

Supporting Businesses,
Helping People,
Strengthening Communities

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT 2022



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WHERE OTHERS SEE
RISK, CAPITAL BANK
SEES POTENTIAL.

Capital Bank was founded in 1999, under the name of Harbor National Capital Bank, employing a small team of 8 members.

Over the last 20+ years we have seen substantial growth. The acquisition of a number of other banks has allowed us to expand our services into the secured credit card space, as well as mortgage and commercial lending. Today, as a subsidiary of Capital Bancorp Inc., we are a publicly traded company with more than \$2.1 billion in assets as of December 31, 2022 (NASDAQ: CBNK) and a member of the Federal Reserve Bank system, Member FDIC and Equal Housing Lender.

As a human-centric organization, we believe in the power of the human experience in all aspects of business. We, as individuals, do not fit neatly inside of a box and neither should banking. We pride ourselves on our commitment to making sound banking decisions based on human potential, not just how a customer looks on paper. This has allowed Capital Bank to uphold our fiduciary duty to our shareholders, while helping customers achieve their goals. Where others see risk, Capital Bank sees potential.



Letter from the CEO



ED BARRY,
CHIEF EXECUTIVE OFFICER

Dear valued members of our community,

Since our founding in 1999, Capital Bank has been dedicated to helping the communities that we serve. As we have done for so many years, 2022 was another year that we made strides in having a positive social impact in these communities.

We are proud to report that in 2022, we achieved several milestones that align with our newly created Environmental, Social and Governance policy. We increased our lending to small and minority-owned businesses, helping to bridge the gap of economic inequality. We also expanded our financial literacy programs, reaching individuals and families with valuable resources and guidance.

However, we know that there is still much work to be done, and we are committed to pushing forward. Our recently formed Charitable Working Group allows our employees more opportunities to give back to our communities with time off during the work day to participate in charitable efforts and provides a more aligned strategy to how we give back. We are also excited about launching our Diversity Equity Inclusion and Belonging “DEI&B” policy and bolstering our training to ensure that we are truly fostering an inclusive environment for our people.

The challenges facing our society and planet are complex and urgent, and we cannot afford to slow down on addressing these challenges. That is why we are committed to continuing our ESG journey, to listening to feedback from our stakeholders, and to partnering with organizations that share our values.

I want to conclude this letter by thanking you for being a part of our community and for supporting our efforts to create positive change. Your feedback and ideas are always welcome, and we look forward to continuing our journey together towards a more sustainable and equitable world.

Sincerely,
Ed Barry

The Three Pillars

ENVIRONMENTAL STEWARDSHIP

SOCIAL RESPONSIBILITY

GOVERNANCE TRANSPARENCY

ENVIRONMENTAL STEWARDSHIP

Capital Bank is committed to becoming greater environmental stewards through the implementation of sustainable business practices that reduce our environmental impact. Climate change continues to mount ever-growing challenges that directly affect the bank and the communities we serve. Through our pursuit of equity within the financial sector, we understand that the effects of climate change have a significantly greater impact on the underserved communities, further driving our efforts in managing our carbon footprint by reducing waste, promoting recycling, and conserving/reducing energy.

PHYSICAL FOOTPRINT

Capital Bank currently operates 4 full-service branches, contributing to a small branch footprint as we have fully embraced the digital banking environment while continuing to provide superior client service.

GREEN COMMUTING

Our employees reduce the environmental impact of their daily commute through a variety of available options, including public transportation, walking, biking, and the ability to work a hybrid or fully remote schedule. Access to laptop workstations and mobile accommodations allow for 92% of employees to work in a hybrid or fully remote setting. The move to a hybrid/remote work environment has pushed us to invest in web and video conferencing solutions, allowing for virtual meetings to take place, therefore reducing overall company travel.

PAPER USAGE AND DIGITAL BANKING

In the effort to reduce our environmental impact company-wide, Capital Bank provides recycling bins for paper, plastic, aluminum cans, and empty ink cartridges in each of its office spaces, encouraging employees to participate in environmentally sustainable practices in the workplace. We ensure that 100% of our shredded paper is safely and securely recycled, resulting in the equivalent of 350 trees saved in 2022, while still prioritizing the safety and security of our confidential information.

Capital Bank realizes the importance of technology in reducing our carbon footprint and utilizes digital resources across all practices of the business. As a company, we have migrated to electronic signatures in 2022. We also actively encourage our customers to make the move to digital banking. Our Capital Bank Home Loans website was redesigned in 2018, prioritizing the reduction of paper usage, and our credit card line of business, OpenSky®, is entirely paperless.

2022 Digital Banking %



SOCIAL RESPONSIBILITY

Capital Bank takes pride in creating an environment in which our internal structure and business practices are driven through our commitment to diversity, equity, inclusion and belonging. An inclusive culture within the bank allows for a diverse set of backgrounds, experiences, and perspectives, adding value and depth to our internal teams, ultimately driving better business results. We believe that for the business to thrive, so must our clients, employees, communities and shareholders. Valued employees value others, and by fostering a culture of inclusion and belonging in the workplace, Capital Bank is better able to serve and lend to our local and underserved communities – creating opportunity in the face of adversity. Where others may see risk, we see potential.

OUR PEOPLE & CULTURE

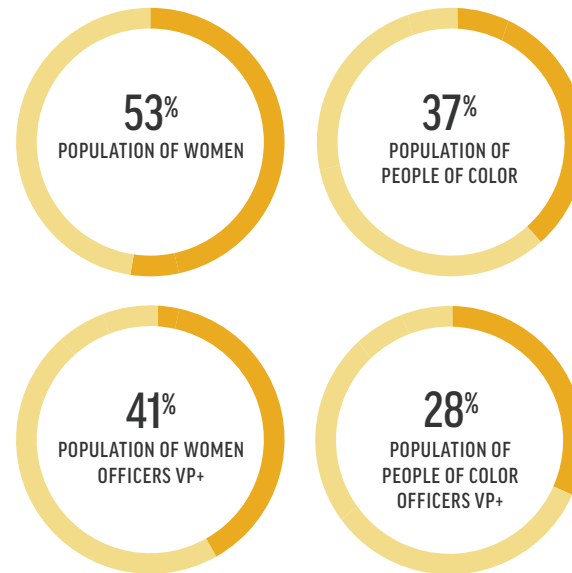
At Capital Bank, our people are the driving force in our success as a bank. We strive to create a workforce that reflects the diverse demographics of the communities in which we operate. Starting with our recruiting efforts, Capital Bank intentionally seeks and develops talent with varied experiences, skills and perspectives to help bring innovative solutions to our ever-changing and diverse customer base.

In 2022, Capital Bank partnered with Circa, a company that pulls each of our current job listings and posts them to websites nationwide, including websites aimed at garnering attention from veteran and minority applicants. By expanding our reach, we provide accessibility and opportunity to qualified applicants in underrepresented groups, allowing us to further integrate DEI&B throughout the company.

DEI&B

Capital Bank prides itself on its commitment to diversity, equity, inclusion and belonging. Integrating DEI&B throughout the company is the right thing to do for our employees, shareholders, investors, and clients and communities we serve. To ensure that our approach to DEI&B is comprehensive, we worked with an outside consultant in 2022 to complete a company-wide diversity assessment. This resulted in an action plan for 2023, in which we will be rolling out a new DEI&B policy that will include, but not be limited to, employee training aimed at mitigating bias and exclusivity in the workplace. Within the 2023 action plan, Capital Bank has outlined plans to form an internal diversity council, with goals to evaluate and strategize for how we execute our diversity and inclusion strategy within the company.

2022 Diverse Workforce Population %



We are proud of our diverse workforce and strive to create a working environment where employees' differences are appreciated and respected. These efforts have not gone unnoticed, as for the past 4 years, Capital Bank has been voted as one of the "Best Banks to Work For" in American Banker's annual review. American Banker determines its honorees based on two separate surveys, measuring employee satisfaction as well as an examining of the policies and employee benefits within the institution.

We value our employees on an individual level, encouraging them to act as owners in their role and highlighting individual contributions, while proactively putting forth efforts to maintain a sense of community throughout the company. We believe that by cultivating a sense of belonging and value in our employees, we are better able to support the social impact of the companies that we lend to and in the communities we serve.

"IF WE PROVIDE VALUE TO OUR CUSTOMERS, WE'LL GET VALUE BACK"

- Karl Dicker,
President of OpenSky



Capital Bank provides a variety of learning and development programs and opportunities, including:

- Tuition reimbursement
- A leadership development program
- LinkedIn Learning, which is available to all employees and provides access to a wide range of knowledge and courses aimed at developing necessary and interest-based skill sets to promote career development
- Our Capital Conversation Podcast, helping to facilitate better communication and information sharing throughout the bank
- Capital Bank's annual roadshows are open to all employees who can attend, either virtually or in person, and showcase the bank's multi-year strategic business plan

Capital Bank values the health and wellness of our employees, and we currently provide the following benefits:

- Free Life/LTD/STD/AD&D insurance
- 401k w/ non-elective company contribution
- Bonus plans for all non-sales employees
- FSA for dependent care
- HSA including funding of 75% of deductible for those that choose this option
- Voluntary benefits are also available to all full-time employees
- Generous paid leave, as well as 11 built-in paid holidays

OUR COMMUNITIES

Capital Bank is committed to creating meaningful social impact in the communities we serve. We work diligently to provide financial resources and education in response to the ever-changing needs of our customer base. We have a long-standing history of supporting our local communities and are particularly proud of the work we do to serve our underserved populations. Our emphasis on valuing people at the individual level extends far beyond the workplace and allows us to bank on human potential. We are able to provide long-term financial support to those who are often overlooked, while continuing to grow our operations and revenue.

OPENSKY®

A good credit score can open doors to a world of financial opportunities. However, there is an entire population of people who have faced circumstances in which their credit has suffered or have had limited to no access to the financial resources necessary to educate themselves on the power of a credit score. Capital Bank's credit card line of business, OpenSky®, offers these individuals the tools needed to establish, or re-establish themselves financially. Our secured credit card does not require a credit check to apply, and therefore removes this typical barrier for those looking to work on their credit and improve their overall financial health.

On average, our customers increase their credit score by 52 points after 6 on-time, consecutive payments.

OpenSky® has seen tremendous growth over the past 3 years, which has pushed us to question how we build sustainable and scalable processes to support our customers on an ongoing basis. We differentiate ourselves from other credit-building cards with our dedication to transparency and openness in our practices. We believe that financial literacy is just as important as financial growth and proactively push messaging and education to give our customers the best opportunity to reach their financial goals.

We are proud of the work we have done to help over one million cardholders in their pursuit of a healthier financial future. On average, our customers increase their credit score by 52 points after 6 on-time, consecutive payments. OpenSky® not only works to provide access to credit, we are also a business that prides itself on building and maintaining long-term relationships with consumers. OpenSky® customers have access to various opportunities aimed at helping them reach their financial goals, including but not limited to graduation programs that give unsecured credit line increases for those responsibly using our card. In 2022, we established a partnership within Capital Bank called Path to Homeownership that aids cardholders in qualifying for a home mortgage, a unique opportunity for them to benefit from their responsible payment history.

**Letter from the Board
Loan Committee Chairman**



JEROME BAILEY,
BOARD LOAN
COMMITTEE CHAIRMAN

Dear Valued Stakeholders,

Capital Bank was founded on banking the underrepresented who settled in Rockville, Maryland. It is that DNA that permeates the organization and ensures that our lending practices are thoughtful and reflective of our local communities. Our success is intertwined with the success of our community. Therefore, we strive to ensure that our investments contribute to the growth and development of the communities that we serve.

The District of Columbia, Maryland, and Virginia MSA is a diverse community, and Capital Bank has embraced that diversity and has been intentional about banking it. There are thriving African American, Hispanic, Asian and other immigrant communities that have enjoyed a mutually beneficial relationship with Capital Bank. We have afforded these communities opportunities to fulfill their financial ambitions because their success is our success.

We take great pride in our commitment to supporting the businesses that contribute to the fabric of our community. Small businesses are the lifeblood of our local economy, and as such, we strive to meaningfully impact the businesses that we support. We believe that everyone deserves an opportunity to succeed and that by investing in diverse businesses, we can help to build a more inclusive and equitable economy.

Our lending committee works diligently to review loan applications and provide fair and competitive loan terms to all businesses. By investing in these businesses and customers, we not only support their growth but also contribute to the prosperity of our community.

Thank you for being a valued stakeholder of Capital Bank. We are honored to serve you. If you have any questions or concerns, please do not hesitate to reach out to our team.

Best regards,
Jerome Bailey

COMMUNITY REINVESTMENT

Capital Bank has had a long-standing history of supporting and lending within our local community. We are proud to be a part of the District of Columbia, Maryland, and Virginia “DMV” area and are invested in seeing positive and sustainable growth. Our most recent 2021 Community Reinvestment Act rating, as determined by our banking regulators, was “Outstanding” which is the highest possible rating and we believe that it is part of our social responsibility to provide lending products that benefit the community, especially in our work with the underrepresented and under-resourced.

To promote positive change within the community, we actively work to make tangible improvements in the well-being of those we serve, starting with our commitment in advancing affordable homeownership in the D.C. area. Proper and safe housing are major factors in the health and well-being of an individual or family unit, however for many, this can seem unreachable, no matter how hard they work. Capital Bank is proud to have a dedicated team who have made it their mission to get people into homes, no matter their current financial situation – making what once seemed impossible, possible. These team members are passionate about the work that they do and refuse to give up in the face of adversity, no matter how long it takes. This often involves working extensively with borrowers on budgeting and credit-building, and finding innovative solutions to maintain affordable mortgage payments. Our community lending model has seen tremendous success and growth as we continue to build trust and loyalty within the D.C. area. In 2022, Capital Bank secured 181 loans at a total value of \$57,624,249 for low to moderate income families, giving countless individuals the opportunity to establish roots and build wealth.

“I have made homeownership for low-income people my personal mission and found great, hardworking people to join me. I am lucky to have found something I love to do and a great team to join me so that we can make a difference. This is real change, tangible change.”

- Lola Pol, Community Lending Branch Manager and ABA Foundation 2022 George Bailey Distinguished Award Winner

Our adherence to sustainable community growth does not end at affordable housing. Our local community of Washington D.C. and the surrounding areas is a hub for immigration, giving people from all walks of life hope for a better future. We are proud to support businesses that reflect the diversity of this city.

Many people arriving in Washington, D.C. for the first time come with only a dream, no prepared financial statements, and no portfolios. On paper, these entrepreneurs may raise some red flags, and if they were to present their business cases at a larger bank, they may be turned away immediately. Capital Bank is different. We have a track record of outperforming bigger banks because of our commitment to opportunity and equity in lending. We get to know our borrowers on a personal level and are not afraid to roll up our sleeves to find creative solutions to fund a loan that other banks would decline. Our diligence in supporting these clients has resulted in 42 new small business loans, valuing a total of \$40.4 million in the past year alone. The ability to see potential in our clients, where others see risk, has laid the foundation for long-term relationships with our clientele. By taking the time to build trust, we build loyal customers, which in return builds revenue.

“There's no one in this market that's spent more time and effort to help minority builders become successful and nicely wealthy. There's no one in this community who has made as much time and effort to take small little projects in DC and turn them into nice habitable locations that are affordable. No one in this community spends as much time to rolling up their sleeves for regular small business loans and figuring out ways to say yes.”

- Scot Browning, President

Capital Bank has made its mark throughout the DMV area as a leader in community development lending. We are dedicated to supporting the social impact of the companies that we lend to and the communities that we serve. We have proudly financed local construction and real estate companies that produce affordable housing, as well as countless other businesses that are doing their part in making a social impact.

CHARITABLE ENDEAVORS

Capital Bank is passionate about giving back to community-oriented organizations. We work extensively with and are a supporter of the Veteran Services Organizations. We are also actively involved with Rockville Economic Development, a local non-profit that supports the start and growth of small businesses and entrepreneurs. We launched the Charitable Working Group in 2022 to increase our company's volunteer hours in 2023

OUR COMMUNITY IMPACT**Organizations & People We Support****DISTRICT GROWTH**

Capital Bank is proud to work closely with District Growth, a development and contracting company owned and operated by Adam Lobene and Sanjay Bajaj. District Growth works hard to provide exceptional, yet affordable housing in Washington, D.C., while maintaining the individual and historic features of the buildings and homes in each neighborhood. Adam and Sanjay believe that, despite rising costs, everyone deserves a decent place to live, and work with every client at their individual income level. District Growth develops many multi-family units under the Housing Choice Voucher Program in Washington, D.C., providing each building with full-time case workers and staff. Capital Bank has served as one of their primary lending institutions since the company's inception.

HENOK TESSFAYE

Originally from Ethiopia, Mr. Henok Tesfaye immigrated to the United States at the age of 16 and began working as a parking lot attendant. He went on to form his own parking company in 1998, and today, U Street Parking is the largest minority-owned parking company in the country. In addition, Mr. Tesfaye's business interests include real estate development, a general contracting company, a commercial cleaning company, and various other investments. As a member of the bank's Advisory Board, Mr. Tesfaye has banked exclusively with Capital Bank for the past 13+ years.

TAIWO DEMUREN

One of Capital Bank's top commercial clients, Taiwo Demuren, has worked with us exclusively for the past 14 years. During that time, he has fulfilled nearly all of his borrowing needs through Capital Bank's Chief of CRE Lending, Paul Merritt, who prides himself on making business personal. In fact, Paul just recently attended Taiwo's son's wedding in Georgia, a true testament to Paul's commitment to forming meaningful and lasting relationships with his clients. Taiwo has developed real estate all over Washington, DC. He recently completed his signature project to date; a \$15 million, 45 unit multi-family building located on Bladensburg Road, Northeast, DC, known as La Demuren Vue.

Projects We've Funded

933 N St NW, Washington, DC 20001



1028 Bladensburg Road, NE, Washington, DC 20002



1028 Bladensburg Road, NE, Washington, DC 20002

GOVERNANCE TRANSPARENCY

As a financial institution, we have a duty to continually work to earn the trust and confidence of our customers, vendors, regulators, and shareholders. In doing so, the bank is committed to operating with strong corporate governance, mitigating risk, and maintaining a transparent relationship with all regulatory agencies. Our risk management and compliance teams promote a culture of compliance by serving as partners to our business colleagues and by engaging with our regulatory agencies. Capital Bank actively works to ensure regulatory compliance and encourage ethical business practices by maintaining current Board-approved policies and procedures, including policies that prohibit bank bribery, corruption, and fraud on every level of the company.

EMPLOYEE TRAINING

One of the most powerful lines of defense at Capital Bank is our employees. They are often the first to be targeted by cyber criminals and play a major role in mitigating risk to the bank. It is our responsibility to provide resources and training to proactively prepare our employees against cyber attacks that threaten the security of the bank. Capital Bank builds future-ready employees by providing ongoing training through our corporate training platform that ensures our employees understand our internal policies and provides regulatory guidance specific to each employees' role. Our risk management team has also partnered with a third-party vendor to perform internal social engineering testing. This vendor monitors our susceptibility and vulnerability to the tactics that cyber criminals are using. Our vendor works with a huge portfolio of businesses, and therefore is able to report to us in real time how other companies have been hacked and/or socially engineered. We are able to use this information in our internal testing to give our employees an advantage over current threats. Capital Bank uses the findings from these tests to customize our training to the current needs of the bank.

This past year, Capital Bank also sponsored its first ever Cybersecurity Awareness Month, sending out weekly activities aimed at educating employees and preventing future social engineering attacks. We have since developed an internal Intranet homepage that provides educational resources to help employees detect and halt cyber threats. This is part of the bank's effort to incorporate more live trainings, which have been found to provide more value and be better received by those involved.

WHISTLEBLOWER PROTECTIONS

We are committed to maintaining integrity throughout the business. Capital Bank has a Board-approved Code of Ethics that ensures the bank remains compliant with all laws set forth by our regulators, while also upholding the highest ethical standards in our industry. Our employees have an obligation to make an anonymous report if they become aware of any existing or potential violation of laws, rules, regulations, or our Code. We strive to create a sense of safety and trust with employees through this anonymous reporting so that they can feel confident in making a report without risk of retaliation. Capital Bank provides multiple avenues of reporting, including notifying our Head of Human Resources or our independent Chief Risk Officer, who reports directly to the Board. There is also a toll-free ethics hotline available to any employee who feels more comfortable making an anonymous report over the phone.

RISK MANAGEMENT

Part of Capital Bank's duty in our commitment to strong governance is protecting the bank from a safety and soundness perspective while also incorporating our ESG goals and strategies. To that end, during 2022, the bank created its first ever Enterprise New Client Acceptance Standard. This Standard states which types of industries and customers the bank has prohibited from banking, based on laws, rules, and regulations, in addition to considering our company ESG goals and strategies. The Standard also prescribes those industries and customers that require additional review and approval on an exception basis prior to banking. By clearly delineating who the bank will and will not engage with demonstrates the bank's commitment to our ESG Policy and goals as well as our commitment to serving the underserved in our communities.

CUSTOMER COMPLAINT OVERSIGHT

Capital Bank receives direct feedback from our customers through complaints that are made from time to time. We have a complaint management program in place to review any complaints made to our primary regulator as well as the Better Business Bureau. If a customer submits a complaint, our compliance team reviews it to see if it touches on any concerns regarding mistreatment, unfair lending, deception, or discriminatory practices. Capital Bank does not stand for these types of practices, and we look very closely to ensure that we thoroughly review and respond to each complaint. This direct feedback from customers helps to ensure the bank maintains strong governance and allows us to identify any potential trends or concerns and take immediate and appropriate action if warranted.

BOARD OF DIRECTORS

Capital Bank's Board of Directors helps to support the long-term growth and success of the bank by guiding the bank's strategies and monitoring their execution. As in every other aspect of the business, we are proud to serve under a diverse board, where each member brings a different set of skills, background, and perspective.

Our Board diversity as of 12/31/22:

SIZE	10 members
INDEPENDENT CHAIRPERSON	Yes
INDEPENDENT DIRECTORS	8 members
WOMEN ON BOARD	1 member
DIVERSE ON BOARD	2 members
AVERAGE AGE	62
AVERAGE TENTURE	10



**CAPITAL BANK IS
COMMITTED TO
CREATING MEANING-
FUL SOCIAL IMPACT
IN THE COMMUNITIES
WE SERVE.**



CAUTIONARY NOTE REGARDING FORWARD- LOOKING STATEMENTS

Some of the statements in this report are “forward-looking statements” within the meaning of the federal securities laws. Words and phrases such as “expect,” “plan,” “believe,” “continue,” “committed,” “will,” and variations of such words or similar expressions are intended to identify such forward-looking statements. Forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions (“risk factors”) that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements. We assume no duty to update, amend or clarify forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. Risks factors include, without limitation the strength of the United States economy in general and the strength of the local economies in which we conduct our operations may be different than expected; changes in legislation, regulation, policies, or administrative practices, whether by judicial, governmental, or legislative action; adverse conditions in the stock market, the public debt market and other capital markets could have a negative impact on us; changes in market interest rates and their related impact on macroeconomic conditions, customer and client behavior, our funding costs, and our loan and securities portfolio; volatility and disruptions in capital and credit markets; and inflation and its impact on economic growth and customer and client behavior. In addition, risk factors include, but are not limited to, the risk factors described in Item 1A of our Annual Report on Form 10-K for 2022. These and other factors are representative of the risk factors that may emerge and could cause a difference between an ultimate actual outcome and a preceding forward-looking statement.

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REPORT 2022

