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SUPERVISION, REGULATION & CREDIT DEPARTMENT

MAR 28

FR Y-6
OMB Number 7100-0297
Approval expires September 30, 2018
Page 1 of 2

Board of Governors of the Federal Reserve System

FRB RICHMOND

COPY

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844 (c)(1)(A)); Section 8(a) of the International Banking Act (12 U.S.C. § 3106(a)); Sections 11(a)(1), 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); Section 211.13(c) of Regulation K (12 C.F.R. § 211.13(c)); and Section 225.5(b) of Regulation Y (12 C.F.R. § 225.5(b)) and section 10(c)(2)(H) of the Home Owners' Loan Act. Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies and top-tier savings and loan holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report.

I, Edward F. Barry
Name of the Holding Company Director and Official

Director and CEO of Capital Bancorp Inc.
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Signature of Holding Company Director and Official

03/25/2016
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- ☐ is included with the FR Y-6 report
- ☒ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID 2808590
C.I.

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2015
Month / Day / Year

549300LQKYGWQ7VP0C75
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address
Capital Bancorp, Inc.
Legal Title of Holding Company

One Church Street, Suite 300
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Rockville	MD	20850

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Filip G. Feller	Treasurer

240-283-0402
Area Code / Phone Number / Extension

301-762-1127
Area Code / FAX Number

ffeller@capitalbankmd.com
E-mail Address

www.capitalbankmd.com
Address (URL) for the Holding Company's web page

Does the reporter request confidential treatment for any portion of this submission?

☐ Yes Please identify the report items to which this request applies:

☐ In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.

☐ The information for which confidential treatment is sought is being submitted separately labeled "Confidential."

☒ No

Capital Bancorp, Inc. **Form FR Y-6**

One Church Street, Suite 300
Rockville, MD 20850

Fiscal year ended December 31, 2015

Report Item 1a: Capital Bancorp, Inc. is not required to file Form 10-KSB with the Securities and Exchange Commission.

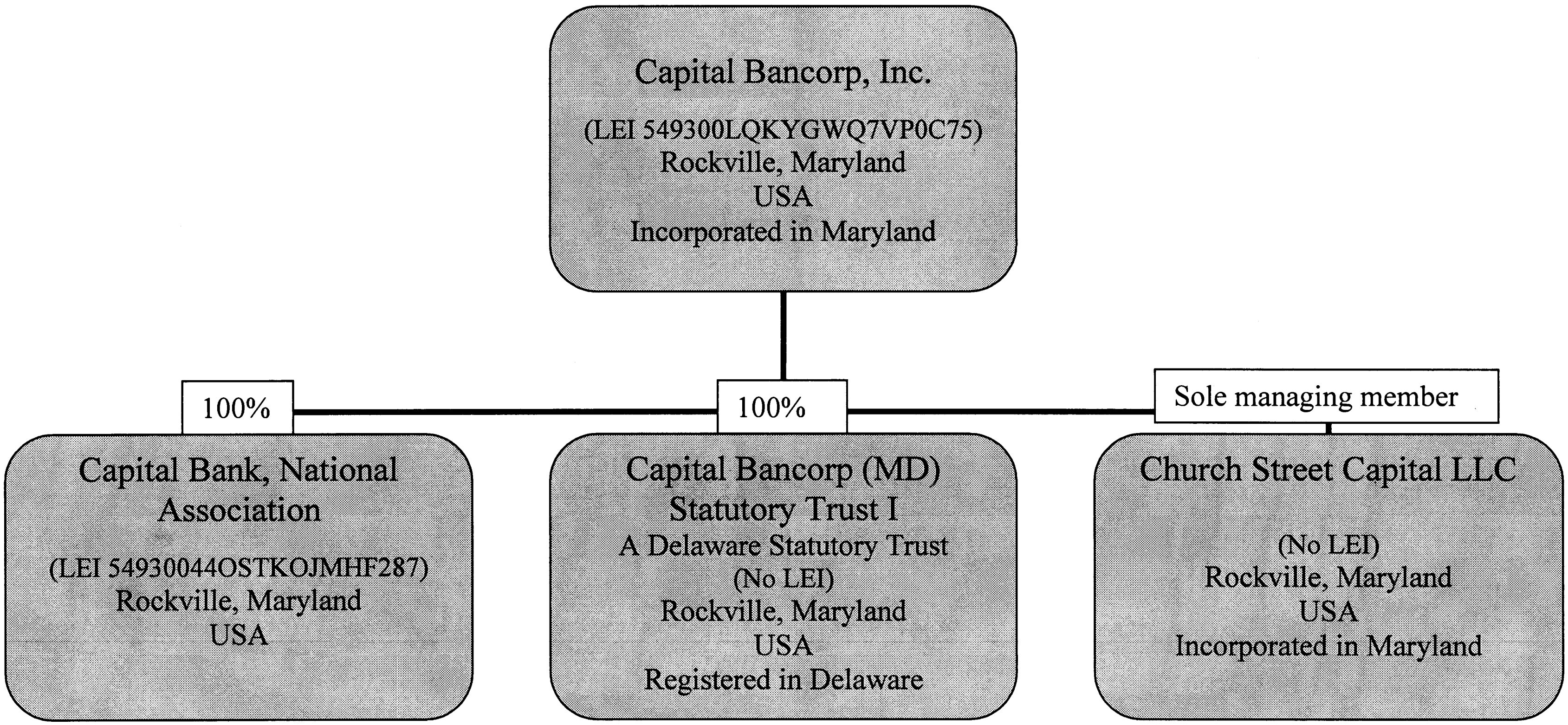
Report Item 1b: Capital Bancorp, Inc. will provide an Annual Report to all its shareholders.

Capital Bancorp, Inc.	**Form FR Y-6**

One Church Street, Suite 300
Rockville, MD 20850

Fiscal year ended December 31, 2015

Report Item 2a: Organizational Chart



Report Item 2b: Domestic Branch Listing

Submitted via email on 03/21/16.

Results: A list of branches for your holding company: CAPITAL BANCORP, INC. (2808590) of ROCKVILLE, MD.
The data are as of 12/31/2015. Data reflects information that was received and processed through 01/07/2016.

Reconciliation and Verification Steps

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below.
2. If required, enter the date in the **Effective Date** column.

Actions

OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	2808602	CAPITAL BANK, NATIONAL ASSOCIATION	1 CHURCH STREET, SUITE 100	ROCKVILLE	MD	20850	MONTGOMERY	UNITED STATES	77667	0	CAPITAL BANK, NATIONAL ASSOCIATION	2808602	
OK		Full Service	3634901	EYE STREET BRANCH	1776 I STREET NORTHWEST	WASHINGTON	DC	20006	DISTRICT OF COLUMBIA	UNITED STATES	466281	2	CAPITAL BANK, NATIONAL ASSOCIATION	2808602	
OK		Full Service	3634862	EXECUTIVE BOULEVARD BRANCH	6000 EXECUTIVE BOULEVARD, SUITE 101	ROCKVILLE	MD	20852	MONTGOMERY	UNITED STATES	492511	3	CAPITAL BANK, NATIONAL ASSOCIATION	2808602	
OK		Limited Service	3967878	RING HOUSE BRANCH	1801 E. JEFFERSON STREET	ROCKVILLE	MD	20852	MONTGOMERY	UNITED STATES	Not Required	Not Required	CAPITAL BANK, NATIONAL ASSOCIATION	2808602	

One Church Street, Suite 300
Rockville, MD 20850

Fiscal year ended December 31, 2015

Report Item 3: Securities holders

3. a The Company has only two classes of stock authorized: Common and preferred. Current shareholders with ownership, control or holdings of 5% or more with power to vote as of 12/31/15:

(1)(a)	(1)(b)	(1)(c)		(1)(c)	(1)(c)	(1)(c)	
Name Address *(City, State, Country)*	**Country of Citizenship**	**Common Shares Held and Percentage Owned**		**Exercisable Options - Common**	**Convertible Subordinated Notes - Common**	**Total Voting Securities & and Percentage Owned if Exercised or Converted**	
Stephen N. Ashman Rockville, MD USA	USA	155,807	6.09%	5,911	21,317	183,035	6.11%
Joshua Bernstein Washington, DC USA	USA	141,768	5.55%	2,718	0	144,486	4.82%
Randall J. Levitt Bethesda, MD USA	USA	197,102	7.71%	2,708	54,000	253,810	8.47%
Steven J. Schwartz Washington, DC USA	USA	137,558	5.38%	3,450	13,916	154,924	5.17%
James F. Whalen Rockville, MD USA	USA	190,308	7.44%	3,263	53,999	247,570	8.26%
Frank E. Williams, Jr. Merrifield, VA USA	USA	135,418	5.30%	3,725	13,332	152,475	5.09%

One Church Street, Suite 300
Rockville, MD 20850

Fiscal year ended December 31, 2015

3. *b. Securities holders not listed in section 3a above that owned or controlled 5 percent or more of any class of voting securities during the fiscal year for which the report is being filed.* **NONE**

Capital Bancorp, Inc.	**Form FR Y-6**

One Church Street, Suite 300
Rockville, MD 20850

Fiscal year ended December 31, 2015

Report Item 4: Insiders (continued)

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	4(b)	(4)(c)
Name Address	Principal Occupation	Title/Position With Holding Company	Title/Position With Subsidiary	Title/Position With Other Businesses	Percentage of voting shares in Holding Co. including exercisable options and conv. sub debt	Percentage of voting shares in direct and indirect subsidiaries of the bank Holding Company	List of Names of Other Companies if 25% or more of voting securities are held. (Name of company and percentage of voting securities held)
Randall J. Levitt Bethesda, MD USA	Real Estate Investor	Director	Director of the Board of Capital Bank, National Assoc.	President of Nellis Corporation	8.47%	N/A	NC Associates Corporation (50%) Nellis Management Co. (25%) Ramar Corporation (25%) NC Pennsylvania LLC (100%) Precious Legacy LLC (100%) First Aurora LLC (100%) Honeymoon Associates, LLC (50%)

Capital Bancorp, Inc.	Form FR Y-6

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Rockville, MD 20850

Fiscal year ended December 31, 2015

Report Item 4: Insiders (continued)

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	4(b)	(4)(c)
Name Address	**Principal Occupation**	**Title/Position With Holding Company**	**Title/Position With Subsidiary**	**Title/Position With Other Businesses**	**Percentage of voting shares in Holding Co. including exercisable options and conv sub debt**	**Percentage of voting shares in direct and indirect subsidiaries of the bank Holding Company**	**List of Names of Other Companies if 25% or more of voting securities are held (Name of company and percentage of voting securities held)**
Deborah Ratner-Salzberg Washington, DC USA	Real Estate Executive	Director	N/A	Director & Executive VP Forest City Enterprises, Inc President Forest City Washington, Inc., a subsidiary of FCE Board member CubeSmart Board Member Jewish Federation of Greater Washington Board of Trustee Member Kenyon College (continued)	0.27%	N/A	Forest City Enterprises (90%)

Capital Bancorp, Inc. **Form FR Y-6**

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Rockville, MD 20850

Fiscal year ended December 31, 2015

Report Item 4: Insiders (continued)

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	4(b)	(4)(c)
Name Address	Principal Occupation	Title/Position With Holding Company	Title/Position With Subsidiary	Title/Position With Other Businesses	Percentage of voting shares in Holding Co. including exercisable options and conv. sub debt	Percentage of voting shares in direct and indirect subsidiaries of the bank Holding Company	List of Names of Other Companies if 25% or more of voting securities are held (Name of company and percentage of voting securities held)
Deborah Ratner-Salzberg (continued)				Board Member District of Columbia Building Industry Association Board Member Meyer Foundation Board of Trustee Member Urban Land Institute			

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Rockville, MD 20850

Fiscal year ended December 31, 2015

Report Item 4: Insiders (continued)

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	4(b)	(4)(c)
Name Address	Principal Occupation	Title/Position With Holding Company	Title/Position With Subsidiary	Title/Position With Other Businesses	Percentage of voting shares in Holding Co. including exercisable options and conv. sub debt	Percentage of voting shares in direct and indirect subsidiaries of the bank Holding Company	List of Names of Other Companies if 25% or more of voting securities are held (Name of company and percentage of voting securities held)
Steven J. Schwartz Washington, DC USA	Finance	Director Vice Chairman/ Secretary	Director and Secretary of the Board of Capital Bank, National Assoc.	Manager Prudent Management, LLC Treasurer Blake Construction Co, Inc. Treasurer Blake Real Estate, Inc. Treasurer Superior Building Services, Inc.	5.17%	N/A	Prudent Capital II, LP (100%) Prudent Capital Equities IV, LP (100%) Prudent Capital MuniTrust, LLC (100%) Prudent Capital III, LP (100%) Prudent Capital Equities V, LP (100%) Prudent Capital Equities VI, LP (100%) Prudent Capital Equities VII, LP (100%)

Capital Bancorp, Inc. **Form FR Y-6**

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Rockville, MD 20850

Fiscal year ended December 31, 2015

Report Item 4: Insiders (continued)

(1)	(2)	(3)(a)	(3)(b)	(3)(c)	(4)(a)	4(b)	(4)(c)
Name Address	Principal Occupation	Title/Position With Holding Company	Title/Position With Subsidiary	Title/Position With Other Businesses	Percentage of voting shares in Holding Co. including exercisable options and conv. sub debt	Percentage of voting shares in direct and indirect subsidiaries of the bank Holding Company	List of Names of Other Companies if 25% or more of voting securities are held (Name of company and percentage of voting securities held)
James F. Whalen Rockville, MD USA	Real Estate Developer	Director Vice President/ Assistant Secretary	Director and Chairman of the Board of Capital Bank, National Assoc.	President Investment Properties, Inc. Member Church Street LLC Member Gude Drive Properties III	8.26%	N/A	Investment Properties, Inc. (100%) Church Street LLC (100%) Gude Drive Properties III (30%)

Capital Bancorp, Inc. and Subsidiaries

Consolidated Financial Statements

December 31, 2015

Capital Bancorp, Inc. and Subsidiaries

Table of Contents

ROWLES
& Company, LLP
Certified Public Accountants

The Board of Directors and Stockholders
Capital Bancorp, Inc.
Rockville, Maryland

Report of Independent Auditors

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Capital Bancorp, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Capital Bancorp, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Rowles & Company, LLP

Baltimore, Maryland
March 11, 2016

8100 Sandpiper Circle, Suite 308, Baltimore, Maryland 21236
443-725-5395 Fax 443-725-5074
Website: www.Rowles.com

Capital Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31,	**2015**	2014
Assets		
Cash and due from banks	**$ 4,128,695**	$ 3,848,728
Interest-bearing deposits at other financial institutions	**15,780,999**	14,704,458
Federal funds sold	**236,113**	898,007
Cash and cash equivalents	**20,145,807**	19,451,193
Certificates of deposit in other financial institutions	**-**	3,711,500
Investment securities available for sale	**39,260,235**	39,393,323
Federal Reserve Bank and Federal Home Loan Bank stock, at cost	**2,035,350**	2,906,150
Loans held for sale	**38,877,666**	42,659,274
Loans receivable, net	**633,038,284**	500,807,960
Premises and equipment	**1,605,477**	1,283,431
Accrued interest receivable	**2,801,266**	2,209,943
Deferred income taxes	**2,907,001**	2,476,272
Foreclosed real estate	**202,813**	453,997
Core deposit intangible	**16,838**	39,381
Other assets	**2,874,561**	3,356,963
Total assets	**$ 743,765,298**	$ 618,749,387
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	**$ 122,245,735**	$ 98,696,214
Interest-bearing	**507,570,949**	403,278,030
Total deposits	**629,816,684**	501,974,244
Securities sold under agreements to repurchase	**12,439,952**	11,988,460
Federal Home Loan Bank advances	**11,000,000**	36,000,000
Other borrowed funds	**23,629,125**	12,062,000
Accrued interest payable	**611,761**	303,353
Other liabilities	**6,452,992**	6,204,712
Total liabilities	**683,950,514**	568,532,769
Stockholders' equity		
Common stock		
Par value $.01 per share, authorized 9,000,000 shares, issued and outstanding **2,556,445** shares at December 31, 2015, and 2,390,705 shares at December 31, 2014	**25,564**	23,907
Additional paid-in capital	**22,825,963**	20,743,316
Retained earnings	**36,767,458**	29,117,805
Accumulated other comprehensive income	**195,799**	331,590
Total stockholders' equity	**59,814,784**	50,216,618
Total liabilities and stockholders' equity	**$ 743,765,298**	$ 618,749,387

The accompanying notes are an integral part of these consolidated financial statements.

Capital Bancorp, Inc. and Subsidiaries

Consolidated Statements of Income

Years Ended December 31,	**2015**	2014
Interest revenue		
Loans, including fees	**$37,474,722**	$31,812,723
Investment securities available for sale	**867,239**	834,789
Federal funds sold and other	**219,588**	204,771
Total interest revenue	**38,561,549**	32,852,283
Interest expense		
Deposits	**3,338,868**	2,177,808
Borrowed funds	**1,238,857**	957,443
Total interest expense	**4,577,725**	3,135,251
Net interest income	**33,983,824**	29,717,032
Provision for loan losses	**1,608,771**	1,230,000
Net interest income after provision for loan losses	**32,375,053**	28,487,032
Noninterest revenue		
Service charges on deposits	**364,954**	433,307
Credit card fees	**3,774,302**	2,415,742
Mortgage banking revenue	**12,144,824**	8,326,861
Loss on sale of foreclosed real estate	**(12,274)**	(25,802)
Loss on disposal of premises and equipment	**(30,685)**	-
Other fees and charges	**327,313**	291,526
Total noninterest revenue	**16,568,434**	11,441,634
Noninterest expenses		
Salaries	**17,875,812**	14,588,672
Employee benefits	**3,005,275**	2,407,578
Occupancy	**1,521,054**	1,230,273
Furniture and equipment	**1,610,249**	972,955
Professional services	**1,262,933**	1,207,046
Data processing	**3,430,651**	2,836,432
Advertising	**2,880,733**	1,236,293
Loan processing	**1,686,291**	1,198,806
Other operating	**3,230,744**	3,142,975
Total noninterest expenses	**36,503,742**	28,821,030
Income before income taxes	**12,439,745**	11,107,636
Income tax expense	**4,790,092**	4,314,707
Net income	**$ 7,649,653**	$ 6,792,929
Basic earnings per share	**$ 3.18**	$ 2.88
Diluted earnings per share	**$ 3.02**	$ 2.75

The accompanying notes are an integral part of these consolidated financial statements.

Capital Bancorp, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

Years Ended December 31,	**2015**	2014
Net income	**$7,649,653**	$6,792,929
Other comprehensive income (loss)		
Unrealized gain (loss) on investment securities available for sale	**(177,203)**	239,454
Unrealized gain (loss) on cash flow hedging derivative	**(12,112)**	18,600
	(189,315)	258,054
Income tax expense (benefit) relating to the items above	**(53,524)**	101,707
Other comprehensive income (loss)	**(135,791)**	156,347
Total comprehensive income	**$7,513,862**	$6,949,276

The accompanying notes are an integral part of these consolidated financial statements.

Capital Bancorp, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2015 and 2014

	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total stockholders' equity
	Shares	Par value				
Balance, December 31, 2013	2,335,715	$23,357	$19,897,919	$22,324,876	$175,243	$42,421,395
Net income	-	-	-	6,792,929	-	6,792,929
Unrealized gain on investment securities available for sale, net of income taxes of $94,453	-	-	-	-	145,001	145,001
Unrealized gain on cash flow hedging derivative, net of income taxes of $7,254	-	-	-	-	11,346	11,346
Stock options exercised, including tax benefit of $68,508	50,999	510	603,954	-	-	604,464
Common stock issued	24,500	245	477,863	-	-	478,108
Shares issued as compensation	21,991	220	375,691	-	-	375,911
Stock-based compensation	-	-	244,014	-	-	244,014
Shares repurchased and retired	(42,500)	(425)	(856,125)	-	-	(856,550)
Balance, December 31, 2014	2,390,705	23,907	20,743,316	29,117,805	331,590	50,216,618
Net income	-	-	-	7,649,653	-	7,649,653
Unrealized (loss) on investment securities available for sale, net of income taxes of **$(50,126)**	-	-	-	-	(127,077)	(127,077)
Unrealized (loss) on cash flow hedging derivative, net of income taxes of **$(3,398)**	-	-	-	-	(8,714)	(8,714)
Stock options exercised, including tax benefit of **$152,856**	52,035	520	724,994	-	-	725,514
Common stock issued upon conversion of debt	138,839	1,388	1,664,680	-	-	1,666,068
Shares issued as compensation	32,370	324	710,164	-	-	710,488
Stock-based compensation	-	-	360,709	-	-	360,709
Shares repurchased and retired	(57,504)	(575)	(1,377,900)	-	-	(1,378,475)
Balance, December 31, 2015	**2,556,445**	**$25,564**	**$22,825,963**	**$36,767,458**	**$195,799**	**$59,814,784**

The accompanying notes are an integral part of these consolidated financial statements.

Capital Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31,	**2015**	2014
Cash flows from operating activities		
Interest received	**$ 38,521,575**	$ 32,516,383
Noninterest revenue received	**4,435,885**	3,140,575
Interest paid	**(4,269,318)**	(3,078,474)
Cash paid to employees and suppliers	**(33,612,774)**	(28,309,329)
Origination of loans held for sale	**(754,964,791)**	(493,273,038)
Proceeds from sale of loans held for sale	**770,891,223**	478,361,172
Income taxes paid	**(4,368,048)**	(6,104,373)
Net cash provided (used) by operating activities	**16,633,752**	(16,747,084)
Cash flows from investing activities		
Proceeds from maturity or call of investment securities available for sale	**8,945,619**	15,850,145
Purchase of investment securities available for sale	**(9,154,735)**	(22,023,211)
Redemption of Federal Reserve Bank and FHLB stock	**870,800**	448,750
(Increase) decrease in certificates of deposit in other financial institutions	**3,711,500**	(49,181)
Loans originated, net of repayments	**(134,258,095)**	(98,838,546)
Proceeds from sale of foreclosed real estate	**203,322**	82,500
Investments in foreclosed real estate	**(23,812)**	-
Purchase of property, equipment, and software	**(1,955,045)**	(738,492)
Net cash used by investing activities	**(131,660,446)**	(105,268,035)
Cash flows from financing activities		
Increase (decrease) in		
Time deposits	**27,296,462**	45,328,777
Other deposits	**100,545,978**	82,210,324
Securities sold under agreements to repurchase	**451,492**	(467,014)
FHLB advances	**(25,000,000)**	(11,000,000)
Issuance of debt, net of issuance costs	**13,233,193**	5,000,000
Issuance of common stock	**-**	478,108
Repurchase of common stock	**(1,378,475)**	(856,550)
Proceeds from exercise of stock options	**572,658**	535,956
Net cash provided by financing activities	**115,721,308**	121,229,601
Net increase (decrease) in cash and cash equivalents	**694,614**	(785,518)
Cash and cash equivalents, beginning of period	**19,451,193**	20,236,711
Cash and cash equivalents, end of period	**$ 20,145,807**	$ 19,451,193

The accompanying notes are an integral part of these consolidated financial statements.

Capital Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31,	**2015**	2014
Reconciliation of net income to net cash provided (used) by operating activities		
Net income	**$ 7,649,653**	$ 6,792,929
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Provision for loan losses	**1,608,771**	1,230,000
Provision for off balance sheet credit risk	**15,000**	33,000
Provision for recourse on mortgage loans sold	**20,016**	266,429
Depreciation and amortization	**906,810**	461,569
Net amortization on investment securities	**132,349**	90,347
Stock-based compensation	**360,709**	244,014
Director and employee compensation paid in Company stock	**710,488**	375,911
Deferred income taxes	**(342,382)**	(459,919)
Amortization of core deposit intangible	**22,543**	32,641
Income tax benefit of stock options exercised	**152,856**	68,508
Write-down of foreclosed real estate	**59,400**	95,000
Loss on sale of foreclosed real estate	**12,274**	25,802
Loss on disposal of premises and equipment	**30,685**	-
(Increase) decrease in		
Loans held for sale	**3,781,608**	(24,194,591)
Accrued interest receivable	**(591,323)**	(380,946)
Other assets and prepaid income taxes	**1,177,906**	(2,270,925)
Increase (decrease) in		
Accrued interest payable	**308,408**	56,777
Other liabilities	**198,981**	831,671
Deferred loan origination fees	**419,000**	(45,301)
Net cash provided (used) by operating activities	**$16,633,752**	$(16,747,084)
Other noncash investing activity		
Transfer from loans receivable to foreclosed real estate	**$ -**	$ 375,321

The accompanying notes are an integral part of these consolidated financial statements.

1. Summary of Significant Accounting Policies

Basis of presentation

The accompanying consolidated financial statements include the activity of Capital Bancorp, Inc. and its wholly-owned subsidiaries, Capital Bank, NA, and Church Street Capital, LLC. All intercompany transactions have been eliminated in consolidation. The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles and conform to general practices within the banking industry.

The Company's primary operations are conducted by the Bank, which operates branches in Rockville and North Bethesda, Maryland, 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 Bank also originates residential mortgages for sale in the secondary market. The Company formed Church Street Capital, LLC, 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.

Organization

The Company was incorporated under the laws of the State of Maryland on February 24, 1998, primarily to hold all of the outstanding shares of common stock of the Bank. On December 14, 1999, the Bank received authority from the Federal Deposit Insurance Corporation (FDIC) and Office of the Comptroller of the Currency (OCC) to begin banking operations.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are sold for one-day periods.

Certificates of deposit in other financial institutions

Certificates of deposit in other financial institutions mature within one year and are carried at cost.

Federal Reserve Bank and Federal Home Loan Bank stock

Federal Reserve Bank and Federal Home Loan Bank stock are carried at cost, which approximates fair value. As a member of the Federal Home Loan Bank, the Company is required to purchase stock based on its total assets. Additional stock is purchased and redeemed based on the outstanding Federal Home Loan Bank advances to the Company.

Investment securities

Investment securities are classified as available for sale and carried at fair value with unrealized gains and losses included in stockholders' equity on an after-tax basis. Premiums and discounts on investment securities are amortized or accreted using the interest method.

Gains and losses on disposal of securities are determined using the specific-identification method.

Loans held for sale

Mortgage loans originated and intended for sale are recorded at fair value, determined individually, as of the balance sheet date. Fair value is determined based on outstanding investor commitments, or in the absence of such commitments, based on current investor yield requirements. Gains and losses on loan sales were determined by the specific-identification method.

1. **Summary of Significant Accounting Policies** (Continued)

Loans and the allowance for loan losses

Loans are stated at the principal amount outstanding, adjusted for deferred origination fees, deferred origination costs, discounts on loans acquired, and the allowance for loan losses. Interest is accrued based on the loan principal balances and stated interest rates. Origination fees and costs are recognized as an adjustment to the related loan yield using approximate interest methods. The Company discontinues the accrual of interest when any portion of the principal and interest is 90 days past due and collateral is insufficient to discharge the debt in full.

Loans are considered impaired when, based on current information, management believes the Company will not collect all principal and interest payments according to contractual terms. Generally, loans are reviewed for impairment when the risk grade for a loan is downgraded to a classified asset category. The loans are evaluated for appropriate classification, accrual, impairment, and troubled debt restructure status. If collection of principal is evaluated as doubtful, all payments are applied to principal.

The allowance for loan losses is estimated to adequately provide for probable future losses on existing loans. The allowance consists of specific and general components. For loans that are classified as impaired, an allowance is established when the collateral value, if the loan is collateral dependent, or the discounted cash flows of the impaired loan is lower than the carrying value of that loan. The general component covers pools of nonclassified loans and is based on historical loss experience adjusted for qualitative factors. There may be an unallocated component of the allowance, which reflects the margin of imprecision inherent in the underlying assumptions used in the method for estimating specific and general losses in the portfolio. Actual loan performance may differ from those estimates. A loss is recognized as a charge to the allowance when management believes that collection of the loan is unlikely. Collections of loans previously charged off are added to the allowance at the time of recovery.

Foreclosed real estate

Foreclosed real estate is recorded at the lower of cost or fair value less estimated selling costs on the date acquired. In general, cost equals the outstanding balance of the loan at the time of foreclosure. Losses incurred at the time of acquisition of the property are charged to the allowance for loan losses. Subsequent reductions in the estimated fair value of the property are included in noninterest expenses.

Premises and equipment

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

Income taxes

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

1. **Summary of Significant Accounting Policies** (Continued)

Investment in affordable housing project

The Company has invested in a limited partnership formed in 2012 to build and operate an affordable housing facility. The expected return on the investment is in the form of tax credits and tax deductions from operating losses. The principal risk associated with such an investment results from potential noncompliance with the conditions in the tax law to qualify for the tax benefits, which could result in recapture of the tax benefits. The Company will make additional capital investments of $456,424 per year through 2021 in the limited partnership. The Company accounts for the investment and related income using the effective yield method. The balances of the investment and related income as of and for the years ended December 31, 2015 and 2014, were:

	2015	2014
Investment included in other assets	**$ 305,720**	$ 309,066
Related income included in noninterest revenue	**31,414**	43,729

The Company recognized affordable tax credits of $375,494 and other tax benefits of $142,140 for 2014 and affordable tax credits of **$370,000** and other tax benefits of **$130,000** for 2015.

Derivative financial instruments

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

The Company accounts for derivative instruments and hedging activities according to guidelines established in FASB ASC 815-10, *Accounting for Derivative Instruments and Hedging Activities*, as amended. The Company recognizes all derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value. Changes in fair value of derivatives designated and accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in other comprehensive income, net of deferred taxes. Any hedge ineffectiveness would be recognized in the income statement line item pertaining to the hedged item. Changes in fair value of derivative financial instruments that do not meet hedging criteria are recognized currently in income.

Capital Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

1. **Summary of Significant Accounting Policies** (Continued)

Earnings per share

Earnings per share are computed by dividing net income available to common shareholders by the weighted average number of shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding, adjusted for the dilutive effect of stock options using the treasury stock method, and assuming the conversion of shares under the convertible subordinated notes using the if-converted method. The number of shares used to compute basic and diluted earnings per share are reconciled as follows:

	2015	2014
Average shares outstanding	**2,405,020**	2,356,849
Dilutive common stock equivalents	**222,624**	213,038
Diluted shares	**2,627,644**	2,569,887

Preferred stock

The Board of Directors has the authority to issue up to 1,000,000 shares of preferred stock with a par value of $0.01 per share. The shares may be issued from time to time as shares of one or more series. The description of each series, including the designation, preferences, conversion and other rights, voting powers, restrictions and other terms will be determined prior to issuance of any shares.

Reclassification

Certain reclassifications have been made to the amounts reported for 2014 to conform to the current year presentation. The reclassifications had no effect on net income or total stockholders' equity.

Stock options

The Company accounts for employee and director stock options under the fair value method of accounting using a Black-Scholes valuation model to measure stock based compensation expense at the date of grant. Compensation expense related to stock option awards is recognized over the period during which an individual is required to provide service in exchange for the option award. For the years ended December 31, 2015 and 2014, the Company recorded compensation expense related to stock options granted of **$360,709** and $244,014, respectively.

Subsequent events

The Company has evaluated events and transactions subsequent to December 31, 2015 through March 11, 2016, the date these financial statements were available to be issued. No significant subsequent events were identified that would affect the presentation of the financial statements.

2. **Cash and Cash Equivalents**

The Company normally carries balances with other banks that exceed the federally insured limit. The average balances carried in excess of the limit, including federal funds sold on an unsecured basis, were **$1,947,091** and $2,643,037 in 2015 and 2014, respectively.

Deposits held in noninterest-bearing transaction accounts are aggregated with any interest-bearing deposits the owner may hold in the same ownership category. The combined total is insured up to $250,000.

Banks are required to carry noninterest-bearing cash reserves at specified percentages of deposit balances. The Company's normal amount of cash on hand and on deposit with other banks was sufficient to satisfy these reserve requirements.

3. Investment Securities

The amortized cost and estimated fair value of investment securities at December 31, 2015 and 2014, are summarized as follows:

December 31, 2015	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Available for sale				
U.S. government agency	**$17,491,251**	**$ 38,704**	**$ 4,883**	**$17,525,072**
Corporate	**1,558,144**	**7,418**	**38,057**	**1,527,505**
	19,049,395	**46,122**	**42,940**	**19,052,577**
Mortgage-backed securities	**19,788,110**	**425,281**	**90,733**	**20,122,658**
Equity securities	**85,000**	**-**	**-**	**85,000**
	$38,922,505	**$471,403**	**$133,673**	**$39,260,235**
December 31, 2014				
Available for sale				
U.S. government agency	$ 18,487,303	$ 15,932	$ 72,947	$ 18,430,288
Corporate	1,551,486	56,801	-	1,608,287
	20,038,789	72,733	72,947	20,038,575
Mortgage-backed securities	18,721,950	612,051	64,253	19,269,748
Equity securities	85,000	-	-	85,000
	$ 38,845,739	$ 684,784	$ 137,200	$ 39,393,323

No securities were sold during the years ended December 31, 2015 and 2014.

Information related to unrealized losses in the investment portfolio as of December 31, 2015 and 2014, are as follows:

	Less than 12 months		12 months or longer		Total	
December 31, 2015	Fair Value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. government agency	**$1,998,200**	**$ 1,800**	**$4,013,000**	**$ 3,083**	**$ 6,011,200**	**$ 4,883**
Corporate	**1,022,550**	**38,057**	**-**	**-**	**1,022,550**	**38,057**
Mortgage-backed securities	**5,141,397**	**42,719**	**1,569,704**	**48,014**	**6,711,101**	**90,733**
	$8,162,147	**$82,576**	**$5,582,704**	**$51,097**	**$13,744,851**	**$133,673**
December 31, 2014						
U.S. government agency	$10,950,500	$ 52,648	$ 1,978,400	$ 20,299	$ 12,928,900	$ 72,947
Mortgage-backed securities	746,351	43,831	1,782,284	20,422	2,528,635	64,253
	$11,696,851	$ 96,479	$ 3,760,684	$ 40,721	$ 15,457,535	$ 137,200

The gross unrealized losses are not considered by management to be other-than-temporary impairments. Temporary impairment is caused by market rate fluctuations. Management has the ability and the intent to hold these investment securities until maturity or until they recover in value.

3. **Investment Securities** (Continued)

A summary of pledged securities at December 31, 2015 and 2014, are shown below:

	2015		2014	
	Amortized cost	Fair value	Amortized cost	Fair value
Securities pledged for				
Securities sold under agreements to repurchase	**$20,984,673**	**$21,259,204**	$ 13,394,030	$ 13,779,444
Federal Home Loan Bank advances	**9,554,612**	**9,680,612**	15,909,900	16,081,265
	$30,539,285	**$30,939,816**	$ 29,303,930	$ 29,860,709

Contractual maturities of U.S. government agency and corporate securities at December 31, 2015 and 2014, are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2015		2014	
	Amortized cost	Fair value	Amortized cost	Fair value
Maturing				
Within one year	**$ 497,536**	**$ 504,900**	$ -	$ -
Over one to five years	**17,491,251**	**17,525,127**	18,977,760	18,947,175
Over five to ten years	-	-	-	-
Over ten years	**1,060,608**	**1,022,550**	1,061,029	1,091,400
	$19,049,395	**$19,052,577**	$ 20,038,789	$ 20,038,575

Mortgage-backed securities are due in monthly installments.

4. **Loans Receivable**

Major classifications of loans are as follows:

	2015	2014
Real estate		
Residential	**$225,672,493**	$157,369,945
Commercial	**190,343,547**	162,696,767
Construction	**129,307,290**	111,618,444
Commercial	**78,945,569**	63,750,451
Credit card	**13,811,810**	9,561,771
Other consumer	**2,232,706**	1,624,346
	640,313,415	506,621,724
Deferred origination fees, net	**(702,208)**	(283,208)
Allowance for loan losses	**(6,572,923)**	(5,530,556)
Loans receivable, net	**$633,038,284**	$500,807,960

4. **Loans Receivable** (Continued)

The Company makes loans to customers located primarily in the Washington, D.C. metropolitan area. Although the loan portfolio is diversified, its performance will be influenced by the regional economy.

The maturity and rate repricing distribution of the loan portfolio follows:

	2015
Variable rate	**$283,454,350**
One year or less	**36,234,704**
Over one year to two years	**47,075,015**
Over two years to five years	**213,639,832**
Over five years	**59,909,514**
	$640,313,415

Loans acquired are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan losses. In estimating the fair value of loans acquired, certain factors were considered, including the remaining lives of the acquired loans, payment history, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, and the net present value of cash flows expected. Discounts on loans that were not considered impaired at acquisition were recorded as an accretable discount, which will be recognized in interest revenue over the terms of the related loans. For loans considered to be impaired, the difference between the contractually required payments and expected cash flows was recorded as a nonaccretable discount. Generally, the nonaccretable discount will be recognized after collection of the discounted fair value of the related loan. The remaining nonaccretable discounts on loans acquired were **$1,500,388** and $1,551,984 as of December 31, 2015 and 2014, respectively. Loans with nonaccretable discounts had a carrying value of **$2,501,558** and $1,048,436 as of December 31, 2015 and 2014, respectively. The activity in the accretable discounts on loans acquired during the years ended December 31, 2015 and 2014, was as follows:

	2015	2014
Accretable discount at beginning of year	**$2,005,369**	$2,586,090
Accretion	**(573,430)**	(410,734)
Payoff of loans	**(4,637)**	(342,565)
Reclassification from nonaccretable	**125,416**	172,578
Reclassification to nonaccretable	**(468,802)**	-
Accretable discount at end of year	**$1,083,916**	$2,005,369

Capital Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

4. **Loans Receivable** (Continued)

A summary of transactions in the allowance for loan losses, by loan classification, during the years ended December 31, 2015 and 2014, follows:

						Allowance for loan losses ending balance evaluated for impairment:		Outstanding loan balances evaluated for impairment:	
December 31, 2015	Beginning balance	Provision for loan losses	Charge-offs	Recoveries	Ending balance	Individually	Collectively	Individually	Collectively
Real estate									
Residential	**$1,457,731**	**$ 561,066**	**$ (13,001)**	**$ 213**	**$2,006,009**	**$ -**	**$2,006,009**	**$2,339,215**	**$223,333,278**
Commercial	**1,967,314**	**256,133**	**(112,122)**	**-**	**2,111,325**	**-**	**2,111,325**	**2,836,081**	**187,507,466**
Construction	**1,257,077**	**273,584**	**-**	**34,261**	**1,564,922**	**-**	**1,564,922**	**200,924**	**129,106,366**
Commercial	**810,747**	**162,269**	**(262,880)**	**16,727**	**726,863**	**29,100**	**697,763**	**935,930**	**78,009,639**
Credit card	**-**	**340,073**	**(229,579)**	**-**	**110,494**	**-**	**110,494**	**-**	**13,811,810**
Other consumer	**37,687**	**15,646**	**(23)**	**-**	**53,310**	**-**	**53,310**	**-**	**2,232,706**
	$5,530,556	**$1,608,771**	**$(617,605)**	**$ 51,201**	**$6,572,923**	**$ 29,100**	**$6,543,823**	**$6,312,150**	**$634,001,265**
December 31, 2014									
Real estate									
Residential	$ 1,145,093	$ 600,760	$ (294,122)	$ 6,000	$ 1,457,731	$ -	$ 1,457,731	$ 2,161,398	$ 155,208,547
Commercial	1,827,367	159,947	(20,000)	-	1,967,314	-	1,967,314	2,723,318	159,973,449
Construction	1,060,509	196,568	-	-	1,257,077	-	1,257,077	203,860	111,414,584
Commercial	667,530	268,857	(138,314)	12,674	810,747	250,294	560,453	739,682	63,010,769
Credit card	-	-	-	-	-	-	-	-	9,561,771
Other consumer	34,081	3,868	(262)	-	37,687	-	37,687	-	1,624,346
	$ 4,734,580	$ 1,230,000	$ (452,698)	$ 18,674	$ 5,530,556	$ 250,294	$ 5,280,262	$ 5,828,258	$ 500,793,466

4. **Loans Receivable** (Continued)

In this table and the following tables, loans acquired consist of the remaining balances of loans acquired from Public Savings Bank, American Eagle Savings Bank, and Pisgah Community Bank loans. The Company acquired a portfolio of secured credit card loans during the Public Savings Bank transaction in 2011. Due to significant changes to the portfolio since the acquisition, they are reported as legacy loans in the tables that follow.

Past due loans, segregated by age and class of loans, as of December 31, 2015 and 2014, were as follows:

December 31, 2015	Loans 30-89 days past due	Loans 90 or more days past due	Total past due loans	Current loans	Total loans	Accruing loans 90 or more days past due	Nonaccrual loans	Interest not accrued on nonaccrual loans
Legacy loans								
Real estate								
Residential	$ 1,797,132	$ 607,149	$ 2,404,281	$ 216,532,621	$ 218,936,902	$ 270	$ 1,011,792	$ 73,217
Commercial	-	808,093	808,093	182,174,407	182,982,500	-	808,093	97,925
Construction	-	-	-	128,896,292	128,896,292	-	-	5,924
Commercial	280,930	707,323	988,253	77,152,759	78,141,012	-	891,201	99,748
Credit card	1,091,593	143	1,091,736	12,720,074	13,811,810	143	-	-
Other consumer	-	-	-	2,215,947	2,215,947	-	-	-
	3,169,655	2,122,708	5,292,363	619,692,100	624,984,463	413	2,711,086	276,814
Loans acquired								
Real estate								
Residential	429,305	1,059,655	1,488,960	5,246,631	6,735,591	19,220	1,454,373	196,338
Commercial	-	1,546,524	1,546,524	5,814,523	7,361,047	752,680	793,843	168,648
Construction	-	-	-	410,998	410,998	-	-	-
Commercial	-	44,729	44,729	759,828	804,557	-	44,729	41,261
Credit card	-	-	-	-	-	-	-	-
Other consumer	-	-	-	16,759	16,759	-	-	-
	429,305	2,650,908	3,080,213	12,248,739	15,328,952	771,900	2,292,945	406,247
Total loans								
Real estate								
Residential	2,226,437	1,666,804	3,893,241	221,779,252	225,672,493	19,490	2,466,165	269,555
Commercial	-	2,354,617	2,354,617	187,988,930	190,343,547	752,680	1,601,936	266,573
Construction	-	-	-	129,307,290	129,307,290	-	-	5,924
Commercial	280,930	752,052	1,032,982	77,912,587	78,945,569	-	935,930	141,009
Credit card	1,091,593	143	1,091,736	12,720,074	13,811,810	143	-	-
Other consumer	-	-	-	2,232,706	2,232,706	-	-	-
	$ 3,598,960	$ 4,773,616	$ 8,372,576	$ 631,940,839	$ 640,313,415	$ 772,313	$ 5,004,031	$ 683,061

4. **Loans Receivable** (Continued)

December 31, 2014	Loans 30-89 days past due	Loans 90 or more days past due	Total past due loans	Current loans	Total loans	Accruing loans 90 or more days past due	Nonaccrual loans	Interest not accrued on nonaccrual loans
Legacy loans								
Real estate								
Residential	$2,064,116	$1,051,517	$ 3,115,633	$143,681,693	$146,797,326	$ -	$1,051,517	$ 40,925
Commercial	-	2,454,562	2,454,562	151,245,245	153,699,807	1,668	2,452,894	185,279
Construction	897,204	-	897,204	109,755,052	110,652,256	-	-	-
Commercial	115,968	185,364	301,332	62,332,622	62,633,954	-	485,742	67,514
Credit card	659,297	-	659,297	8,902,474	9,561,771	-	-	-
Other consumer	110,046	-	110,046	1,490,832	1,600,878	-	-	-
	3,846,631	3,691,443	7,538,074	477,407,918	484,945,992	1,668	3,990,153	293,718
Loans acquired								
Real estate								
Residential	675,532	1,042,594	1,718,126	8,854,493	10,572,619	62,505	1,388,383	368,731
Commercial	353,368	728,880	1,082,248	7,914,712	8,996,960	-	728,880	137,042
Construction	-	-	-	966,188	966,188	-	-	-
Commercial	-	187,010	187,010	929,487	1,116,497	-	187,010	21,411
Credit card	-		-	-	-	-	-	-
Other consumer	-	-	-	23,468	23,468	-	-	-
	1,028,900	1,958,484	2,987,384	18,688,348	21,675,732	62,505	2,304,273	527,184
Total loans								
Real estate								
Residential	2,739,648	2,094,111	4,833,759	152,536,186	157,369,945	62,505	2,439,900	409,656
Commercial	353,368	3,183,442	3,536,810	159,159,957	162,696,767	1,668	3,181,774	322,321
Construction	897,204	-	897,204	110,721,240	111,618,444	-	-	-
Commercial	115,968	372,374	488,342	63,262,109	63,750,451	-	672,752	88,925
Credit card	659,297	-	659,297	8,902,474	9,561,771	-	-	-
Other consumer	110,046	-	110,046	1,514,300	1,624,346	-	-	-
	$4,875,531	$5,649,927	$ 10,525,458	$496,096,266	$506,621,724	$ 64,173	$6,294,426	$ 820,902

Capital Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

4. **Loans Receivable** (Continued)

Impaired loans include loans acquired on which management has recorded a nonaccretable discount. Impaired loans as of December 31, 2015 and 2014, were as follows:

December 31, 2015	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment	Interest recognized
Legacy loans							
Real estate							
Residential	$1,131,691	$1,011,278	$ -	$1,011,278	$ -	$1,031,398	$ -
Commercial	1,076,347	808,093	-	808,093	-	826,135	-
Construction	-	-	-	-	-	-	-
Commercial	1,154,228	516,376	374,825	891,201	29,100	985,511	15,668
Credit Card	-	-	-	-	-	-	-
Other consumer	-	-	-	-	-	-	-
	3,362,266	2,335,747	374,825	2,710,572	29,100	2,843,044	15,668
Loans acquired							
Real estate							
Residential	2,014,415	1,327,937	-	1,327,937	-	1,355,212	38,324
Commercial	2,954,988	2,027,988	-	2,027,988	-	2,046,877	102,981
Construction	415,842	200,924	-	200,924	-	202,392	25,215
Commercial	476,392	44,729	-	44,729	-	113,448	-
Credit card	-	-	-	-	-	-	-
Other consumer	-	-	-	-	-	-	-
	5,861,637	3,601,578	-	3,601,578	-	3,717,929	166,520
Total loans							
Real estate							
Residential	3,146,106	2,339,215	-	2,339,215	-	2,386,610	38,324
Commercial	4,031,335	2,836,081	-	2,836,081	-	2,873,012	102,981
Construction	415,842	200,924	-	200,924	-	202,392	25,215
Commercial	1,630,620	561,105	374,825	935,930	29,100	1,098,959	15,668
Credit card	-	-	-	-	-	-	-
Other consumer	-	-	-	-	-	-	-
	$9,223,903	$5,937,325	$374,825	$6,312,150	$29,100	$6,560,973	$182,188

4. **Loans Receivable** (Continued)

December 31, 2014	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment	Interest recognized
Legacy loans							
Real estate							
Residential	$ 1,132,591	$ 1,051,517	$ -	$ 1,051,517	$ -	$ 1,108,774	$ 2,380
Commercial	2,916,364	2,452,894	-	2,452,894	-	2,518,270	15,716
Construction	-	-	-	-	-	-	-
Commercial	789,736	257,137	300,378	557,515	145,294	643,320	198
Credit card	-	-	-	-	-	-	-
Other consumer	-	-	-	-	-	-	-
	4,838,691	3,761,548	300,378	4,061,926	145,294	4,270,364	18,294
Loans acquired							
Real estate							
Residential	2,408,619	1,109,881	-	1,109,881	-	1,291,554	46,408
Commercial	612,008	270,424	-	270,424	-	281,324	-
Construction	418,779	203,860	-	203,860	-	207,528	25,274
Commercial	476,392	-	182,167	182,167	105,000	185,519	-
Credit card	-	-	-	-	-	-	-
Other consumer	-	-	-	-	-	-	-
	3,915,798	1,584,165	182,167	1,766,332	105,000	1,965,925	71,682
Total loans							
Real estate							
Residential	3,541,210	2,161,398	-	2,161,398	-	2,400,328	48,788
Commercial	3,528,372	2,723,318	-	2,723,318	-	2,799,594	15,716
Construction	418,779	203,860	-	203,860	-	207,528	25,274
Commercial	1,266,128	257,137	482,545	739,682	250,294	828,839	198
Credit card	-	-	-	-	-	-	-
Other consumer	-	-	-	-	-	-	-
	$ 8,754,489	$ 5,345,713	$ 482,545	$ 5,828,258	$250,294	$ 6,236,289	$ 89,976

Approximately **$13.3** million and $9.6 million of the credit card balances were secured by savings deposits held by the Company, as of December 31, 2015 and 2014, respectively.

Credit quality indicators

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

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

4. **Loans Receivable** (Continued)

Special Mention

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

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

Substandard

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

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

Doubtful

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

The following table presents the December 31, 2015 and 2014, balances of classified loans based on the risk grade. Classified loans include Special Mention, Substandard, and Doubtful loans.

December 31, 2015	Special Mention	Substandard	Doubtful	Total
Real estate				
Residential	**$ -**	**$2,301,091**	**$ -**	**$2,301,091**
Commercial	**793,515**	**3,025,259**	**-**	**3,818,774**
Construction	**-**	**-**	**-**	**-**
Commercial	**2,536,501**	**752,052**	**183,878**	**3,472,431**
Credit card	**-**	**-**	**-**	**-**
Other consumer	**-**	**-**	**-**	**-**
	$3,330,016	**$6,078,402**	**$183,878**	**$9,592,296**
Loans acquired included in total classified loans	**$ 38,778**	**$3,551,708**	**$ -**	**$3,590,486**

4. **Loans Receivable** (Continued)

December 31, 2014	Special Mention	Substandard	Doubtful	Total
Real estate				
Residential	$ 1,239,170	$ 2,324,660	$ 165,131	$ 3,728,961
Commercial	2,146,560	3,154,205	-	5,300,765
Construction	-	1,177,666	-	1,177,666
Commercial	136,430	367,531	300,378	804,339
Credit card	-	-	-	-
Other consumer	-	-	-	-
	$ 3,522,160	$ 7,024,062	$ 465,509	$ 11,011,731
Loans acquired included in total classified loans	$ 1,662,491	$ 2,156,621	$ 165,131	$ 3,984,243

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

The status of TDRs as of December 31, 2015, follows:

		December 31, 2015 recorded investment		
	Number of contracts	Performing	Nonperforming	Total
Real estate				
Residential	**17**	**$390,364**	**$1,096,265**	**$1,486,629**
Commercial	**4**	-	**1,066,720**	**1,066,720**
Construction	-	-	-	-
Commercial	**4**	-	**210,146**	**210,146**
Credit card	-	-	-	-
Other consumer	-	-	-	-
	25	**$390,364**	**$2,373,131**	**$2,763,495**

4. **Loans Receivable** (Continued)

The status of TDRs as of December 31, 2014, follows:

	Number of contracts	December 31, 2014 recorded investment Performing	Nonperforming	Total
Real estate				
Residential	17	$395,679	$1,150,823	$1,546,502
Commercial	4	-	1,114,601	1,114,601
Construction	-	-	-	-
Commercial	2	71,773	35,000	106,773
Consumer	-	-	-	-
	23	$467,452	$2,300,424	$2,767,876

During the year ended December 31, 2015, the Company modified two commercial loans that were considered TDRs. The loans had balances totaling **$181,146** as of December 31, 2015, and were considered nonperforming. During the year ended December 31, 2014, the Company modified four residential real estate loans that were considered TDRs. The loans had balances totaling $211,166 as of December 31, 2014, and were considered nonperforming.

5. **Premises and Equipment**

Premises and equipment and the related depreciation and amortization consist of the following:

	Useful lives	**2015**	2014
Leasehold improvements	10 years	**$ 948,310**	$ 834,307
Furniture and equipment	2 - 7 years	**3,260,357**	2,606,321
Vehicle	3 years	**53,777**	53,777
		4,262,444	3,494,405
Accumulated depreciation and amortization		**2,656,967**	2,210,974
Premises and equipment, net		**$1,605,477**	$1,283,431
Depreciation and amortization expense		**$ 479,623**	$ 345,055

Included in other assets at December 31, 2015 and 2014, is computer software carried at an amortized cost of **$913,102** and $217,598, respectively. Software amortization expense was **$427,187** and $116,514 in 2015 and 2014, respectively. Also included in other assets at December 31, 2015 and 2014, are capitalized project costs of **$52,003** and $674,832, respectively, for designing a credit card application processing website.

6. Core Deposit Intangible

The core deposit intangible is amortizing over its estimated useful life of six years using the sum of years digits method. The activity in the acquired core deposit intangible during the years ended December 31, 2015 and 2014, was as follows:

	2015	2014
Carrying amount at beginning of year	$39,381	$72,022
Amortization	(22,543)	(32,641)
Carrying amount at end of year	$16,838	$39,381

At December 31, 2015, future estimated annual amortization associated with the core deposit intangible is as follows:

Year ending December 31,	Amount
2016	$ 12,152
2017	4,686
	$ 16,838

7. Derivative Financial Instruments

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

Since the Company's derivative instruments are not designated as hedging instruments, the fair value of the derivatives are recorded as a freestanding asset or liability with the change in value being recognized in current net income during the period of change.

7. **Derivative Financial Instruments** (Continued)

At December 31, 2015 and 2014, the Company had open forward sales agreements with notional values of **$55,848,621** and $47,758,506. At December 31, 2015 and 2014, the Company had open mandatory delivery commitments of **$26,448,737** and $18,231,972. The open forward delivery sales agreements are composed of forward sales of loans. The fair values of the open forward sales agreements were **$(57,454)** and $(221,305) at December 31, 2015 and 2014. The fair values of the open mandatory delivery commitments were **$(36,843)** and $133,415 at December 31, 2015 and 2014. Certain additional risks arise from these forward delivery contracts in that the counterparties to the contracts may not be able to meet the terms of the contracts. The Company does not expect any counterparty to fail to meet its obligation. Additional risks inherent in mandatory delivery programs include the risk that if the Company does not close the loans subject to interest rate risk lock commitments, they will be obligated to deliver loans to the counterparty under the forward sales agreement. Should this be required, the Company could incur significant costs in acquiring replacement loans and such costs could have an adverse effect on mortgage banking operations in future periods.

Interest rate lock commitments totaled **$69,329,206** and $76,016,102 at December 31, 2015 and 2014, and included **$3,249,100** and $18,407,425 of commitments that were made on a Best Efforts basis at December 31, 2015 and 2014. The fair values of these best efforts commitments were **$56,714** and $409,162 at December 31, 2015 and 2014. The remaining hedged interest rate lock commitments totaling **$66,080,106** and $57,608,677 at December 31, 2015 and 2014, had fair values of **$133,889** and $318,788.

On January 7, 2015, the Company entered into an interest rate swap transaction with a notional amount of **$2,000,000**. The swap qualifies as a derivative and is designated as a hedging instrument. The swap fixes the interest rate the Company will pay on the floating rate junior subordinated debentures for three years beginning on March 16, 2015. Based on the notional amount, the Company pays FTN Financial Markets ("FTN") quarterly interest at a fixed rate of 3.493% and FTN pays the Company interest at a rate of three-month LIBOR plus 1.87%. As of December 31, 2015, the swap had a fair value of **$(14,284)**. The unrealized loss has been recorded in other comprehensive income. Management believes there is no hedge ineffectiveness as of December 31, 2015.

8. **Interest-Bearing Deposits**

Major classifications of interest-bearing deposits at December 31, are as follows:

	2015	2014
NOW accounts	**$ 36,331,262**	$ 39,082,857
Money market accounts	**237,235,585**	158,802,829
Savings	**3,757,794**	2,442,498
Certificates of deposit of $250,000 or more	**23,230,952**	26,815,417
Other time deposits	**207,015,356**	176,134,429
	$507,570,949	$403,278,030

Certificates of deposit mature as follows as of December 31:

Maturing in one year or less	**$151,826,652**	$105,627,138
Maturing in over one year to three years	**75,941,364**	90,317,525
Maturing in over three years to five years	**2,466,719**	7,005,183
Maturing in five years or more	**11,573**	-
	$230,246,308	$202,949,846

9. Securities Sold Under Agreements to Repurchase

The Company sells securities under repurchase agreements to provide cash management services to commercial account customers. These overnight borrowings are summarized as follows:

	2015	2014
Average amount outstanding	**$ 11,552,542**	$ 11,044,628
Average rate paid during the year	**0.14%**	0.14%
Maximum amount outstanding at month end	**$ 14,050,606**	$ 13,844,550
Investment securities pledged to secure the underlying agreements at year end		
Amortized cost	**$ 20,984,673**	$ 13,394,030
Estimated fair value	**21,259,204**	13,779,444

10. Borrowed Funds

As of December 31, 2015 and 2014, the Company was indebted as follows:

Description	December 31, 2015 interest rate	Maturity	**2015**	2014
FHLB advance	0.59%	March 4, 2016	**$ 5,000,000**	$ 5,000,000
FHLB advance	1.15%	February 12, 2017	**2,000,000**	2,000,000
FHLB advance	3.69%	September 7, 2017	**2,000,000**	2,000,000
FHLB advance	4.26%	March 25, 2019	**2,000,000**	2,000,000
FHLB advance		March 4, 2015	-	5,000,000
FHLB advance		March 5, 2015	-	5,000,000
FHLB advance		March 23, 2015	-	5,000,000
FHLB advance		March 31, 2015	-	5,000,000
FHLB advance		April 22, 2015	-	5,000,000
Subtotal - FHLB advances			**11,000,000**	36,000,000
Senior promissory note	6.75%	July 31, 2019	**5,000,000**	5,000,000
Junior subordinated debentures	3.49%	June 15, 2036	**2,062,000**	2,062,000
Convertible subordinated notes	8.50%	December 31, 2017	**3,333,932**	5,000,000
Other subordinated notes	6.95%	December 1, 2025	**13,500,000**	-
Less: Unamortized debt issuance costs			**(266,807)**	-
Subtotal - other borrowed funds			**23,629,125**	12,062,000
			$34,629,125	$48,062,000

10. **Borrowed Funds** (Continued)

Federal Home Loan Bank advances

The Federal Home Loan Bank advances require quarterly interest payments with principal and any remaining accrued interest due at maturity.

Senior promissory note

On July 30, 2014, the Company issued a $5,000,000 senior promissory note (the "Note"). The Note matures on July 31, 2019. The Note bears interest at 6.75% for the first two years, then adjusts to the one-year LIBOR plus 6.00% adjusted on the first business day of each quarter. Interest is payable quarterly.

Junior subordinated debentures

In June 2006, the Company formed Capital Bancorp (MD) Statutory Trust I (the "Trust") and on June 15, 2006, the Trust issued 2,000 floating Rate Capital Securities (the "Capital Securities") with an aggregate liquidation value of $2,000,000 to a third party in a private placement. Concurrent with the issuance of the Capital Securities, the Trust issued trust common securities to the Company in the aggregate liquidation value of $62,000.

The proceeds of the issuance of the Capital Securities and trust common securities were invested in the Company's Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Floating Rate Debentures"). The Floating Rate Debentures for the Trust will mature on June 15, 2036, which may be shortened if certain conditions are met (including the Company having received prior approval of the Board of Governors of the Federal Reserve System and any other required regulatory approvals). These Floating Rate Debentures, which are the only assets of the Trust, are subordinate and junior in right of payment to all present and future senior indebtedness (as defined in the Indenture dated June 15, 2006) of the Company. The Floating Rate Debentures for the Trust accrue interest at a floating rate equal to the three-month LIBOR plus 1.87%, payable quarterly. As of December 31, 2015 and 2014, the rate for the Trust was 2.11%. The quarterly distributions on the Capital Securities will be paid at the same rate that interest is paid on the Floating Rate Debentures.

The Company has fully and unconditionally guaranteed the Trust's obligation under the Capital Securities. The Trust must redeem the Capital Securities when the Floating Rate Debentures are paid at maturity or upon any earlier prepayment of the Floating Rate Debentures. The Floating Rate Debentures may be prepaid if certain events occur, including a change in the tax status or regulatory capital treatment of the Capital Securities, or a change in existing laws that requires the Trust to register as an investment company.

The junior subordinated debentures are treated as Tier 1 capital, to a limited extent, by the Federal Reserve.

10. **Borrowed Funds** (Continued)

Convertible subordinated notes

On December 30, 2010, the Company issued $5,000,000 of 8.5% fixed rate convertible unsecured subordinated notes (the "Notes"). The Notes mature on December 31, 2017. The Notes are convertible into shares of the Company's common stock at any time before maturity. The number of shares that will be granted upon such a conversion will be determined by dividing the principal amount of the Notes by the conversion price, which is $12.00 per share. The conversion price shall be proportionately adjusted to the nearest cent to reflect any change in the common stock price, which results from a merger, consolidation, recapitalization, reorganization, reclassification, stock dividend, stock split, reverse stock split, combination of shares, or a similar event. The Company shall have the right to redeem the Notes, in whole or in part, in a principal amount with integral multiples of $1,000, on any interest payment date (last day of March, June, September, and December of each year) on or after December 31, 2015, at a redemption price of 100% of the principal amount of the Notes, plus interest accrued and unpaid to the date of redemption. During the year ended December 31, 2015, **$1,666,068** of principal was converted to 138,839 newly issued shares of common stock at the $12.00 conversion price.

The Company notified the holders of the remaining $3,333,932 notes outstanding that it would redeem the remaining balance on March 31, 2016. The Company expects the holders to convert the balances to shares of common stock of the Company under the terms described above.

Other subordinated notes

On November 24, 2015, the Company issued $13,500,000 of subordinated notes. The notes mature on December 1, 2025. The notes bear interest at 6.95% for the first five years, then adjust to the three-month LIBOR plus 5.33% adjusted on March 1, June 1, September 1, and December 1 of each year. Interest is payable quarterly. There were related debt issuance costs incurred totaling $273,079. The costs will be amortized to interest expense through the maturity date of the notes.

Available lines of credit

The Company has available lines of credit of **$16,000,000** with other correspondent banks.

The Company may borrow up to 25% of its assets from the Federal Home Loan Bank of Atlanta (the "FHLB"), based on collateral available to pledge to secure the borrowings. Borrowings from the FHLB are secured by a portion of the Company's loan and/or investment portfolio. As of December 31, 2015 and 2014, the Company had pledged loans providing borrowing capacity of **$65,515,081** and $68,596,990, respectively. As of December 31, 2015 and 2014, the Company had pledged investment securities with a fair value of **$9,680,612** and $16,081,265, respectively to the FHLB. As of December 31, 2015 and 2014, the Company had **$63,893,062** and $48,221,036, respectively, of available borrowing capacity from the FHLB.

As of December 31, 2015 and 2014, the Company had pledged commercial loans to the Federal Reserve Bank of Richmond to provide a borrowing capacity totaling **$29,749,798** and $29,067,392, respectively, under its discount window program. There were no advances outstanding under this facility as of December 31, 2015 and 2014.

The Company also has access to certificate of deposit funding through a financial network. The funding is limited to 15% of the Bank's assets, or approximately **$109,356,838** and $91,672,697 as of December 31, 2015 and 2014, respectively.

11. Retirement Plan

The Company provides a defined contribution plan qualifying under Section 401(k) of the Internal Revenue Code to eligible employees. The Company's contribution to the plan was **$513,887** in 2015 and $415,602 in 2014.

12. Related-Party Transactions

The officers and directors of the Company enter into loan transactions with the Company in the ordinary course of business. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with unrelated borrowers.

Activity in related-party loans during 2015 and 2014 follows:

	2015	2014
Balance at beginning of year	**$12,644,376**	$15,141,856
New loans	**9,443,773**	6,270,217
Amounts collected	**(2,298,976)**	(8,767,697)
Balance at end of year	**$19,789,173**	$12,644,376

Deposits from officers and directors and their related interests were **$110,004,589** at December 31, 2015, and $72,656,549 at December 31, 2014.

A director is an owner of a firm that provided professional services to the Company. Fees paid to the firm were **$11,985** and $9,490 in 2015 and 2014, respectively.

A director of the Company owns an interest in an entity from which the Company leases space for its Rockville, Maryland location. Payments made in accordance with the lease were **$584,018** and $507,179 in 2015 and 2014, respectively.

Company directors, or their related interests, held **$3,200,000** of the senior promissory notes outstanding as of December 31, 2015 and 2014.

Company directors, or their related interests, held **$1,745,922** and $2,618,000, respectively, of the convertible subordinated notes outstanding as of December 31, 2015 and 2014.

13. Income Taxes

The components of income tax expense are as follows:

	2015	2014
Current		
Federal	**$4,022,037**	$3,858,021
State	**1,110,437**	916,605
	5,132,474	4,774,626
Deferred	**(342,382)**	(459,919)
	$4,790,092	$4,314,707

13. **Income Taxes** (Continued)

The components of deferred tax (benefit) are as follows:

	2015	2014
Allowance for loan and credit losses	**$ (459,521)**	$ (349,164)
Reserve for recourse on mortgage loans sold	**(7,896)**	(105,093)
Nonaccrual interest	**39,906**	(63,027)
Foreclosed real estate write-downs	**9,901**	(18,441)
Stock-based compensation	**(32,911)**	(35,893)
Accrued severance	**27,936**	(27,936)
Core deposit intangible	**(4,526)**	(8,509)
Net operating loss carryforward	**(25,958)**	(21,438)
Unrealized gain on loans held for sale	**(78,734)**	66,685
Accumulated depreciation	**163,463**	81,459
Valuation allowance	**25,958**	21,438
	$ (342,382)	$ (459,919)

The components of the net deferred tax asset are:

Deferred tax assets		
Allowance for loan and credit losses	**$2,635,033**	$2,175,512
Reserve for recourse on mortgage loans sold	**221,597**	213,701
Nonaccrual interest	**508,448**	548,354
Foreclosed real estate write-downs and costs	**27,572**	37,473
Stock-based compensation	**76,207**	43,296
Accrued severance	**-**	27,936
Core deposit intangible	**40,249**	35,723
Unrealized loss on cash flow hedging derivative	**5,570**	-
Unrealized loss on loans held for sale	**12,049**	-
Net operating loss carryforward	**123,173**	97,215
	3,649,898	3,179,210
Deferred tax liabilities		
Unrealized gain on investment securities available for sale	**133,218**	215,995
Unrealized gain on loans held for sale	**-**	66,685
Accumulated depreciation	**485,578**	322,115
Deferred casualty gain	**928**	928
	619,724	605,723
Net deferred tax asset before valuation allowance	**3,030,174**	2,573,487
Valuation allowance	**123,173**	97,215
Net deferred tax asset	**$2,907,001**	$2,476,272

13. **Income Taxes** (Continued)

The differences between the federal income tax rate of 34% and the effective tax rate for the Company are reconciled as follows:

	2015	2014
Statutory federal income tax rate	**34.0 %**	34.0 %
Increase (decrease) resulting from		
State income taxes, net of federal income tax benefit	**4.0**	4.2
Nondeductible expenses	**0.8**	0.7
Tax exempt income	**(0.2)**	(0.3)
Other	**(0.1)**	0.2
	38.5 %	38.8 %

At December 31, 2015 and 2014, a valuation allowance of **$123,173** and $97,215 was recognized, respectively, for a State of Maryland net operating loss carryforward that may not be realizable.

The Company does not have material uncertain tax positions and did not recognize any adjustments for unrecognized tax benefits. The Company remains subject to examination of income tax returns for the years ending after December 31, 2011.

14. **Capital Standards**

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

The Basel III Capital Rules became effective for the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the following table) of Common Equity Tier 1 capital, Tier 1 capital, and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

In connection with the adoption of the Basel III Capital Rules, the Bank elected to opt-out of the requirement to include accumulated other comprehensive income in Common Equity Tier 1 capital. Common Equity Tier 1 capital for the Bank is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities and subject to transition provisions.

Under the revised prompt corrective action requirements, as of January 1, 2015, insured depository institutions are required to meet the following in order to qualify as "well capitalized:" (1) a common equity Tier 1 risk-based capital ratio of 6.5%; (2) a Tier 1 risk-based capital ratio of 8%; (3) a total risk-based capital ratio of 10%; and (4) a Tier 1 leverage ratio of 5%. Management believes that, as of December 31, 2015, the Bank met all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements were currently in effect.

14. **Capital Standards** (Continued)

The implementation of the capital conservation buffer will begin on January 1, 2016, at the 0.625% level and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019). The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Bank.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall.

The following table presents actual and required capital ratios as of December 31, 2015, for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2015, based on the phase-in provisions of the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules. The table presents actual and required capital ratios as of December 31, 2014, under the rules in effect prior to the Basel III Capital Rules.

As of December 31, 2015, the most recent notification from the OCC has categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain ratios as set forth in the table. There have been no conditions or events since that notification that management believes have changed the Bank's category.

The OCC, through formal or informal agreement, has the authority to require an institution to maintain higher capital ratios than those provided by statute, to be categorized as well capitalized under the regulatory framework for prompt corrective action.

(Dollar amounts in thousands)	Actual		Minimum capital adequacy		To be well capitalized	
December 31, 2015	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 leverage ratio (to average assets)	**$68,156**	**9.54%**	**$28,590**	**4.00%**	**$35,738**	**5.00%**
Tier 1 capital (to risk-weighted assets)	**$68,156**	**11.37%**	**$35,961**	**6.00%**	**$47,949**	**8.00%**
Common equity tier 1 capital ratio (to risk-weighted assets)	**$68,156**	**11.37%**	**$26,971**	**4.50%**	**$38,958**	**6.50%**
Total capital ratio (to risk-weighted assets)	**$75,109**	**12.53%**	**$47,949**	**8.00%**	**$59,936**	**10.00%**
December 31, 2014						
Tier 1 capital (to average assets)	$ 54,495	9.4%	$ 23,167	4.0%	$ 28,959	5.0%
Tier 1 capital (to risk-weighted assets)	54,495	11.9%	18,290	4.0%	27,434	6.0%
Total capital (to risk-weighted assets)	60,214	13.2%	36,579	8.0%	45,724	10.0%

15. Stock Option Plan

In April 2002, the Company adopted a stock option plan. The plan provides for granting options to purchase shares of common stock to the directors and selected key employees of the Company and the Bank. The options granted to employees are intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code. In May 2014, the Company's shareholders approved an increase in the number of shares available for grant to 800,000, of which 58,171 are available for future grant at December 31, 2015. Option prices are equal to or greater than the estimated fair value of the common stock at the date of grant. Options outstanding vest over a four-year period, whereby 25% of the options become exercisable on each anniversary of the grant date.

Information with respect to options outstanding during the years ended December 31, 2015 and 2014, is as follows:

	2015		2014	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year	**332,289**	**$18.28**	313,438	$ 14.76
Granted	**118,974**	**29.20**	77,500	26.50
Exercised	**(52,035)**	**11.19**	(50,999)	9.49
Expired/cancelled/forfeited	**(7,062)**	**20.57**	(7,650)	16.31
Outstanding at end of year	**392,166**	**$22.49**	332,289	$ 18.28
Exercisable at end of year	**143,400**	**$17.58**	121,384	$ 13.58

The weighted average fair value of options granted during the years ended December 31, 2015 and 2014, was **$7.22** and $6.47, respectively.

A summary of information about stock options outstanding is as follows at December 31, 2015:

Weighted average exercise price	Average remaining life (years)	Outstanding shares	Exercisable shares
$12.25	1.0	43,525	43,525
14.00	1.8	7,143	5,357
17.00	2.0	73,636	36,818
20.00	3.0	74,638	37,319
26.50	4.0	101,524	20,381
30.00	5.0	91,700	-
22.49	3.3	392,166	143,400
Intrinsic value on December 31, 2015		$1,645,530	$1,125,767

The aggregate intrinsic value as presented in the preceding table is calculated by determining the difference between the estimated fair value of the stock as of December 31, 2015, and the exercise price of the option and multiplying by the number of options outstanding. Stock options with exercise prices greater than the estimated fair value of the stock are not included in this calculation.

15. **Stock Option Plan** (Continued)

At December 31, 2015, there was **$1,099,387** of total unrecognized compensation expense related to nonvested stock options to be recognized over the next four years. At December 31, 2014, there was $662,273 of total unrecognized compensation expense related to nonvested stock options to be recognized over the next four years.

The intrinsic value of stock options exercised was **$675,414** and $551,167 during the years ended December 31, 2015 and 2014, respectively.

The weighted average fair value of options granted during 2015 and 2014, were estimated using the Black-Scholes option-pricing model with the following assumptions:

	2015	2014
Dividend yield	**0.00%**	0.00%
Risk free interest rate	**1.76%**	1.65%
Expected volatility	**24.08%**	23.89%
Expected life in years	**5.00**	5.00

16. **Loan Commitments**

Outstanding loan commitments at December 31, were as follows:

	2015	2014
Unused lines of credit		
Commercial	**$ 32,633,945**	$ 34,360,995
Commercial real estate	**6,725,795**	2,291,119
Residential real estate	**54,539,019**	60,279,884
Home equity	**20,332,609**	12,845,521
Secured credit card	**14,911,148**	8,569,542
Personal lines of credit	**572,282**	715,149
	$129,714,798	$119,062,210
Commitments to originate residential loans held for sale	**$ 4,725,342**	$ 11,025,304
Letters of credit	**$ 3,970,505**	$ 3,271,470

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

16. **Loan Commitments** (Continued)

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 made on the same terms, including collateral, as outstanding loans. Management is not aware of any accounting loss to be incurred by funding these loan commitments. As of December 31, 2015 and 2014, respectively, the Company had an allowance for off-balance-sheet credit risk of **$576,298** and $561,298 recorded in other liabilities on the consolidated balance sheet.

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

During the years ended December 31, 2015 and 2014, the activity in this reserve is as follows:

Year Ended December 31,	**2015**	2014
Balance at beginning of year	**$541,770**	$275,341
Provision charged to operating expense	**20,016**	266,429
Recoveries	**-**	-
Charge-offs	**-**	-
Balance at end of year	**$561,786**	$541,770

17. Parent Company Financial Information

The balance sheets as of December 31, 2015 and 2014, and statements of income and cash flows for the years ended December 31, 2015 and 2014, for Capital Bancorp, Inc. (Parent only) are presented below:

Balance Sheets

December 31,	2015	2014
Assets		
Cash and cash equivalents	$ 323,077	$ 920,896
Investment in Capital Bank, NA	68,367,362	55,032,120
Investment in Church Street Capital, LLC	2,255,217	2,028,315
Capital Bancorp (MD) Statutory Trust	62,000	62,000
Loans receivable, net	12,275,696	4,161,586
Accrued interest receivable	53,081	10,651
Due from Capital Bank, NA	6,710	149,756
Deferred income taxes	72,400	20,930
Other assets	239,237	38,391
	$83,654,780	$62,424,645
Liabilities and Stockholders' Equity		
Borrowed funds	$23,629,125	$12,062,000
Accrued interest payable	99,738	2,055
Other liabilities	111,133	143,972
	23,839,996	12,208,027
Stockholders' equity		
Common stock	25,564	23,907
Additional paid-in capital	22,825,963	20,743,316
Retained earnings	36,767,458	29,117,805
Accumulated other comprehensive income	195,799	331,590
Total stockholders' equity	59,814,784	50,216,618
	$83,654,780	$62,424,645

Capital Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

17. **Parent Company Financial Information** (Continued)

Statements of Income

Years Ended December 31,	**2015**	2014
Interest and dividend revenue	**$ 286,830**	$ 459,489
Dividend from Capital Bank, NA	**1,700,000**	3,900,000
Dividend from Capital Bancorp (MD) Statutory Trust	**1,362**	1,323
Total interest and dividend revenue	**1,988,192**	4,360,812
Interest expense	**953,492**	642,019
Net interest income	**1,034,700**	3,718,793
Provision for loan losses	**135,000**	-
Net interest income after provision for loan losses	**899,700**	3,718,793
Noninterest revenue	**2,025**	1,175
Noninterest expenses	**(40,362)**	(15,199)
Income before income taxes	**861,363**	3,704,769
Income tax benefit	**285,137**	55,391
Income before undistributed net income of subsidiaries	**1,146,500**	3,760,160
Equity in undistributed net income of subsidiaries	**6,503,153**	3,032,769
Net income	**$7,649,653**	$6,792,929

Capital Bancorp, Inc. and Subsidiaries

17. **Parent Company Financial Information** (Continued)

Statements of Cash Flows

Years Ended December 31,	**2015**	2014
Cash flows from operating activities		
Interest and dividends received	**$ 1,945,762**	$4,408,905
Noninterest revenue received	**2,025**	1,175
Interest paid	**(855,809)**	(644,751)
Cash paid to suppliers, net of reimbursements	**450,500**	135,844
Income taxes refunded	**181,437**	43,143
Net cash provided by operating activities	**1,723,915**	3,944,316
Cash flows from investing activities		
Investment in Capital Bank, NA	**(6,500,000)**	(5,000,000)
Investment in Church Street Capital, LLC	**-**	(1,996,000)
Loans originated, net of repayments	**(8,249,110)**	(1,524,644)
Net cash used by investing activities	**(14,749,110)**	(8,520,644)
Cash flows from financing activities		
Issuance of debt	**13,233,193**	5,000,000
Issuance of common stock	**-**	478,108
Repurchase of common stock	**(1,378,475)**	(856,550)
Proceeds from exercise of stock options	**572,658**	535,956
Net cash provided by financing activities	**12,427,376**	5,157,514
Net increase (decrease) in cash and cash equivalents	**(597,819)**	581,186
Cash and cash equivalents at beginning of year	**920,896**	339,710
Cash and cash equivalents at end of year	**$ 323,077**	$ 920,896
Reconciliation of net income to cash flows from operating activities		
Net income	**$ 7,649,653**	$6,792,929
Equity in undistributed net income of subsidiaries	**(6,503,153)**	(3,032,769)
Provision for loan losses	**135,000**	-
Deferred income taxes	**(45,900)**	(17,000)
(Increase) decrease in other assets	**(100,230)**	(13,727)
Increase (decrease) in accrued interest payable	**97,683**	(2,732)
Increase (decrease) in other liabilities	**(47,123)**	16,806
Income tax benefit of stock options exercised	**152,856**	68,508
Director and employee compensation paid in Company stock	**385,129**	132,301
	$ 1,723,915	$3,944,316
Supplemental disclosure:		
Conversion of loans receivable from Capital Bank, NA to investment in Capital Bank, NA	**$ -**	$4,000,000

18. Fair Value

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

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

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

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

Fair value measurements on a recurring basis

Investment securities available for sale – The fair values of the Company's investment securities available for sale are provided by an independent pricing service. The fair values of the Company's securities are determined based on quoted prices for similar securities. Equity securities are restricted shares in two banker's banks.

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

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

The interest rate swap is reported at fair value utilizing Level 2 inputs. The Company obtains dealer quotations to value its swap. For purposes of potential valuation adjustments to its derivative position, the Company evaluates the credit risk of its counterparty. Accordingly, the Company has considered factors such as the likelihood of default by the counterparty and the remaining contractual life, among other things, in determining if any fair value adjustment related to credit risk is required.

18. **Fair Value** (Continued)

The Company has categorized its financial instruments measured at fair value on a recurring basis as of December 31, 2015 and 2014, as follows:

December 31, 2015	Total	Level 1 inputs	Level 2 inputs	Level 3 inputs
Investment securities available for sale				
U.S. government agency	**$17,525,072**	**$ -**	**$17,525,072**	**$ -**
Corporate bonds	**1,527,505**	**-**	**1,527,505**	**-**
Mortgage-backed securities	**20,122,658**	**-**	**20,122,658**	**-**
Equity securities	**85,000**	**-**	**85,000**	**-**
	$39,260,235	**$ -**	**$39,260,235**	**$ -**
Loans held for sale	**$38,877,666**	**$ -**	**$38,877,666**	**$ -**
Derivative assets	**$ 157,716**	**$ -**	**$ 157,716**	**$ -**
Derivative liabilities	**$ (14,284)**	**$ -**	**$ (14,284)**	**$ -**
December 31, 2014				
Investment securities available for sale				
U.S. government agency	$ 18,430,288	$ -	$ 18,430,288	$ -
Corporate bonds	1,608,287	-	1,608,287	-
Mortgage-backed securities	19,269,748	-	19,269,748	-
Equity securities	85,000	-	85,000	-
	$ 39,393,323	$ -	$ 39,393,323	$ -
Loans held for sale	$ 42,659,274	$ -	$ 42,659,274	$ -
Derivative assets	$ 283,143	$ -	$ 283,143	$ -
Derivative liabilities	$ (263,200)	$ -	$ (263,200)	$ -

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.

18. **Fair Value** (Continued)

Financial instruments recorded using FASB ASC 825-10 (Continued)

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:

December 31, 2015	Aggregate fair value	Difference	Contractual principal
Loans held for sale	**$38,877,666**	**$920,671**	**$37,956,995**
December 31, 2014			
Loans held for sale	$ 42,659,274	$1,124,924	$ 41,534,350

During the years ended December 31, 2015 and 2014, the Company 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.

Fair value measurements on a nonrecurring basis

Impaired loans – The Company has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values. The fair values consist of loan balances of **$6,312,750** and $5,828,258, net of valuation allowances of **$29,100** and $250,294, respectively.

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

Transactions in foreclosed real estate were as follows:

	2015	2014
Beginning of year balance	**$453,997**	$ 281,978
Improvement and additions	**23,812**	375,321
Write-downs	**(59,400)**	(95,000)
Proceeds from sale	**(203,322)**	(82,500)
Loss on sale	**(12,274)**	(25,802)
End of year balance	**$202,813**	$ 453,997

18. **Fair Value** (Continued)

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

December 31, 2015	Total	Level 1 inputs	Level 2 inputs	Level 3 inputs
Impaired loans	**$6,283,650**	**$ -**	**$ -**	**$6,283,650**
Foreclosed real estate	**202,813**	**-**	**-**	**202,813**
December 31, 2014				
Impaired loans	$ 5,577,964	$ -	$ -	$ 5,577,964
Foreclosed real estate	453,997	-	-	453,997

The remaining financial assets and liabilities are not reported on the balance sheets at fair value. The calculation of estimated fair values is based on market conditions at a specific point in time and may not reflect current or future fair values.

	December 31, 2015		December 31, 2014	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	**$ 20,145,807**	**$ 20,145,807**	$19,451,193	$19,451,193
Certificates of deposit in other financial institutions	**-**	**-**	3,711,500	3,727,370
Federal Reserve Bank and FHLB stock	**2,035,350**	**2,035,350**	2,906,150	2,906,150
Loans receivable	**633,038,284**	**634,230,078**	500,807,960	503,970,776
Financial liabilities				
Noninterest-bearing deposits	**$122,245,735**	**$122,245,735**	$98,696,214	$98,656,214
Interest-bearing deposits	**507,570,949**	**505,098,524**	403,278,030	403,702,519
Securities sold under agreements to repurchase	**12,439,952**	**12,439,952**	11,988,460	11,988,460
Borrowings	**34,629,125**	**34,921,945**	48,062,000	48,454,697

The fair value of cash and cash equivalents and investments in restricted stocks is the carrying amount.

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 loans receivable is estimated by discounting future cash flows, taking into consideration future loan losses, using current rates at which similar loans would be made to borrowers with similar credit ratings for the same remaining maturities.

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

18. Fair Value (Continued)

The fair value of checking and savings deposits, and money market accounts, 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 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.

19. Lease Commitments

The Company has entered into agreements to lease premises at the following locations:

Rockville, Maryland – headquarters and branch office – lease term ends June 30, 2018
North Bethesda, Maryland – branch office – lease term ends September 30, 2016
Washington, D.C. – branch office and business development suite – lease terms end April 30, 2022 and November 30, 2016
Annapolis, Maryland – mortgage production offices – lease terms end May 30, 2016 and September 30, 2018
Horsham, Pennsylvania – credit card operations – lease term ends April 30, 2020
Baltimore, Maryland – loan production office – month-to-month agreement
Bethesda, Maryland – loan production office – lease term ends October 31, 2018
Columbia, Maryland – loan production office – lease terms ends January 6, 2017
Centreville, Virginia – loan production office – lease term ends November 30, 2017

Certain agreements include options for the Company to renew for additional terms. Certain agreements require the payment of common area maintenance expenses, in addition to rent.

The minimum rental commitment under the noncancellable leases is as follows:

Year	Amount
2016	$1,097,195
2017	887,787
2018	600,430
2019	122,620
2020	125,961
After 2020	133,864
	$2,967,857

Rent expense was **$1,164,645** and $939,332 for the years ended December 31, 2015 and 2014, respectively.

20. Litigation

The Company is a party to legal actions normally associated with a financial institution. The aggregate effect of these, in management's opinion, would not be material to the financial condition of the Company.

Supplementary Information

ROWLES
&Company, LLP
Certified Public Accountants

Report of Independent Auditors on Supplementary Information

We have audited the consolidated financial statements of Capital Bancorp, Inc. and Subsidiaries as of and for the years ended December 31, 2015 and 2014, and have issued our report thereon dated March 11, 2016, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The Subsidiary Only balance sheets, income statements as of and for the year ended December 31, 2015, and the consolidated average balances, interest, and yields for the years ended December 31, 2015 and 2014, are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Rowles & Company, LLP

Certified Public Accountants

Baltimore, Maryland
March 11, 2016

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Capital Bank, NA Financial Information

Capital Bancorp, Inc. and Subsidiaries

Capital Bank, NA (Subsidiary Only) Balance Sheets

December 31,	**2015**	2014
Assets		
Cash and due from banks	**$ 4,128,695**	$ 3,848,728
Interest-bearing deposits at other financial institutions	**15,780,999**	14,704,458
Federal funds sold	**236,113**	898,007
Cash and cash equivalents	**20,145,807**	19,451,193
Certificates of deposit in other financial institutions	**-**	3,711,500
Investment securities available for sale	**39,260,235**	39,393,323
Federal Reserve Bank and Federal Home Loan Bank stock, at cost	**2,035,350**	2,906,150
Loans held for sale	**38,877,666**	42,659,274
Loans receivable, net	**619,069,609**	494,923,474
Premises and equipment	**1,605,477**	1,283,431
Accrued interest receivable	**2,398,826**	2,102,928
Deferred income taxes	**2,834,601**	2,455,342
Foreclosed real estate	**202,813**	453,997
Core deposit intangible	**16,838**	39,381
Other assets	**2,573,138**	3,278,715
Total assets	**$ 729,020,360**	$ 612,658,708
Liabilities and Stockholder's Equity		
Deposits		
Noninterest-bearing	**$ 122,428,516**	$ 98,935,770
Interest-bearing	**507,570,949**	403,278,030
Total deposits	**629,999,465**	502,213,800
Securities sold under agreements to repurchase	**12,862,590**	12,909,056
Borrowed funds	**11,000,000**	36,000,000
Accrued interest payable	**512,022**	301,298
Other liabilities	**6,278,921**	6,202,434
Total liabilities	**660,652,998**	557,626,588
Stockholder's equity		
Common stock, par value $10 per share, authorized 10,000,000 shares, issued and outstanding 300,000 shares	**3,000,000**	3,000,000
Additional paid-in capital	**37,682,857**	30,496,789
Retained earnings	**27,479,992**	21,203,741
Accumulated other comprehensive income	**204,513**	331,590
Total stockholder's equity	**68,367,362**	55,032,120
Total liabilities and stockholder's equity	**$ 729,020,360**	$ 612,658,708

Capital Bancorp, Inc. and Subsidiaries

Capital Bank, NA (Subsidiary Only) Statements of Income

Years Ended December 31,	2015	2014
Interest revenue		
Loans, including fees	$ 36,953,392	$ 31,450,149
Investment securities available for sale	867,239	834,789
Federal funds sold and other	218,227	203,448
Total interest revenue	38,038,858	32,488,386
Interest expense		
Deposits	3,338,868	2,177,808
Borrowed funds	307,206	510,464
Total interest expense	3,646,074	2,688,272
Net interest income	34,392,784	29,800,114
Provision for loan losses	1,473,771	1,180,000
Net interest income after provision for loan losses	32,919,013	28,620,114
Noninterest revenue		
Service charges on deposits	364,954	433,307
Credit card fees	3,774,302	2,415,742
Mortgage banking revenue	12,144,824	8,326,861
Gain (loss) on sale of foreclosed real estate	(12,274)	(25,802)
Gain (loss) on disposition of premises and equipment	(30,685)	-
Other fees and charges	325,288	290,351
Total noninterest revenue	16,566,409	11,440,459
Noninterest expenses		
Salaries	17,875,812	14,588,672
Employee benefits	3,005,275	2,407,578
Occupancy	1,520,454	1,230,273
Furniture and equipment	1,607,749	967,955
Professional services	1,244,305	1,195,280
Data processing	3,430,651	2,827,432
Advertising	2,880,733	1,236,293
Loan processing	1,686,291	1,198,806
Other operating	3,182,671	3,137,732
Total noninterest expenses	36,433,941	28,790,021
Income before income taxes	13,051,481	11,270,552
Income tax expense	5,075,230	4,370,098
Net income	$ 7,976,251	$ 6,900,454

Average Balances, Interest, and Yields

Capital Bancorp, Inc. and Subsidiaries

Average Balances, Interest, and Yields

	2015		
	Average balance	Interest	Yield
Assets			
Interest-bearing deposits	$ 23,235,334	$ 56,923	0.24%
Federal funds sold	1,100,214	443	0.04%
Certificates of deposit in other financial institutions	2,132,344	16,917	0.79%
Federal Reserve Bank stock, Federal Home Loan Bank stock, and other corporate stock	2,995,897	157,110	5.24%
Investment securities			
U.S. government agency	17,435,120	283,634	1.63%
Mortgage-backed	20,940,777	481,516	2.30%
Corporate	1,585,218	141,140	8.90%
	39,961,115	906,290	
Loans			
Commercial	80,692,849	14,154,290	17.54%
Real estate mortgage and construction	502,437,902	17,853,912	3.55%
Consumer	13,756,653	3,829,516	27.84%
Personal lines of credit	5,259,514	1,637,004	31.12%
	602,146,918	37,474,722	6.22%
Allowance for loan losses	5,900,301	-	
	596,246,617	37,474,722	6.29%
Total interest-earning assets	665,671,521	38,612,405	5.80%
Noninterest-bearing cash	4,519,146		
Premises and equipment	2,521,582		
Other assets	6,882,937		
	$679,595,186		
Liabilities and Stockholders' Equity			
Deposits			
NOW accounts	$ 39,856,069	98,031	0.25%
Money market accounts	184,614,866	1,451,720	0.79%
Savings	2,613,062	3,940	0.15%
Certificates of deposit	222,436,084	1,785,177	0.80%
Total interest-bearing deposits	449,520,081	3,338,868	0.74%
Noninterest-bearing deposits	112,538,287	-	
	562,058,368	3,338,868	0.59%
Borrowed funds	56,692,557	1,238,857	2.19%
Other liabilities	6,961,073	-	
Stockholders' equity	53,883,188	-	
	$679,595,186	4,577,725	
Net margin on interest-earning assets	$665,671,521	$34,034,680	5.11%

Interest on investments is presented on a fully taxable equivalent basis.

2014		
Average balance	Interest	Yield
$ 23,892,079	$ 56,966	0.24%
1,763,524	180	0.01%
1,670,133	10,495	0.63%
3,205,279	148,382	4.63%
11,293,890	200,175	1.77%
20,824,749	531,634	2.55%
1,642,948	140,930	8.58%
33,761,587	872,739	2.59%
88,987,242	5,350,825	6.01%
349,625,446	22,938,959	6.56%
9,541,043	2,603,074	27.28%
24,133,616	919,865	3.81%
472,287,347	31,812,723	6.74%
5,074,779	-	
467,212,568	31,812,723	6.81%
531,505,170	32,901,485	6.19%
4,192,315		
1,580,702		
4,655,688		
$541,933,875		
$ 28,089,740	57,403	0.20%
127,277,487	998,799	0.78%
2,522,264	3,766	0.15%
174,903,505	1,117,840	0.64%
332,792,996	2,177,808	0.65%
96,801,120	-	
429,594,116	2,177,808	0.51%
61,626,558	957,443	1.55%
4,930,668	-	
45,782,533	-	
$541,933,875	3,135,251	
$531,505,170	$29,766,234	5.60%