million for the period ended March 31, 2024 compared to December 31, 2023 largely due to net income of \$6.6 million for the three months ended March 31, 2024. Shares repurchased during the three months ended March 31, 2024 as part of the Company's stock repurchase program totaled 67,869 shares at an average price of \$20.62, for a total cost of \$1.4 million including commissions.

The Company's total stockholders' equity is affected by fluctuations in the fair values of investment securities available for sale. The difference between amortized cost and fair value of investment securities, net of deferred income tax, is included in accumulated other comprehensive loss within stockholders' equity. Accumulated other comprehensive loss is excluded from the Bank's and Company's regulatory capital ratios. The balance in accumulated other comprehensive loss related to unrealized losses on available for sale debt securities, net of deferred income tax, amounted to \$13.6 million at March 31, 2024 and \$13.1 million at December 31, 2023. Changes in accumulated other comprehensive loss are excluded from earnings and directly increase or decrease stockholders' equity. To the extent unrealized losses on investment securities available for sale result from credit losses, unrealized losses are recorded as a charge against earnings. The investment securities section of the MD&A and Notes 1 and 4 to the "Notes to the Unaudited Consolidated Financial Statements" provide additional information concerning management's evaluation of investment securities available for sale for credit losses at March 31, 2024.

The Company uses several indicators of capital strength. The most commonly used measure is common equity to total assets (computed as equity divided by total assets), which was 11.16% at March 31, 2024 and 11.45% at December 31, 2023.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can precipitate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company's financial condition. 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.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios of common equity Tier 1, Tier 1, and total capital as a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 1,250%. 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 applies 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 is currently exempt from the consolidated capital requirements.

The ability of the Company to continue to grow is dependent on its earnings and those of the Bank, and the ability to obtain additional funds for contribution to the Bank's capital, through additional borrowings, through the sale of additional common stock or preferred stock, or through the issuance of additional qualifying capital instruments, such as subordinated debt. The capital levels required to be maintained by the Company and Bank may be impacted as a result of the Bank's concentrations in commercial real estate loans. See "Risks Related to the Regulation of Our Industry" in Part I, Item 1A - Risk Factors in the Annual Report on Form 10-K for the year ended December 31, 2023.

As of March 31, 2024, 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 relative to our earnings 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 and the Bank as of the dates indicated.

(in thousands)	Actual		Minimum Capital Adequacy		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2024						
The Company						
Tier 1 leverage ratio (to average assets)	\$ 275,161	11.87 %	\$ 92,689	4.00 %	N/A	N/A
Tier 1 capital (to risk-weighted assets)	275,161	15.03	109,860	6.00	N/A	N/A
Common equity tier 1 capital ratio (to risk-weighted assets)	273,099	14.92	82,395	4.50	N/A	N/A
Total capital ratio (to risk-weighted assets)	308,140	16.83	146,480	8.00	N/A	N/A
The Bank						
Tier 1 leverage ratio (to average assets)	\$ 233,517	10.29 %	\$ 90,755	4.00 %	\$ 113,444	5.00 %
Tier 1 capital (to risk-weighted assets)	233,517	13.10	106,941	6.00	142,588	8.00
Common equity tier 1 capital ratio (to risk-weighted assets)	233,517	13.10	80,206	4.50	115,852	6.50
Total capital ratio (to risk-weighted assets)	255,887	14.36	142,588	8.00	178,234	10.00
December 31, 2023						
The Company						
Tier 1 leverage ratio (to average assets)	\$ 270,019	12.14 %	\$ 89,004	4.00 %	N/A	N/A
Tier 1 capital (to risk-weighted assets)	270,019	15.55	104,175	6.00	N/A	N/A
Common equity tier 1 capital ratio (to risk-weighted assets)	267,957	15.43	78,132	4.50	N/A	N/A
Total capital ratio (to risk-weighted assets)	301,817	17.38	138,900	8.00	N/A	N/A
The Bank						
Tier 1 leverage ratio (to average assets)	\$ 228,794	10.51 %	\$ 87,068	4.00 %	\$ 108,835	5.00 %
Tier 1 capital (to risk-weighted assets)	228,794	13.56	101,251	6.00	135,001	8.00
Common equity tier 1 capital ratio (to risk-weighted assets)	228,794	13.56	75,938	4.50	109,688	6.50
Total capital ratio (to risk-weighted assets)	249,984	14.81	135,001	8.00	168,751	10.00

Contractual Obligations

We have contractual obligations to make future payments on debt agreements. Our liquidity monitoring and management consider both present and future demands for and sources of liquidity.

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 a reserve for unfunded commitments and certain off-balance sheet credit risks, 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 actual future cash funding requirements.

(in thousands)	As of March 31, 2024	As of December 31, 2023
Unfunded lines of credit	\$ 388,505	\$ 336,472
Letters of credit	4,641	4,641
Commitment to fund other investments	3,874	3,874
Total credit extension commitments	<u>\$ 397,020</u>	<u>\$ 344,987</u>

Unfunded lines of credit represent unused credit facilities to our current borrowers. Lines of credit generally have variable interest rates. Letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. 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 customer 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. We believe the credit risk associated with issuing letters of credit is 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 we do not control the extent to which the lines of credit may 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. 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.

The commitment to fund other investments reflects an obligation to make an investment in a Small Business Investment Company.

Impact of Inflation

The consolidated financial statements and related notes included elsewhere in this report have been prepared in accordance with GAAP. GAAP requires the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative value of money over time due to inflation or recession.

Unlike many industrial companies, substantially all of the Company's assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates may not necessarily move in the same direction or in

the same magnitude as the prices of goods and services. However, most other operating expenses are sensitive to changes in levels of inflation.

Non-GAAP Financial Measures and Reconciliations

The Company has presented the following non-GAAP financial measures because it believes that these non-GAAP financial measures provide useful information to investors because they are used by management to evaluate our operating performance and make day-to-day operating decisions. In addition, we believe our non-GAAP results in any given reporting period reflect our on-going financial performance in that period and, accordingly, are useful to consider in addition to our GAAP financial results. We further believe the presentation of non-GAAP results increases comparability of period-to-period results.

Other companies may use similarly titled non-GAAP financial measures that may be calculated differently from the way we calculate such measures. Accordingly, our non-GAAP financial measures may not be comparable to similar measures used by such companies. We caution investors not to place undue reliance on such non-GAAP financial measures, but to consider them with the most directly comparable GAAP measures. Non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation or as a substitute for our results reported under GAAP.

Earnings Metrics, as Adjusted

(in thousands except per share data)

	Quarter Ended	
	March 31, 2024	March 31, 2023
Net Income	\$ 6,562	\$ 9,735
Add: Merger-Related Expenses, net of tax	538	—
Net Income, as Adjusted	<u>\$ 7,100</u>	<u>\$ 9,735</u>
Weighted average common shares - Diluted	13,919	14,272
Earnings per share - Diluted	\$ 0.47	\$ 0.68
Earnings per share - Diluted, as Adjusted	\$ 0.51	\$ 0.68
Average Assets	\$ 2,299,234	\$ 2,144,249
Return on Average Assets⁽¹⁾	1.15 %	1.84 %
Return on Average Assets, as Adjusted⁽¹⁾	1.24 %	1.84 %
Average Equity	\$ 258,892	\$ 232,491
Return on Average Equity⁽¹⁾	10.19 %	16.98 %
Return on Average Equity, as Adjusted⁽¹⁾	11.03 %	16.98 %
Net Interest Income	\$ 35,008	\$ 34,487
Noninterest Income	5,972	6,026
Total Revenue	\$ 40,980	\$ 40,513
Noninterest Expense	29,487	26,222
Efficiency Ratio⁽²⁾	<u>71.95 %</u>	<u>64.72 %</u>
Noninterest Expense	\$ 29,487	\$ 26,222
Less: Merger-Related Expenses	712	—
Noninterest Expense, as Adjusted	<u>\$ 28,775</u>	<u>\$ 26,222</u>
Efficiency Ratio, as Adjusted⁽²⁾	<u>70.22 %</u>	<u>64.72 %</u>

⁽¹⁾ Annualized.

⁽²⁾ The efficiency ratio is calculated by dividing noninterest expense by total revenue (net interest income plus noninterest income).

Net Interest Margin, as Adjusted

(in thousands)	Quarter Ended	
	March 31, 2024	March 31, 2023
Net Interest Income	\$ 35,008	\$ 34,487
Less: Credit Card Loan Income	14,457	15,809
Net Interest Income, as Adjusted	\$ 20,551	\$ 18,678
Average Interest Earning Assets	2,254,663	2,103,984
Less: Average Credit Card Loans	110,483	115,850
Total Average Interest Earning Assets, as Adjusted	\$ 2,144,180	\$ 1,988,134
Net Interest Margin, as Adjusted	3.85%	3.81%

Portfolio Loans Receivable Yield, as Adjusted

(in thousands)	Quarter Ended	
	March 31, 2024	March 31, 2023
Portfolio Loans Receivable Interest Income	\$ 45,908	\$ 41,199
Less: Credit Card Loan Income	14,457	15,809
Portfolio Loans Receivable Interest Income, as Adjusted	\$ 31,451	\$ 25,390
Average Portfolio Loans Receivable	1,927,372	1,752,638
Less: Average Credit Card Loans	110,483	115,850
Total Average Portfolio Loans Receivable, as Adjusted	\$ 1,816,889	\$ 1,636,788
Portfolio Loans Receivable Yield, as Adjusted	6.96%	6.29%

Pre-tax, Pre-Provision Net Revenue ("PPNR")

(in thousands)	Quarter Ended	
	March 31, 2024	March 31, 2023
Net Income	\$ 6,562	\$ 9,735
Add: Income Tax Expense	2,062	2,915
Add: Provision for Credit Losses	2,727	1,660
Add: Provision for (Release of) Credit Losses on Unfunded Commitments	142	(19)
Pre-tax, Pre-Provision Net Revenue ("PPNR")	\$ 11,493	\$ 14,291

PPNR, as Adjusted

(in thousands)

	Quarter Ended	
	March 31, 2024	March 31, 2023
Net Income	\$ 6,562	\$ 9,735
Add: Income Tax Expense	2,062	2,915
Add: Provision for Credit Losses	2,727	1,660
Add: Provision for (Release of) Credit Losses on Unfunded Commitments	142	(19)
Add: Merger-Related Expenses	712	—
PPNR, as Adjusted	\$ 12,205	\$ 14,291

Allowance for Credit Losses to Total Portfolio Loans

(in thousands)

	Quarter Ended	
	March 31, 2024	March 31, 2023
Allowance for Credit Losses	\$ 29,350	\$ 26,216
Total Loans	1,964,525	1,788,146
Allowance for Credit Losses to Total Portfolio Loans	1.49%	1.47%

Nonperforming Assets to Total Assets

(in thousands)

	Quarter Ended	
	March 31, 2024	March 31, 2023
Total Nonperforming Assets	\$ 14,361	\$ 16,293
Total Assets	2,324,238	2,245,286
Nonperforming Assets to Total Assets	0.62%	0.73%

Nonperforming Loans to Total Portfolio Loans

(in thousands)

	Quarter Ended	
	March 31, 2024	March 31, 2023
Total Nonperforming Loans	\$ 14,361	\$ 16,293
Total Portfolio Loans	1,964,525	1,788,146
Nonperforming Loans to Total Portfolio Loans	0.73%	0.91%

Net Charge-offs to Average Portfolio Loans

(in thousands)

	Quarter Ended	
	March 31, 2024	March 31, 2023
Total Net Charge-offs	\$ 1,988	\$ 2,633
Total Average Portfolio Loans	1,927,372	1,752,638
Net Charge-offs to Average Portfolio Loans, annualized	0.41%	0.61%

Tangible Book Value per Share

(in thousands, except per share amounts)

	Quarter Ended	
	March 31, 2024	March 31, 2023
Total Stockholders' Equity	\$ 259,465	\$ 234,517
Less: Preferred Equity	—	—
Less: Intangible Assets	—	—
Tangible Common Equity	\$ 259,465	\$ 234,517
Period End Shares Outstanding	13,889,563	14,082,657
Tangible Book Value per Share	\$ 18.68	\$ 16.65

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 endeavor to manage our sensitivity position within our established guidelines.

Fluctuations in interest rates will ultimately impact both the level of income 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 endeavor to 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 ALCO 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 for interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The ALCO 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 ALCO 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

March 31, 2024 (in thousands)	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
Assets						
Interest earning assets						
Loans ⁽¹⁾	\$ 797,489	\$ 101,176	\$ 297,095	\$ 1,195,760	\$ 779,068	\$ 1,974,828
Securities	4,538	3,124	45,457	53,119	153,576	206,695
Interest-bearing deposits at other financial institutions	72,787	—	—	72,787	—	72,787
Federal funds sold	56	—	—	56	—	56
Total earning assets	\$ 874,870	\$ 104,300	\$ 342,552	\$ 1,321,722	\$ 932,644	\$ 2,254,366
Liabilities						
Interest-bearing liabilities						
Interest-bearing deposits	\$ 13,304	\$ 26,607	\$ 119,732	\$ 159,643	\$ 717,280	\$ 876,923
Time deposits	72,540	114,054	225,377	411,971	50,989	462,960
Total interest-bearing deposits	85,844	140,661	345,109	571,614	768,269	1,339,883
FHLB Advances	—	—	—	—	22,000	22,000
Other borrowed funds	—	—	—	—	12,062	12,062
Total interest-bearing liabilities	\$ 85,844	\$ 140,661	\$ 345,109	\$ 571,614	\$ 802,331	\$ 1,373,945
Period gap	\$ 789,026	\$ (36,361)	\$ (2,557)	\$ 750,108	\$ 130,313	\$ 880,421
Cumulative gap	789,026	752,665	750,108	750,108	880,421	
Ratio of cumulative gap to total earning assets	35.00 %	33.39 %	33.27 %	33.27 %	39.05 %	

⁽¹⁾ Includes loans held for sale.

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 endeavors to capture 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 very 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 March 31, 2024:

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

Earnings at Risk	-400 bps	-300 bps	-200 bps	-100 bps	Flat	+100 bps	+200 bps	+300 bps	+400 bps
March 31, 2024	(0.8)%	(2.4)%	(2.9)%	(1.7)%	0.0 %	1.6 %	3.2 %	4.7 %	6.3 %

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 March 31, 2024.

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

Economic Value of Equity	-400 bps	-300 bps	-200 bps	-100 bps	Flat	+100 bps	+200 bps	+300 bps	+400 bps
March 31, 2024	(9.0)%	(4.3)%	(1.3)%	(0.3)%	0.0 %	(0.5)%	(1.5)%	(2.1)%	(2.8)%

Item 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

The Company's management, including our Principal Executive Officer and Principal 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 Principal Executive Officer and Principal 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 Principal Executive Officer and the Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There have been no changes 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 have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. During the first quarter of 2024, additional controls were put into place or enhanced to improve the effectiveness of the Company's internal controls over the allowance for credit losses. These include process controls around model validation and allowance output review.

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.

Other than the additional risk factors referenced below, there are no material changes to the risk factors as previously disclosed under Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2023 and those referenced in other reports on file with the SEC.

Risks Related to the Proposed Merger

We expect to continue to incur substantial costs related to the merger and integration.

We have incurred and will continue to incur substantial costs in connection with the proposed merger with IFHI. These costs include legal, financial advisory, accounting, consulting and other advisory fees, retention, severance and employee benefit-related costs, public company filing fees and other regulatory fees, financial printing and other printing costs, closing, integration and other related costs. While we have attempted to accurately forecast these costs, factors that are beyond our control or that we have failed to accurately estimate could result in us incurring future charges in excess of our current estimates. These charges could be material and could materially adversely affect our future earnings. If the merger is not completed, we will have incurred these expenses without realizing the expected benefits of the merger.

Failure to complete the proposed merger could negatively impact the Company.

If the merger with IFHI is not completed for any reason, there may be various adverse consequences and we may experience negative reactions from the financial markets and from our customers and employees. For example, our business may have been impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the merger, the benefits from which may not be realized. Additionally, if the merger agreement is terminated, the market price of our common stock could decline to the extent that current market prices reflect a market assumption that the merger will be beneficial and will be completed. We also could be subject to litigation related to any failure to complete the merger or to proceedings commenced against us to perform obligations under the merger agreement. If the merger agreement is terminated under certain circumstances, we may be required to pay a termination fee of \$3,000,000 to IFHI.

The proposed integration of the Company and IFHI may be more difficult, costly or time consuming than expected and the Company may fail to realize the anticipated benefits of the proposed merger.

The success of the proposed merger will depend, in part, on the ability to realize the anticipated growth opportunities and cost savings from combining the businesses of the Company and IFHI. To realize the anticipated benefits and cost savings from the proposed merger, we must successfully integrate and combine the businesses of the Company and IFHI in a manner that permits those cost savings to be realized. If we are not able to successfully achieve these objectives, or if we have failed to accurately estimate the anticipated benefits of the proposed merger, the anticipated benefits may not be realized fully or at all, they may take longer to realize than expected, and we may incur additional unforeseen expenses.

The integration process could result in the loss of key employees, diversion of management's attention and resources, the disruption of the combined company's ongoing businesses or inconsistencies

in standards, controls, procedures and policies that adversely affect the combined company's ability to maintain relationships with clients, customers, depositors and employees.

We will be subject to business uncertainties and contractual restrictions while the proposed merger with IFHI is pending.

Uncertainty about the effect of the merger on employees and customers may have an adverse effect on the Company. These uncertainties may impair our ability to attract, retain and motivate key personnel until the merger is completed, and could cause customers and others that deal with us to seek to change existing business relationships with the Company. In addition, subject to certain exceptions, we have agreed to operate our business in the ordinary course in all material respects and to refrain from taking certain actions that may adversely affect our ability to consummate the transactions contemplated by the merger agreement on a timely basis without the consent of IFHI. These restrictions may prevent us from pursuing attractive business opportunities that may arise prior to the completion of the merger.

Our future results may suffer if we do not effectively manage our expanded operations.

As a result of the proposed merger, the size, scope, and complexity of our business would increase significantly beyond that of either the Company's or IFHI's business prior to the proposed merger. Our future success will depend, in part, upon our ability to manage and achieve the benefits we anticipate will be associated with this expanded business, challenges, including challenges related to the management and monitoring of new operations, and the associated increased costs and complexity. There can be no assurances that we will be successful or that we will realize the expected operating efficiencies, cost savings, growth opportunities, revenue enhancements or other benefits currently anticipated.

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

There were no unregistered sales of the Company's stock during the year to date period ended March 31, 2024.

On July 25, 2022, the Company announced a new stock repurchase program. Under the new program, the Company is authorized to repurchase up to \$10.0 million of its outstanding common stock or 500,000 shares of Common Stock, par value \$0.01 per share ("Common Stock"). On April 13, 2023, the Company announced approval of up to an additional \$5.0 million or 175,000 shares of Common Stock incremental to the July 2022 announcement. The program will expire on December 31, 2024. There were no stock repurchases by the Company under the repurchase program announced on July 25, 2022, prior to the quarter ended March 31, 2023. In connection with the pending acquisition of IFHI, the Company temporarily suspended repurchases under its stock program during the first quarter 2024.

During the three months ended March 31, 2024, the Company repurchased Common Stock 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
January 1, 2024 to January 31, 2024	—	\$ —	475,346	\$ 6,172,016
February 1, 2024 to February 29, 2024	46,820	20.77	522,166	5,199,517
March 1, 2024 to March 31, 2024	21,049	20.28	543,215	4,772,695

Item 3. DEFAULTS UPON SENIOR SECURITIES.

None.

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

Item 5. OTHER INFORMATION.

Rule 10b5-1 Trading Plans

During the quarter ended March 31, 2024, no officer or director of the Company adopted or terminated any contract, instruction, or written plan for the purchase or sale of securities of the Company's common stock that is intended to satisfy the affirmative defense conditions of Securities Exchange Act Rule 10b5-1(c) or any non-Rule 10b5-1 trading arrangement as defined in 17 CFR § 229.408(c).

Item 6. EXHIBITS.

Exhibit Number	Description
2.1	Agreement and Plan of Merger and Reorganization, dated March 27, 2024, by and between the Company and Integrated Financial Holdings Inc. (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed on April 1, 2024).
3.1	Amended and Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on May 23, 2023).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Form 8-K filed on May 23, 2023).
31.1	Rule 13a-14(a) Certification of the Principal Executive Officer.
31.2	Rule 13a-14(a) Certification of the Principal Financial Officer.
32.1	Section 1350 Certification of Principal Executive Officer and Principal Financial Officer.
101	The following materials from the Quarterly Report on Form 10-Q of Capital Bancorp, Inc. for the quarter ended March 31, 2024, 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 Stockholders' 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.

Date: May 10, 2024

By: /s/ Edward F. Barry
Name: Edward F. Barry
Title: Chief Executive Officer
(Principal Executive Officer)

Date: May 10, 2024

By: /s/ Jay Walker
Name: Jay Walker
Title: 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.

I, Edward F. Barry, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Capital Bancorp, Inc.;
2. Based on my knowledge, this 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 (the registrant's fourth quarter in the case of an annual report) 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 officer 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: May 10, 2024

By: /s/ Edward F. Barry
Name: Edward F. Barry
Title: 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.

I, Jay Walker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Capital Bancorp, Inc.;
2. Based on my knowledge, this 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 (the registrant's fourth quarter in the case of an annual report) 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 officer 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: May 10, 2024

By: /s/ Jay Walker
Name: Jay Walker
Title: Principal Financial Officer

Section 2: EX-32.1 (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 March 31, 2024, 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: May 10, 2024

By: /s/ Edward F. Barry

Name: Edward F. Barry

Title: Chief Executive Officer

By: /s/ Jay Walker

Name: Jay Walker

Title: Principal Financial Officer