

ESG

Environmental, Social & Governance Report : 2023



Supporting businesses
Helping people
Strengthening communities

Contents

Overview 04-05

Our Impact

Letter from CEO

Environmental Stewardship 06-07

Physical Footprint

Green Commuting

Paper Usage / Digital Banking

Social Responsibility 08-13

Our People

Letter from Board Loan Committee Chairman

Our Culture

Our Community

Governance Transparency 14-17

Employee Level

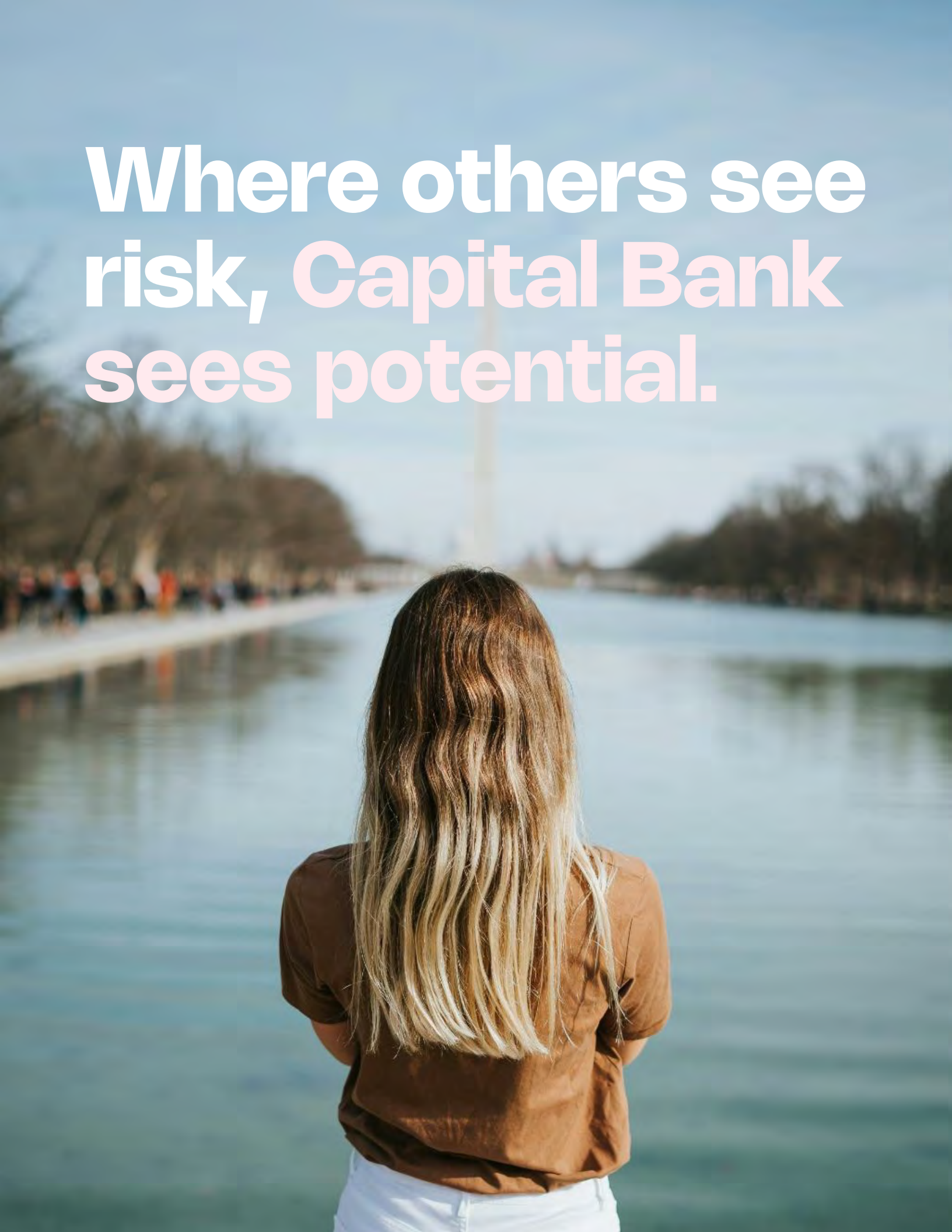
Customer Level

Corporate Level – The Board

Appendix 18

Sustainability Accounting Standards Board (SASB) Metrics Matrix

**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.

Our growth is driven by a personalized approach to banking coupled with innovative technology solutions. We support businesses at all stages of development, from emerging startups to established entities, providing a broad range of products and services. From fulfilling fundamental business banking requirements to navigating complex financial challenges, we are committed to meeting the evolving needs of our customers.



Dear shareholders and esteemed members of our community,

As we look back on 2023, our journey towards a sustainable future, guided by our commitment to Environmental, Social, and Governance (ESG) principles, has continued with purpose and passion. At Capital Bank, our dedication to making a positive impact on the communities we serve and the broader world is evident in our actions and achievements throughout the past year.

Our environmental initiatives have seen meaningful progress, focusing on practical steps to responsibly manage our resources and operations. Our work with Montgomery County Green Bank, through a \$5 million line of credit, highlights our support for clean energy projects and reflects our ongoing commitment to environmental stewardship.

On the social front, our efforts have been impactful and wide-reaching. The implementation of our diversity, equity, inclusion, and belonging (DEI&B) policies, along with the expansion of our charitable programs, has fostered a more inclusive culture within Capital Bank. Through initiatives like Capital Cares, our team has dedicated significant time to volunteering, embodying our collective commitment to making a difference.

Central to our mission of financial inclusion are the continued success of our community mortgage lending program as well as our OpenSky® credit card platform. Notably, our SBA lending program received its Preferred Lender Program (PLP) status in 2023, allowing us to expedite loan approvals and further empower small businesses. These initiatives are pivotal in our mission to foster economic growth and stability.

In governance, our commitment to integrity, transparency, and ethical conduct remains unwavering. The addition of Mary Ann Scully to our board and our continued emphasis on comprehensive employee training and robust whistleblower protections exemplify our dedication to upholding the highest standards of corporate governance and accountability.

Looking ahead, we are inspired by the opportunities and challenges that await us. Our accomplishments in 2023 lay a solid foundation for future growth and impact. We are deeply grateful for your support and partnership as we continue to advance our ESG initiatives and strive for a more sustainable and equitable world.

Thank you for being part of our journey. Together, we are making a meaningful difference.

Sincerely,

Ed Barry, CEO

**Environmental
Stewardship**

**Social
Responsibility**

**Governance
Transparency**

Environmental Stewardship

Capital Bank is working towards 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 Capital Bank and the communities we serve, further driving our efforts to reduce waste company-wide and support green energy projects.

Supporting green energy

Capital Bank partners with Montgomery County Green Bank to support clean energy investments in Montgomery County, Maryland. In 2023, Capital Bank issued a \$5 million dollar line of credit to the Green Bank, providing them with the liquidity essential in funding clean energy projects in the community.

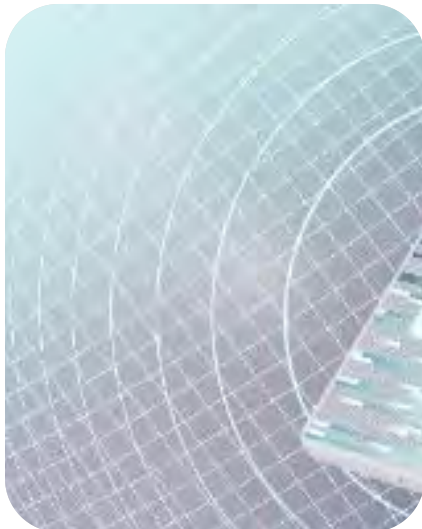
“ Successful collaborations form the foundation of the Green Bank's mission, exemplified by our partnership with Capital Bank, a leader in climate forward banking. Understanding the needs of the market and the needs for creating a sustainable future are the hallmark of an important Green Bank partner. We extend our heartfelt appreciation for our invaluable and continually growing relationship with Capital Bank.”

Steve Morel,
CEO Montgomery County Green Bank

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, while still prioritizing the safety and security of our confidential information.

We realize the importance of technology in reducing our carbon footprint and utilize digital resources across all practices of the business. We actively encourage our customers to make the move to digital banking. In 2023, Capital Bank implemented a new platform enabling customers to open accounts fully online, further reducing our paper needs while streamlining the onboarding process, thus enhancing the customer experience.



Social Responsibility

Capital Bank takes pride in creating an environment in which our company practices are driven through our commitment to diversity, equity, inclusion and belonging (DEI&B). We believe that for the business to thrive, so must our clients, employees, communities and stockholders. Valued employees value others. Capital Bank is better able to serve and lend to our local communities by fostering a culture of inclusion and belonging in the workplace

People & Culture

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. Capital Bank continues to expand our reach to veteran and minority applicants through our partnership with Circa, a company that pulls each of our current job listings and posts them to websites nationwide. Providing accessibility and opportunity to qualified applicants in underrepresented groups allows us to further integrate Diversity, Equity, Inclusion & Belonging (DEI&B) throughout the company.

In 2023, Capital Bank hired a dedicated Learning & Development manager to enhance engagement and facilitate training. In 2024, we will conduct a needs analysis to shape a comprehensive, long-term training and development plan.

Learning and Development:

- Tuition reimbursement, up to \$5,250 per calendar year to full-time employees
- Elevate, a yearlong leadership program, taking diverse rising stars across the organization and shaping them to be future leaders of tomorrow and allowing for cross departmental mentorship of key bank leadership
- 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

DEI&B

In 2023, Capital Bank implemented a new DEI&B policy and program aimed at mitigating bias in the workplace. The program included mandatory DEI&B training for all employees, which was offered both virtually and in-person to accommodate our hybrid and remote employees. We also formed an internal Diversity, Equity, Inclusion, and Belonging Council in 2023. We are currently defining our overall mission, outlining future goals, strategizing implementation of diversity and inclusion initiatives, and creating programs to increase employee engagement with DEI&B.

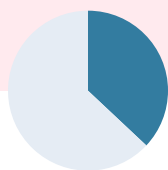
Health and Wellness:

- Free Life/LTD/STD/AD&D insurance
- 401k w/ non-elective company contribution
- Bonus plans for all non-sales employees
- FSA for dependent care
- Multiple health Insurance options which include an HSA platform of which Capital Bank funds 75% of deductible for those that choose this option
- Voluntary benefits are available to all full-time employees
- Generous paid leave, as well as 11 built-in paid holidays
- Multiple employee recognition programs

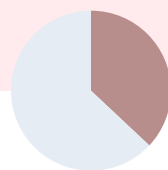
2023 Diverse Workforce Population %



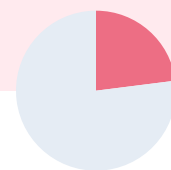
Population of Women
53%



Population of Women SVP+
37%



Population of People of color
37%



Population of People of color SVP+
23%

Customer spotlight

Global Strategies Holding Corporation

In 2022, Capital Bank funded a \$5 Million Small Business Administration Loan to Global Strategies Holding Corporation, Based in Massachusetts. Our loan helped to support the production of the Demo Bag[®], a sustainable construction waste bag made from 100% recycled materials by funding the purchase of the owner occupied commercial real estate and manufacturing equipment used in their South Carolina facility.

Charitable endeavors

Capital Bank is passionate about giving back to community-oriented organizations. This year, we were proud to sponsor the following organizations:

- **Give an Hour**, an organization working to address the unique mental health needs in the military community. Cultural D.C., an organization that supports artists across all disciplines and makes their work accessible to diverse audiences.
- **BOW** (Black Owner & Women's) Collective Conference, whose members collaborate to raise awareness, foster opportunities and raise funds in an effort to ensure that black women's businesses receive the necessary capital for expansion and growth.
- **Cultural D.C.**, an organization that supports artists across all disciplines and makes their work accessible to diverse audiences.

On May 25, 2023, a team of Capital Bank employees presented a \$25,000 donation to the Maryland Food Bank in Baltimore, Maryland, thereby supporting the effort to fight food insecurity in our community. The team also dedicated several hours to sorting food at the facility.

We are also actively involved with Rockville Economic Development, a local non-profit that supports the start and growth of small businesses and entrepreneurs. In 2023, Capital Bank's charitable working group, Capital Cares, hosted several volunteer opportunities – from sorting supplies at a food bank and in office food drives to promoting financial literacy - in which employees had the opportunity to donate either their money or time. Capital Bank also provides each employee with 8 paid charity hours annually to be used on efforts of their choice, beyond any bank-organized activities. This resulted in 185.5 additional employee volunteer hours in 2023.



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, Capital Bank Board Member

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.

Community connections: We take banking personally.

Capital Bank understands that every person has a story and sees the value in listening to these stories. We strive to look beyond the numbers to discover untapped potential and cultivate relationships.

OpenSky®

“I opened up the secured credit card with OpenSky with the hopes of rebuilding my credit, which was around 460 and today it’s in the 700s...that’s all because of OpenSky.”

Imhile A.
OpenSky Customer

Imhile is an OpenSky customer who first opened an account after filing for bankruptcy at the age of 30. She had previously been unable to get any kind of credit for 5 years, including a car loan, credit card or apartment.

Once Imhile started using her OpenSky Secured Credit Card, she was able to rebuild her credit in less than 2 years.

Capital Bank’s credit card line of business, OpenSky, offers individuals in need of credit 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.

OpenSky has seen tremendous growth over the past 4 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 programs 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.

In 2023 OpenSky partnered with the National Society of High School Scholars (NSHSS), participating in the 2023 NSHSS Scholar’s Day in Washington, D.C.. This partnership is aimed at providing financial education for high school students and promoting the power of good credit at a young age.

“I’ve stayed for as long as I have because I really feel like we’re making a difference in people’s lives, and I love hearing about the success stories that our customers have made.”

Cailyn Kukulka
OpenSky Marketing Manager

Cailyn Kukulka has worked for Capital Bank’s credit card division, OpenSky, for 7 years. During this time, OpenSky has seen tremendous growth in both its customer base and product offering, in which she has played an integral role. Part of her role entails maintaining customer relationships through effective communication, for which she gains valuable insights from customer feedback and testimonials.

“These testimonials put into perspective why we do what we do every day and why it’s so important to help people with their credit” - Cailyn Kukulka

Cailyn is passionate about providing access to credit and believes that credit education is essential in overall financial health.

Community Reinvestment

Capital Bank has a long-standing history of supporting and lending within our local community. We are proud to be apart of the D.C., Maryland, and Virginia “DMV” area and are invested in seeing positive and sustainable growth. Our most recent Community Reinvestment Act rating, as determined by our banking regulators, was “Outstanding” which is the highest possible rating.

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 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.

“I didn’t need a bank, I needed personal attention for the kinds of loans that I did and [Capital Bank] really stood up to the plate.”

Lola Pol
Community Lending Branch Manager

Lola Pol has worked at Capital Bank for 7 years as a community lending manager in the mortgage division. Her passion for community lending began when she moved to Washington, D.C. and saw the huge need for affordable housing. She manages the bank’s only community facing mortgage office and credits Capital Bank with giving her the resources and support needed to make her business model work.

“I’m really motivated by seeing my clients in person. Every day is different and every day there is another obstacle that we can fix in order to get someone into a home.”

Lola Pol
Community Lending Branch Manager

Lola prides herself on her ability to find solutions where other lenders have not, going above and beyond to get her customers into a home no matter the circumstance. This often involves working extensively with borrowers on budgeting and credit-building, and finding innovative solutions to maintain affordable mortgage payments. She dedicates herself to building long-term relationships with customers and is fully immersed in the community she lends to, living less than a mile from her office.

Lola’s outstanding work in her community has earned her a 2022 American Bankers Association Foundation’s George Bailey Distinguished Service Award and recognition from Habitat for Humanity’s Women Build in 2023.

“[Lola] is able to make things happen that I don’t think other people can make happen.”

John Lee
Capital Bank Home Loans Customer

John Lee is a musician who recently worked with Lola Pol and Capital Bank Home Loans to get his family into a home in the Brookland neighborhood of Washington, D.C.. John and his wife always wanted to settle down in Washington, D.C., and when their son got into an excellent school in the Brookland neighborhood, they hoped to make this dream come true despite the rising cost of housing in the city. John was initially told by a number of lenders that he did not qualify for HPAP, a first-time home buyers assistance program in D.C., and was then referred to Capital Bank Home Loans and Lola Pol by a friend.

“There were a lot of hurdles where people were saying no this isn’t going to work and she was able to work around it.”

John Lee
Capital Bank Home Loans Customer

Lola and her team worked through the assistance program applications with John, who ultimately qualified for a substantial HPAP loan and was able to quickly close on a home within walking distance to his son’s school.

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 come to Capital Bank with only a dream, no prepared financial statements, and no portfolios. On paper, these entrepreneurs may not fit perfectly into the predetermined boxes of typical customers, and if they were to present their business cases at a larger bank, they may be turned away immediately. 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.

Angela Steele has been in the banking industry for 20 years and during that time has found her passion in SBA lending. She came to Capital Bank because she saw the opportunity to make a significant impact on the small business community.

“The joy in SBA lending is that it offers not just financial support but also the opportunity for lenders like me to be a partner in someone's entrepreneurial journey. Seeing the excitement and determination in the eyes of an aspiring business owner, and then watching their dream take shape and come to life when they open their doors, is incredibly rewarding.”

Angela Steele
Vice President SBA Lending

Angela prides herself in becoming a part of her clients' entrepreneurial journey, which often begins with only an idea or vision for their business. She finds fulfillment in taking this vision and turning it into a reality by providing the hands-on guidance and support necessary to secure financing, enabling individuals from all walks of life to pursue their dreams.

“I'm really motivated by seeing my clients in person. Every day is different and every day there is another obstacle that we can fix in order to get someone into a home.”

Lola Pol
Community Lending Branch Manager

In 2023, Capital Bank received preferred lender status by the Small Business Administration to make loan decisions without approval from the SBA, a testament to our dedication in serving this population. 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.

“Capital Bank's team, spearheaded by Angela, exemplifies the essence of professionalism and client-centricity. Their dedication, expertise, and commitment to facilitating our success as entrepreneurs are unparalleled.”

Kristina and James Payne
Capital Bank Customers

Kristina and James Payne came to Capital Bank through a referral after encountering numerous roadblocks on their journey to securing a small business loan. Having never written a business plan, they were dependent upon the support and guidance of Angela Steele and Capital Bank to walk them through the complicated lending process and ultimately secure a loan.

“Angela's dedication and expertise were evident as she meticulously reviewed our business plan, offering invaluable insights that ultimately resulted in us securing a bank commitment for our project. Her willingness to invest time and effort in helping us improve our plan demonstrated her commitment to our success.”

John Lee
Capital Bank Home Loans Customer

Kristina and James Payne are now owners of a minority and woman-owned Play Street Museum franchise in New York, New York. 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.



Customer spotlight



Move United

Move United, previously recognized as disabled sports usa, stands as a non-profit organization with a longstanding partnership with Capital Bank since 2015. initially, the organization focused on enabling and supporting disabled veterans to reengage in their preferred sports. over time, the organization evolved into Move United, broadening its scope to serve all wounded warfighters, youths, and adults with disabilities. Today, Move United is the national leader in community adaptive sports. Capital Bank supports move united philanthropically through employee volunteerism and donations.

Governance Transparency

As a financial institution, we must continually work to earn the trust and confidence of our customers, vendors, and stockholders. In doing so, the bank is committed to operating with strong corporate governance, mitigating risk, and maintaining a transparent relationship with our 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 also partners 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.

In 2023, Capital Bank sponsored its second Cybersecurity Awareness Month, sending out weekly activities aimed at educating employees and preventing future social engineering attacks. We have since developed a monthly internal Information Security Awareness Newsletter that corresponds with our Intranet homepage, providing educational resources to help employees detect and halt cyber threats. This is part of the bank's continued 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. The bank continues to utilize our 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.

Data Security

Capital Bank takes a multi-layered approach to data security, having instituted a Security Operations Center ("SOC") that monitors the bank in real time and alerts our Chief Risk Officer, as well as our first line of defense team if there are any data security issues or emerging risks. Additionally, Capital Bank implemented Office365 with Enterprise 5 licenses that include built in data and information security controls, including a Data Loss Prevention program. We have invested heavily in our technology infrastructure and information security programs and in 2023 implemented network access control ("NAC") that only allows network access to devices previously provisioned, employee personal computers can no longer access the network.

Stress Testing

Capital stress testing is performed at least once a year and incorporates a multi-variable approach utilizing the Company’s long-term strategic plan with stresses applied to growth strategies, operating expenses, and asset quality. The Board and Management intend to maintain capital levels that meet or exceed regulatory guidelines under a variety of different economic conditions and growth scenarios.

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, our Executives, 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, including but not limited to, mistreatment and claims of unfair lending, deception, or discriminatory practices. Capital Bank does not stand for these types of practices, and 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.

In 2023, Capital Bank welcomed new board member Mary Ann Scully. Mary Ann has over 40 years of diverse experience in banking, bringing valuable insights and a strong leadership acumen to the board. She was a co-founder of Howard Bank and currently serves as Dean of the Joseph A. Sellinger School of Business and Management at Loyola University, as well as director and member of the Enoch Pratt Library and vice chair of the board of Mount St Joseph College High School.

Our Board diversity as of 12/31/23

Size	10 Members
Independent Chairperson	Yes
Independent Directors	8 Members
Women on board	2 Members
Diverse on board	2 Members
Average age	62
Average tenure	10

A photograph of construction workers in hard hats and safety gear working on a wooden structure. The text is overlaid on the image.

Capital Bank is committed to creating meaningful social impact in the communities we serve.

Sustainability Accounting Standards Board (SASB) Metrics Matrix

Subject	SASB Code	Response
Data Security	FN-CB-230a.1	Capital Bank had 0 data breaches in 2023, resulting in 0% PII involved and 0 account holders affected.
Data Security	FN-CB-230a.2	Please refer to page 16 of our ESG report
Financial Inclusion & Capacity Building	FN-CB-240a.1	N/A
Financial Inclusion & Capacity Building	FN-CB-240a.2	15 and \$1,506,899 past due and nonaccrual loans qualified to programs designed to promote small business and community development
Financial Inclusion & Capacity Building	FN-CB-240a.3	As a commercial bank, Capital Bank does not offer no-cost retail checking accounts to individuals.
Financial Inclusion & Capacity Building	FN-CB-240a.4	579,736 customers received a 7-email series in credit education.
Incorporation of Environmental, Social, & Governance Factors in Credit Analysis*	FN-CB-410a.2	Please refer to page 19 of our ESG report.
Financed Emissions	FN-CB-410b.1	N/A
Financed Emissions	FN-CB-410b.2	N/A
Financed Emissions	FN-CB-410b.3	N/A
Financed Emissions	FN-CB-410b.4	N/A
Business Ethics	FN-CB-510a.1	Capital Bank does not have any monetary losses associated with client privacy.
Business Ethics	FN-CB-510a.2	Please refer to page 15 of our ESG Report.
Systemic Risk Management	FN-CB-550a.1	Due to our size, Capital Bank does not qualify as determined by the Financial Stability Board in consultation with national regulators.
Systemic Risk Management	FN-CB-550a.2	Please refer to page 16 of ESG report. Additionally, See 2023 Annual Report on Form 10-K, Item 7. MD&A – Financial Condition and Item 7a. – Quantitative and Qualitative Disclosures about Market Risk for additional details.
Activity Metric	FN-CB-000.A	N/A
Activity Metric	FN-CB-000.B	N/A

Credit Policy

The Chief Credit Officer, under the supervision of the Bank's senior management, implements commercial credit underwriting guidelines, standards, and procedures regarding loan administration, loan review, accounting, collections, and foreclosure processes.

Environmental

The Bank seeks to diversify its portfolio in a prudent manner to minimize the risks inherently associated with concentrations of credit; however, real estate secured credits play a dominant role in the portfolio as real estate is a major investment vehicle in the Bank's market area and often provides the only means of extending secured credit.

The Bank monitors for environmental risks in its commercial real estate portfolio that includes minimum requirements by qualified professionals to conduct environmental assessment of the collateral securing the commercial loan portfolio. For environmentally sensitive industries, an appropriate level of due diligence must be completed prior to the decision to extend credit is made. Records Search with Risk Assessment and third-party professional reports including Questionnaires, Transaction Screens, Phase I and Phase II Environmental site assessments are used to identify whether further investigation is warranted. Any identified risks or contamination must be remediated and controlled in compliance with the environmental professional's recommendations prior to granting an extension of credit.

Social

Regarding extensions of credit, it is the objective of Capital Bank to serve its community, customer base and stockholders by providing loans to local businesses, non-profits, professional associations, and residents of the community, using sound credit criteria and judgment in evaluating each request. The Bank is primarily focused upon meeting the credit needs of the businesses in its market area.

In extending credit, evaluating applications for credit, establishing loan terms, or providing assistance to potential applicants for credit, the Bank will not discriminate against any individual on the basis of race, color, religion, national origin, gender, marital status, age, physical handicap, sexual orientation, receipt of income from a public assistance program, or the good faith exercise of any rights or remedies available under the consumer protection laws.

It is and shall remain the Bank's policy to avoid originating higher priced mortgage loans (HOEPA or HPML).

Through its BSA/AML policies and procedures, the Bank is aware of the potential reputational risks that can be associated with certain clients. The Bank maintains a list of prohibited, discouraged and high-risk customer types.

The Bank provides employee training for human trafficking indicators depending on an employee's job function.

Governance

The Bank adheres to the safe and sound lending practices established by its regulator, the Office of the Comptroller of the Currency (OCC) including environmental laws and regulations and ensures appropriate policies and procedures are in place to identify, measure, monitor and control risks related to its lending activities.



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.

Environmental, Social & Governance Report : 2023

