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APR 2 - 2018

FRB RICHMOND

Board of Governors of the Federal Reserve System

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)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). 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, top-tier savings and loan holding companies, and U.S. intermediate 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. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Scot R. Browning
Name of the Holding Company Director and Official

Director and Vice President/Assistant Secretary
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.

Scot R. Browning
Signature of Holding Company Director and Official

03/30/2018
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, 2017
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
Alan Jackson	CFO

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

301-762-1127
Area Code / FAX Number

ajackson@capitalbankmd.com
E-mail Address

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

Is confidential treatment requested for any portion of this report submission? (0=No, 1=Yes) 0

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report ☐
2. a letter justifying this request has been provided separately ... ☐

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

Results: A list of branches for your holding company: CAPITAL BANCORP, INC. (2808590) of ROCKVILLE, MD.
The data are as of 12/31/2017. Data reflects information that was received and processed through 01/04/2018.

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 Data** 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	Not Required	Not Required	CAPITAL BANK, NATIONAL ASSOCIATION	2808602	
OK		Full Service	3634901	EYE STREET BRANCH	1776 I STREET NORTHWEST	WASHINGTON	DC	20006	DISTRICT OF COLUMBIA	UNITED STATES	Not Required	Not Required	CAPITAL BANK, NATIONAL ASSOCIATION	2808602	
OK		Full Service	5138654	COLUMBIA BRANCH	6711 COLUMBIA GATEWAY DRIVE SUIE 170	COLUMBIA	MD	21046	HOWARD	UNITED STATES	Not Required	Not Required	CAPITAL BANK, NATIONAL ASSOCIATION	2808602	
OK		Full Service	3634862	EXECUTIVE BOULEVARD BRANCH	6000 EXECUTIVE BOULEVARD, SUITE 101	ROCKVILLE	MD	20852	MONTGOMERY	UNITED STATES	Not Required	Not Required	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, 2017

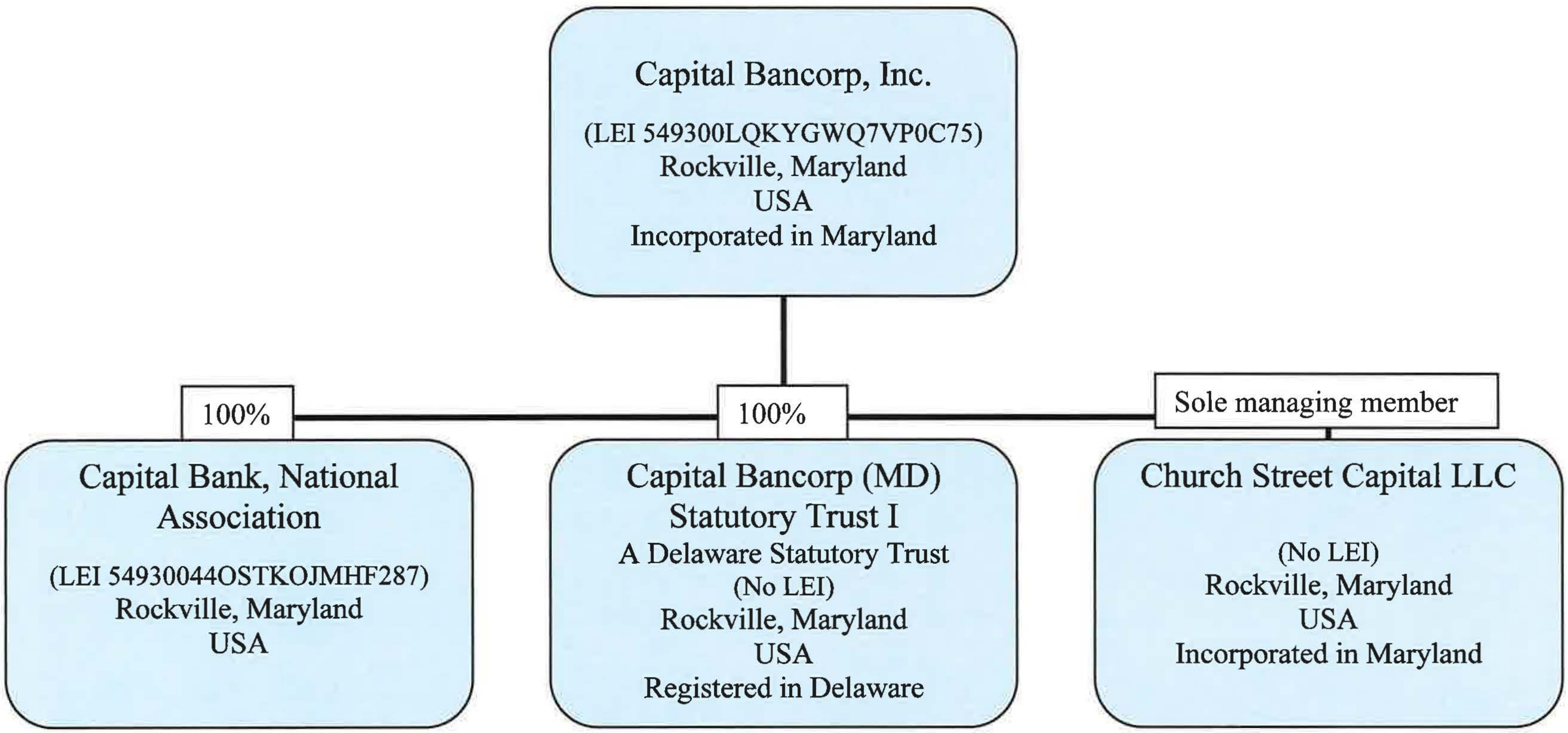
Report Item 1a: Capital Bancorp, Inc. is not required to file Form 10-KSB with the Securities and Exchange Commission.

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

One Church Street, Suite 300
Rockville, MD 20850

Fiscal year ended December 31, 2017

Report Item 2a: Organizational Chart



Report Item 2b: Domestic Branch Listing

Submitted via email on 02/14/2018.

One Church Street, Suite 300
Rockville, MD 20850

Fiscal year ended December 31, 2017

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 12/31/17:

(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	180,286	6.25%	3,513	0	183,799	6.36%
Joshua Bernstein Washington, DC USA	USA	147,530	5.11%	1,950	0	149,480	5.18%
Randall J. Levitt Bethesda, MD USA	USA	258,105	8.95%	2,675	0	260,780	9.03%
Steven J. Schwartz Washington, DC USA	USA	161,309	5.59%	3,400	0	164,709	5.70%
James F. Whalen Rockville, MD USA	USA	255,070	8.84%	3,156	0	258,226	8.94%
Frank E. Williams, Jr. Merrifield, VA USA	USA	152,850	5.30%	3,475	0	156,325	5.41%

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

One Church Street, Suite 300
Rockville, MD 20850

Fiscal year ended December 31, 2017

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**

Report Item 4: Insiders

(1) Name Address	(2) Principal Occupation	(3)(a) Title/Position With Holding Company	(3)(b) Title/Position With Subsidiary	(3)(c) Title/Position With Other Businesses	(4)(a) Percentage of voting shares in Holding Co. including exercisable options and conv. sub debt	4(b) Percentage of voting shares in direct and indirect subsidiaries of the bank Holding Company	(4)(c) List of Names of Other Companies if 25% or more of voting securities are held (Name of company and percentage of voting securities held)
Stephen N. Ashman Sarasota, FL USA	Consultant	Chairman of the Board Assistant Secretary	Lead Director of the Board of Capital Bank, National Assoc.	N/A	6.36%	N/A	N/A
Edward F. Barry Rockville, MD USA	Banker	CEO Director	CEO and Director of Capital Bank, National Assoc.	N/A	2.27%	N/A	N/A
Joshua Bernstein Washington, DC USA	Real Estate Property Management	Director	N/A	CEO, Bernstein Management Corp President, Bernstein Development Corp	5.18%	N/A	Bernstein Management Corp (65%) Bernstein Development Corp (68%)
Scot R. Browning Rockville, MD USA	Banker	Director Vice President/ Assistant Secretary	President and Director of Capital Bank, National Assoc.	N/A	4.57%	N/A	N/A

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

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Rockville, MD 20850

Fiscal year ended December 31, 2017

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	9.03%	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%) Terrace Garden Associates,LLC (50%)

Fiscal year ended December 31, 2017

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 of Forest City Realty Trust, Inc. until Q2 of 2018 Executive VP of Forest City Realty Trust, 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)	0.38%	N/A	N/A

Capital Bancorp, Inc.	Form FR Y-6

One Church Street, Suite 300
Rockville, MD 20850

Fiscal year ended December 31, 2017

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			

One Church Street, Suite 300
Rockville, MD 20850

Fiscal year ended December 31, 2017

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.	5.70%	N/A	Prudent Capital II, 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%)

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One Church Street, Suite 300
Rockville, MD 20850

Fiscal year ended December 31, 2017

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	Principal of Real Estate Development/ Asset Management Firm	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	8.94%	N/A	Investment Properties, Inc. (100%) Church Street LLC (100%) Gude Drive Properties III (30%)

CAPITAL BANCORP, INC.
One Church Street
Rockville, Maryland 20850

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To be held May 17, 2018

TO THE SHAREHOLDERS OF CAPITAL BANCORP, INC.:

The Annual Meeting of Shareholders of Capital Bancorp, Inc., a Maryland corporation (the "Company"), will be held at:

Capital Bank, N.A.
One Church Street
Rockville, Maryland 20850

On Thursday, May 17, 2018 at 4:30 p.m. for the purpose of voting on the following matters:

1. Electing three (3) Class I Director to serve until the 2021 Annual Meeting of Shareholders or until their successor is duly elected and qualified.

2. Ratifying the appointment of Elliott Davis Decosimo, LLC as the Company's independent accountants for the year ending December 31, 2018.

3. Transacting such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

The Board of Directors is not aware of any other business that will be presented for consideration at the Annual Meeting. If any other matters should be properly presented at the Annual Meeting or any adjournments or postponements of the Annual Meeting for action by shareholders, the persons named in the form of proxy will vote the proxy in accordance with their best judgment on that matter.

The Board of Directors recommends that you vote "FOR" each of the director nominees, and "FOR" the ratification of the appointment of the independent accountants for the year ending December 31, 2018.

Shareholders of record as of the close of business on March 31, 2018 are entitled to notice of and to vote at the Annual Meeting or any adjournment or postponement thereof.

By Order of the Board of Directors

Stephen N. Ashman, Chairman

April 20, 2018

Please sign, date and return your proxy promptly, whether or not you plan to attend the Annual Meeting in person. No postage is required on the enclosed envelope if mailed in the United States. If you attend the Annual Meeting, you may, if you desire, revoke your proxy and vote in person. If your shares are not registered in your name, you will need additional documentation from your record holder in order to vote in person at the Annual Meeting.

CAPITAL BANCORP, INC.
One Church Street
Rockville, Maryland 20850

2018 ANNUAL MEETING OF SHAREHOLDERS
Proxy Statement

INTRODUCTION

This Proxy Statement is furnished to shareholders of record of Capital Bancorp, Inc., a Maryland corporation (the "Company"), in connection with the solicitation of proxies by the Board of Directors of the Company (the "Board") for use at the Annual Meeting of Shareholders to be held at 4:30 PM on May 17, 2018 (the "Annual Meeting"), and at any adjournment or postponement of the Annual Meeting, for the purposes of:

1. Electing three (3) Class I Directors to serve until the 2021 Annual Meeting of Shareholders or until their successor is duly elected and qualified.
2. Ratifying the appointment of Elliott Davis Decosimo, LLC as the Company's independent accountants for the year ending December 31, 2018.
3. Transacting such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

The Board is not aware of any other business that will be presented for consideration at the Annual Meeting. If any other matters should be properly presented at the Annual Meeting or any adjournments or postponements of the Annual Meeting for action by shareholders, the persons named in the form of proxy will vote the proxy in accordance with their best judgement.

The Annual Meeting will be held at:

Capital Bank, N.A.
One Church Street
Rockville, Maryland 20850

This Proxy Statement and the accompanying form of proxy are being sent to shareholders of the Company on or about April 20, 2018, to holders of record of the common stock, par value $0.01 per share (the "Common Stock") as of March 31, 2018. A copy of the Company's audited financial statements for the year ended December 31, 2017 is enclosed.

Only shareholders of record of the Common Stock at the close of business on March 31, 2018 are entitled to notice of and to vote at the Annual Meeting or any adjournment or postponement of the Annual Meeting. On that date, the Company had **2,898,775** outstanding shares of Common Stock.

The cost of this proxy solicitation is being paid by the Company. In addition to the use of the mail, proxies may be solicited personally or by telephone by officers, employees or directors of the Company. The Company may also reimburse brokers, custodians, nominees and other fiduciaries for their reasonable out-of-pocket and clerical costs of forwarding proxy materials to their principals.

Proxies

Shares represented by proxies received by the Company in time to be voted at the Annual Meeting will be voted in accordance with the shareholder's instructions. Shares represented by proxies in which no instructions are given will be voted **FOR** the election of the Directors specified herein, **FOR** the ratification of the appointment of the independent accountants for the year ending December 31, 2018, and in the discretion of the holders of the proxies on all other matters properly brought before the Annual Meeting and any adjournment or postponement thereof. The judges of election appointed by the Board of Directors for the Annual Meeting will determine the presence of a quorum and will tabulate votes cast at the Annual Meeting. Abstentions will be treated as present for purposes of determining a quorum, but as not voted for purposes of determining the approval of any matter submitted to the vote of shareholders. If a broker indicates that he or she does not have discretionary authority to vote any shares of Common Stock as to a particular matter, such shares will be treated as present for general quorum purposes, but will not be considered as present or voted with respect to that matter. Under the rules of the New York Stock Exchange applicable to its member firms, we expect that brokers will not vote shares on the election of directors unless they receive instructions from the beneficial owners of the shares they hold. **If you hold your shares through a bank or broker, it is extremely important that you instruct your record holder how to vote your shares.**

Please sign, date, mark and return promptly the enclosed proxy in the postage paid envelope provided for this purpose in order to assure that your shares are voted. You may revoke your proxy at any time before it is voted at the Annual Meeting:

- By granting a later proxy with respect to the same shares;
- By sending written notice to Michael Burke or Alan W. Jackson, at the address noted above, any time prior to the proxy being voted; or
- By voting in person at the Annual Meeting.

Attendance at the Annual Meeting will not, in itself, revoke a proxy. If your shares are held in the name of your bank or broker, you will need additional documentation to vote in person at the Annual Meeting.

ELECTION OF DIRECTORS

The Company's Board of Directors has established the size of the Board of Directors at nine (9) members. The Board of Directors is divided into three classes of directors serving staggered three-year terms following a Special Stockholders meeting held on August 1, 2017. One-third of our board of directors is elected by our shareholders at each annual shareholders' meeting for a term of three years, and the elected directors hold office until their successors are elected and qualified or until such director's earlier death, resignation or removal.

		Nominee / Continuing		
Class	**Directors**	**2018**	**2019**	**2020**
I	Browning / Bernstein / Burke	Nominee	Continuing	Continuing
II	Barry / Levitt / Ratner-Salzberg	Continuing	Nominee	Continuing
III	Ashman / Schwartz / Whalen	Continuing	Continuing	Nominee

In accordance with the provision from the 2017 Special Stockholders meeting captioned above, the Board of Directors has nominated three (3) people as Class I Directors, for a three year term ending at the 2021 Annual Meeting of Shareholders, or until their successor has been elected and qualified.

Nominees for Election as Directors

Set forth below is certain information concerning the nominees for election as Directors of the Company, and the continuing Directors of the Company, including share ownership as of the March 31, 2018 record date.

Name	Age	Class	Term Ends	Common Stock	Right to Purchase Other Shares (1)	Percentage Ownership
Nominees for Election						
Scot R. Browning	56	I	2018	126,286	5,750	4.55%
Joshua Bernstein	55	I	2018	149,480	0	5.16%
Michael Burke	68	I	2018	81,917	3,875	2.96%
Continuing Directors						
Edward F. Barry	48	II	2019	58,112	11,581	2.39%
Randall Levitt	64	II	2019	260,780	0	9.00%
Deborah Ratner-Salzberg	64	II	2019	8,906	1,931	0.37%
Stephen N. Ashman	69	III	2020	179,886	3,013	6.30%
Steven J. Schwartz	63	III	2020	161,309	3,400	5.68%
James F. Whalen	56	III	2020	258,226	0	8.91%
All Directors as a Group				1,284,902	29,550	44.89%

(1) Includes options to purchase shares of Common Stock pursuant to stock options which are exercisable within 60 days of March 31, 2018.

Common Stock and the right to purchase other shares, included in the table above, includes all owned shares over which the named person exercises either sole or shared voting power or sole or shared investment power. It also includes shares owned (i) by a spouse or by minor children, (ii) by entities owned or controlled by the named person, and (iii) by other persons if the named person has the right to acquire such shares within 60 days by the exercise of any right or option. Percentage ownership has been calculated by dividing the sum of Common Stock owned by an individual and the individual's right to purchase other shares by the sum of the total outstanding Common Stock and the total number of rights to purchase shares. Total number of outstanding rights to purchase shares owned by all individuals is **29,550** as of March 31, 2018.

The combined ownership percentage of Company Directors as a group and non-Company Directors of Capital Bank, N.A. (the "Bank") was **58.08%** at March 31, 2018.

Nominees for election:

Scot R. Browning. Mr. Browning has served as President of the Bank, and as a director of the Company and the Bank, since its recapitalization by the current ownership group in 2002. He has over 30 years of banking experience, with a concentration in commercial lending. He currently oversees the commercial lending department, which has grown from $13.5 million to over $712.6 million in funded loans, during his tenure. In addition, he manages loan administration and business development. From 1997 to 2002, prior to joining the Bank, he was Senior Vice President, Corporate Lending at United Bank in Bethesda, Maryland and at Century National Bank prior to its acquisition by United Bank. Mr. Browning received a Bachelor of Business Administration in Finance from Stetson University. Mr. Browning also serves on the board of directors of the Community Ministries of Rockville, a non-profit focused on improving the quality of life for the most vulnerable of Montgomery County residents, on the board of directors of the Rockville Economic Development, Inc., a partnership formed in 1997 by the City of Rockville to strengthen and broaden the city's economic base through business entrepreneurship, serves as the District Chair of the Stetson University Alumni Board and is a member of the University of Maryland, University College Graduate Financial Management & Accounting Programs Advisory Board.

Joshua Bernstein. Mr. Bernstein has served on the board of directors of the Company since 2012 and served on the board of directors of the Bank from 2007 to 2012. Since 2005, he has been the chief executive officer of Bernstein Management Corporation and the managing principal of that company's investment and development affiliates. The Bernstein entities own and manage 90 properties encompassing 5,200 apartments and over 4 million square feet of commercial space in the Washington, D.C. metropolitan area. Mr. Bernstein serves as a director on the Washington Board of SunTrust Bank and he is a member of the Executive Committee of the Federal City Council. Mr. Bernstein is a past Board Chair of the Meyer Foundation and the Sidwell Friends School, and is President of the

Diane and Norman Bernstein Charitable Family Foundation. Mr. Bernstein received a Bachelor of Arts in Economics from Tufts University, magna cum laude, a general course degree from the London School of Economics and Political Science, and a Master of Business Administration from Harvard Business School.

Michael Burke. Mr. Burke has served on the board of directors of the Company since 2017 and on the board of directors of the Bank since its incorporation in 1999. Mr. Burke previously served as the Chairman of the board of directors of the Bank from 1999 to 2002 during the Bank's first three years of operation. He is the President of Yorke, Burke & Lee CPAs, one of the leading accounting and financial management firms in Gaithersburg, Maryland and its surrounding areas. He is a practicing Certified Public Accountant and Registered Investment Advisor, providing accounting and tax services to individuals, business entities and tax-exempt organizations. Mr. Burke has over 30 years of experience as a finance manager and tax planner. Mr. Burke received a Bachelor of Science in Accounting from the University of Maryland. Mr. Burke also sits on the board of directors of the National Foundation for Cancer Research, an organization dedicated to supporting "high risk/high reward" cancer research relating to early diagnosis, better treatments and a cure for cancer.

<u>Continuing Directors</u>:

Edward F. Barry. Mr. Barry is the Chief Executive Officer of the Company and the Bank. Mr. Barry has served as a director of the Company since 2015 and as a director of the Bank since September 2012. Since that time, Capital Bank has rapidly expanded throughout the Washington, D.C. and Baltimore metropolitan areas. Under Mr. Barry's leadership, Capital Bank has consistently been recognized as one of the top performing banks in the U.S. In 2017, he was named an Ernst and Young Entrepreneur of the Year for the MidAtlantic region. Prior to joining the Bank, Mr. Barry was Senior Vice President, Marketing and Analytics at Capital One Bank where he led the product, analytics and marketing teams for the Small Business and Business Banking divisions. Prior to that he was with Bank of America as a Senior Vice President, Strategic Marketing serving in roles across the Commercial, Consumer and Corporate Strategy groups. He also worked as a consultant at E&Y/Capgemini in their Strategy and Transformation practice, responsible for creating and implementing initiatives to drive clients' e-business sales and marketing strategies. Mr. Barry received a Bachelor of Science in Industrial Relations from Cornell University and a Master of Business Administration from the Darden Graduate School of Business at the University of Virginia and serves as Chairman of the board of directors of the Mid-Atlantic Chapter of The Make-A-Wish Foundation.

Randall Levitt. Mr. Levitt has served on the board of directors of the Company since 2012 and the board of directors of the Bank since 2004. Since 1996, he has been the president of Nellis Corporation, a private capital management firm that manages a national portfolio of commercial real estate and provides wealth advisory services, headquartered in Rockville, Maryland. Mr. Levitt is a director of The Israel Project and as a member of the Investment Committee of the United Jewish Endowment Fund of Greater Washington. In addition, he co-chairs the Washington, D.C. metropolitan area real estate division of the American Israel Public Affairs Committee. He received a Bachelor of Arts from Brandeis University, summa cum laude, and a Juris Doctor from Yale Law School.

Deborah Ratner-Salzberg. Ms. Ratner Salzberg, an attorney, has served on the board of directors of the Company since 2016. She has been an Executive Vice President of Forest City Enterprises since June 2013 and is an officer and/or director of various subsidiaries of that company. She also serves as president of Forest City Washington, Inc., a subsidiary of Forest City Enterprises, and leads their operations in the Washington, D.C. metropolitan area, one of Forest City Enterprises' core markets. Ms. Ratner Salzberg has been a board member of CubeSmart (formerly known as U-Store-It), a publicly-traded real estate investment trust focused on self-storage facilities, since 2013. Ms. Ratner Salzberg is active with numerous District of Columbia community, charitable and professional organizations, including as a member of the board of directors of the Jewish Federation of Greater Washington, the board of trustees of Kenyon College, the board of trustees of Gallaudet University Foundation, the board of trustees of the District of Columbia Building Industry Association, the board of trustees of the Urban Land Institute and the board of trustees of the Meyer Foundation. Since 2011, Ms. Ratner Salzberg also serves as the Co-Chair of the Washington, D.C. White House Fellow's Regional Panel. Ms. Ratner Salzberg received a Bachelor of Arts from George Washington University and a Juris Doctor from the University of San Francisco.

Stephen N. Ashman. Mr. Ashman serves as Chairman of the board of directors of the Company, a position he has held since 2002. He served as Chairman of the board of directors of the Bank from 2002 to January 2015 and currently serves as Lead Director of the Bank. He served as Chief Executive Officer of the Bank from September 2007 to September 2012 and retired as Chief Executive Officer in September 2012. He was President and CEO of a community bank in Rockville, Maryland from 1991 until its sale in 1998. He serves on the advisory boards of several investment funds active in the Washington, D.C. metropolitan area. He received a Bachelor of Business

Administration in Accounting from the University of Florida and a Master of Business Administration from the University of Miami.

Steven J. Schwartz. Mr. Schwartz has served on the boards of directors of the Company and the Bank since 2002. He is an attorney and certified public accountant involved in investment in, and management of, companies in a variety of industries. Mr. Schwartz has been chief financial officer and general counsel to a group of companies involved in construction, real estate development, property management, broadcasting, telecommunications, software development and wholesale distribution for over 30 years. He also manages various marketable securities portfolios for a private foundation and high net worth individuals. In 1999 Mr. Schwartz founded Prudent Capital, which manages funds that lend to and invest in profitable, later-stage operating businesses. He continues to serve as the Portfolio Manager of such funds. He has served as an adjunct professor at Georgetown University's master's program and taught corporate finance and real estate tax. He served as a director of a community bank in Rockville, Maryland, from 1995 until its sale to FCNB in 1998. Mr. Schwartz received a Bachelor of Arts in Economics from the University of Maryland and a Juris Doctor, with honors, from the University of Maryland School of Law.

James F. Whalen. Mr. Whalen has served on the boards of directors of the Company and the Bank since 2001 and serves as Chairman of the board of directors of the Bank, a position he has held since January 2015. Since 1994, Mr. Whalen has been the Chief Executive Officer and owner of Investment Properties, Inc., a commercial real estate development and full service asset-management company located in Rockville, Maryland. Mr. Whalen has developed over 1,000,000 square feet of Class A office, industrial and multifamily projects in the Washington metropolitan area and his company continues to provide a full spectrum of asset management services for projects developed by the firm and third parties. Mr. Whalen received a Bachelor of Science in Finance from the University of South Carolina.

Director Compensation

For the year ended December 31, 2017, the directors of the Company, other than the Chairman of the Board, received $1,000 in cash or an equivalent value in shares of Common Stock for each meeting attended of the Board. No fees were paid for attending Board committee meetings. Mr. Ashman, as the Chairman of the Board and Lead Director of the Bank, was previously compensated pursuant to a consulting services arrangement, which was terminated in August 2017. Commencing in September 2017, Mr. Ashman began receiving a monthly retainer of $3,000 for his services as Chairman of the Board and a monthly retainer of $8,000 for his services as Lead Director of the Bank.

For the year ended December 31, 2017, the directors of the Bank, other than the Bank's Chairman of the Board, Lead Director and Chief Executive Officer, received $900 (which increased to $1,000 as of June 1, 2017) in cash or an equivalent value in shares of Common Stock for each meeting attended of the Board of Directors of the Bank. The Bank's Chairman of the Board received an annual retainer of $32,000 (which increased to $40,000 as of June 1, 2017) payable in shares of Common Stock.

The directors on the Bank's Loan Committee, other than the Bank's Chairman of the Board, Lead Director, Chief Executive Officer, and the Chairman of the Loan Committee, who participate in sixty percent (60%) or more of the Loan Committee meetings receive an annual retainer of $9,000 (which increased to $10,000 as of June 1, 2017) in cash or an equivalent value in shares of Common Stock. The Bank's Loan Committee Chairman receives an annual retainer of $21,000 (which increased to $22,000 as of June 1, 2017) in cash or an equivalent value in shares of Common Stock.

The directors on the Bank's Audit and Compliance Committee, other than the Bank's Lead Director and the Chairman of the Audit and Compliance Committee, received $1,200 (which increased to $1,500 as of June 1, 2017) in cash or an equivalent value in shares of Common Stock for each committee meeting attended. The Chairman of the Bank's Audit and Compliance Committee received an annual retainer of $7,500 (which increased to $10,000 as of June 1, 2017) in cash or an equivalent value in shares of Common Stock.

The directors on the Bank's Divisions Committee, other than the Bank's Lead Director and the Chairman of the Divisions Committee, received $500 in cash or an equivalent value in shares of Common Stock for each committee meeting attended. The Chairman of the Bank's Divisions Committee received an annual retainer of $8,000 in cash or an equivalent value in shares of Common Stock beginning June 1, 2017.

The directors on the Bank's Human Resources Committee, other than the Bank's Lead Director, received $500 in cash or an equivalent value in shares of Common Stock for each committee meeting attended.

In addition, for the year ended December 31, 2017, the members of the Board and the Board of Directors of the Bank, other than Mr. Browning and Mr. Barry, were awarded aggregate stock options to acquire 35,750 shares of Common Stock at $49.50 per share. The amount of stock options granted from this pool to individual directors was determined by the Company's Chief Executive Officer and the Bank's Lead Director based on the individual director's business development and corporate governance contributions. The number of stock options granted to the Bank's Lead Director is based on the average number of stock options granted to the other eligible directors. These options vest over a four year period and expire in 2022.

Compensation of the Company's nonemployee directors for 2017 was as follows:

Name	Fees Earned or Paid in Cash	Stock Awards (1)	Option Awards (1)(2)	Total
Joshua Bernstein	$0	$19,101	$25,694	$44,795
Randall Levitt	0	44,560	31,047	75,607
Deborah Ratner-Salzberg	0	13,588	20,341	33,929
Stephen N. Ashman	$132,667(3)	22,508	28,906	184,081
Steven J. Schwartz	0	64,815	41,753	106,568
James F. Whalen	0	82,183	38,542	120,725

(1) Represents the grant date fair value of stock awards and option awards. The average per share price of stock awards was $30.55 for 2017. The grant date fair value of options awarded to Directors was $10.71 for 2017. Please refer to note 14 of the Company's Consolidated Financial Statements for the year ended December 31, 2017 for a discussion on the assumptions used to calculate grant date fair value.

(2) At December 31, 2017, nonemployee Directors had outstanding option awards to purchase shares of Common Stock as follows: Mr. Ashman 9,950, Mr. Bernstein 7,675, Mr. Levitt 9,975, Ms. Ratner-Salzberg 6,325, Mr. Schwartz 13,125, and Mr. Whalen 11,900. The amount vested for each is: Mr. Ashman 3,513, Mr. Bernstein 1,950, Mr. Levitt 2,675, Ms. Ratner-Salzberg 1,931, Mr. Schwartz 3,400 and Mr. Whalen 3,156.

(3) $88,667 was paid under a consulting services arrangement, and $44,000 paid under the new retainer arrangement.

The Board of Directors unanimously recommends that shareholders vote FOR each of the nominees for election to the Company's Board of Directors.

RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT ACCOUNTING FIRM

Rowles & Company, LLP audited the financial statements of the Company for the fiscal year ending December 31, 2016. As a result of the Company's growth and strategic plan, the Company felt it was prudent to solicit bids for the 2017 audit. Following completion of the audit services for the fiscal year ended December 31, 2016, the Audit Committee engaged Elliott Davis Decosimo, LLC ("Elliott Davis") to serve as the Company's independent registered public accounting firm for fiscal 2017. This change in accounting firms was not due to any disagreements between the Company and Rowles & Company, LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

Representatives of Elliott Davis are expected to be present at the Annual Meeting and will be given the opportunity to make a statement if they desire to do so. They will also be available to respond to appropriate questions.

The affirmative vote of a majority of votes validly cast on the proposal is required to ratify the appointment of Elliott Davis as the Company's independent public accounting firm.

The Board of Directors unanimously recommends that shareholders vote FOR ratification of the appointment of Elliott Davis as the Company's independent public accounting firm for fiscal 2018.

SUMMARY EXECUTIVE COMPENSATION TABLE

The following table sets forth a comprehensive overview of compensation of the Company's Principal Executive Officer, Mr. Barry, and the Company's two most highly compensated Executive Officers other than the Principal Executive Officer who received total compensation of $100,000 or more during the year ended December 31, 2017 (the "Named Executive Officers"):

Name	Year	Salary	Bonus	Options Award (1)	Other	Total
Edward F. Barry, Chief Executive Officer	2017 2016	$400,000 $400,000	$150,000 $250,000	$53,530 $38,675	$45,752(2) $409,192(3,8)	$649,282 $1,097,867
Scot R. Browning, President	2017 2016	$300,000 $300,000	$135,000 $0	$37,471 $19,338	$51,306(4) $57,497(5)	$523,777 $376,835
Nick Bryan, Chief Marketing Officer	2017 2016	$210,000 $195,000	$41,000 $104,000	$32,118 $27,073	$8,903(6) $8,469(7)	$292,021 $334,542

(1) Represents the grant date fair value of option awards for financial reporting purposes. Please refer to note 14 of the Company's Consolidated Financial Statements for the year ended December 31, 2017 for a discussion on the assumptions used to calculate grant date fair value.

(2) Represents $8,100 401(k) matching contributions, $5,750 auto use, $16,502 insurance premiums and $15,400 director compensation paid in 499 shares of Common Stock of the Company.

(3) Represents $15,115 401(k) matching contribution, $6,000 transportation allowance, $13,500 director compensation paid in 509 shares of Common Stock of the Company, and $14,577 insurance premiums.

(4) Represents $8,100 401(k) matching contributions, $13,993 insurance premiums, $750 other payment, $14,300 director compensation paid in 463 shares of Common Stock of the Company and $14,163 club dues.

(5) Represents $11,202 401(k) matching contributions, $7,887 auto use, $12,500 director compensation paid in 472 shares of Common Stock of the Company, $13,835 club dues and $12,073 insurance premiums.

(6) Represents $8,100 401(k) matching contributions and $803 insurance premiums.

(7) Represents $7,666 401(k) matching contributions and $803 insurance premiums.

(8) Mr. Barry was employed under a three year contract that established an annual salary of $400,000 for 2016 through 2018. He was eligible to receive annual bonuses based upon performance up to 80% of his annual salary in 2016, 85% in 2017 and 90% in 2018. One-third of Mr. Barry's bonus will be paid in Common Stock. Effective January 1, 2016, Mr. Barry was granted 12,000 restricted shares of Common Stock of which 4,000 shares vested on January 1, 2017, 4,000 shares vested on January 1, 2018 and 4,000 shares will vest on January 1, 2019. Mr. Barry was eligible to receive annual stock options to purchase up to 5,000 of Common Stock each year. Mr. Barry was awarded stock options of 5,000 shares in 2016 and in 2015. The Bank paid for a $1,500,000 life insurance policy during the term of the contract, which expires on December 31, 2018.

The following table sets forth the base compensation of the Named Executive Officers of the Company and/or the Bank for the year ending December 31, 2017:

	2017
Edward F. Barry Chief Executive Officer	$400,000
Scot R. Browning, President	$300,000
Nick Bryan, Chief Marketing Officer	$210,000

The following table sets forth grants of option awards to each Executive Officer of the Company and/or the Bank in 2017, utilizing the grant date fair value.

2017 GRANTS OF OPTION AWARDS

Name	Grant Date	All Options Awards: Number of Underlying Shares (#)	Exercise Price of Option Awards ($/Share)	Grant Date Fair Value of Option Awards ($)
Edward F. Barry	12/31/2017	5,000	$49.50	$53,530
Scot R. Browning	12/31/2017	3,500	$49.50	$37,471
Nick Bryan	12/31/2017	3,000	$49.50	$32,118

Option awards granted on December 31, 2017 vest equally over four years and expire on December 31, 2022. The fair value of awarded options at December 31, 2017 was $10.706 at the grant date.

Outstanding Equity Awards at December 31, 2017

The following table sets forth, on an award by award basis, information concerning all awards of stock options held by the Named Executive Officers at December 31, 2017. All options were granted with an exercise price of 100% of market value in accordance with the Company's Plan.

	Option Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price	Option Expiration Date
Edward Barry	5,000	0	$20.00	2018
Edward Barry	2,831	943	$26.50	2019
Edward Barry	2,500	2,500	$30.00	2020
Edward Barry	1,250	3,750	$34.00	2021
Edward Barry	0	5,000	$49.50	2022
Scot R. Browning	1,000	0	$20.00	2018
Scot R. Browning	2,625	875	$26.50	2019
Scot R. Browning	1,500	1,500	$30.00	2020
Scot R. Browning	625	1,875	$34.00	2021
Scot R. Browning	0	3,500	$49.50	2022
Nick Bryan	3,250	0	$20.00	2018
Nick Bryan	2,437	813	$26.50	2019
Nick Bryan	2,500	2,500	$26.50	2020
Nick Bryan	1,500	1,500	$30.00	2020
Nick Bryan	875	2,625	$34.00	2021
Nick Bryan	0	3,000	$49.50	2022

Options awarded in 2013 through 2017 (grants expiring in 2018 through 2022, respectively), vest evenly over a 4 year period.

OTHER MATTERS

The Board is not aware of any other business that will be presented for consideration at the Annual Meeting. If any other matters should be properly presented at the Annual Meeting or any adjournments or postponements of the Annual Meeting for action by shareholders, the persons named in the form of proxy will vote the proxy in accordance with their best judgment on that matter.

Capital Bancorp, Inc. and Subsidiaries

Contents

elliott davis

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Capital Bancorp, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Capital Bancorp, Inc. and Subsidiaries (the "Company") as of December 31, 2017, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes to the consolidated financial statements and schedules (collectively, the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, 2016, and 2015, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Elliott Davis, LLC

We have served as the Company's auditor since 2017.

Columbia, South Carolina
March 30, 2018

Capital Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
As of December 31, 2017, 2016, and 2015

Assets	2017	2016	2015
Cash and due from banks	**$ 8,189,371**	$ 4,827,126	$ 4,128,695
Interest-bearing deposits at other financial institutions	**40,355,658**	29,145,332	15,780,999
Federal funds sold	**3,765,982**	4,161,741	236,113
Total cash and cash equivalents	**52,311,011**	38,134,199	20,145,807
Investment securities available for sale	**54,113,712**	48,069,833	39,260,235
Federal Reserve Bank and Federal Home Loan Bank (FHLB) stock, at cost	**2,284,250**	2,208,500	2,035,350
Loans held for sale	**26,344,241**	49,166,805	38,877,666
Loans receivable, net of allowance for loan losses of $10,033,200, $8,597,008, and $6,572,923, at December 31, 2017, 2016, and 2015, respectively	**877,387,104**	754,832,603	632,777,455
Premises and equipment, net	**1,511,074**	1,526,291	1,605,477
Accrued interest receivable	**3,866,749**	3,212,568	2,801,266
Deferred income taxes	**3,381,482**	4,414,336	2,907,001
Foreclosed real estate	**92,714**	89,551	202,813
Core deposit intangible	**—**	—	16,838
Prepaid income taxes	**1,532,468**	—	—
Other assets	**3,183,942**	3,945,648	2,798,831
Total assets	**$ 1,026,008,747**	$ 905,600,334	$ 743,428,739
Liabilities			
Deposits			
Noninterest-bearing	**$ 196,635,473**	$ 156,206,247	$ 122,245,735
Interest-bearing	**708,263,509**	634,718,249	507,570,949
Total deposits	**904,898,982**	790,924,496	629,816,684
Securities sold under agreements to repurchase	**11,260,363**	9,659,094	12,439,952
Federal Home Loan Bank advances	**2,000,000**	6,000,000	11,000,000
Other borrowed funds	**17,361,231**	17,326,840	23,629,125
Accrued interest payable	**1,083,532**	776,346	611,761
Other liabilities	**9,285,564**	10,165,856	6,274,378
Total liabilities	**945,889,672**	834,852,632	683,771,900
Commitments and contingencies (see Notes 15, 18, and 19)			
Stockholders' equity			
Preferred stock, $.01 par value; 1,000,000 shares authorized; no shares issued or outstanding at December 31, 2017, 2016, and 2015	**—**	—	—
Common stock, $.01 par value; 9,000,000 shares authorized; 2,884,299, 2,786,174, and 2,556,445 issued and outstanding at December 31, 2017, 2016, and 2015, respectively	**28,843**	27,862	25,564
Additional paid-in capital	**27,137,270**	24,700,720	22,825,963
Retained earnings	**53,199,657**	46,050,383	36,609,513
Accumulated other comprehensive income (loss)	**(246,695)**	(31,263)	195,799
Total stockholders' equity	**80,119,075**	70,747,702	59,656,839
Total liabilities and stockholders' equity	**$ 1,026,008,747**	$ 905,600,334	$ 743,428,739

See Notes to Consolidated Financial Statements

Capital Bancorp, Inc. and Subsidiaries

Consolidated Statements of Income
For the Years Ended December 31, 2017, 2016, and 2015

	2017	2016	2015
Interest revenue			
Loans, including fees	$ **54,996,087**	$ 48,064,465	$ 37,166,925
Investment securities available for sale	**1,067,359**	890,161	867,239
Federal funds sold and other	**602,133**	288,438	219,588
Total interest revenue	**56,665,579**	49,243,064	38,253,752
Interest expense			
Deposits	**6,434,194**	4,856,842	3,338,868
Borrowed funds	**1,320,979**	1,627,149	1,238,857
Total interest expense	**7,755,173**	6,483,991	4,577,725
Net interest income	**48,910,406**	42,759,073	33,676,027
Provision for loan losses	**2,654,774**	4,291,217	1,608,771
Net interest income after provision for loan losses	**46,255,632**	38,467,856	32,067,256
Noninterest income			
Service charges on deposits	**460,215**	433,077	364,954
Credit card fees	**4,013,588**	3,330,696	2,134,461
Mortgage banking revenue	**10,377,021**	16,452,400	12,144,824
Loss on sale of foreclosed real estate	**(51,568)**	(44,800)	(12,274)
Loss on disposal of premises and equipment	**(77,306)**	—	(30,685)
Other fees and charges	**427,283**	301,567	327,313
Total noninterest income	**15,149,233**	20,472,940	14,928,593
Noninterest expenses			
Salaries and employee benefits	**23,818,782**	25,296,934	20,881,087
Occupancy and equipment	**3,829,148**	3,430,087	3,131,303
Professional fees	**1,874,562**	1,326,169	1,262,933
Data processing	**10,620,506**	5,399,728	3,448,865
Advertising	**1,921,850**	1,822,686	1,430,314
Loan processing	**1,408,573**	2,448,303	1,686,291
Other operating	**3,833,072**	3,655,698	2,976,140
Total noninterest expenses	**47,306,493**	43,379,605	34,816,933
Income before income taxes	**14,098,372**	15,561,191	12,178,916
Income tax expense	**6,989,522**	6,120,321	4,687,208
Net income	$ **7,108,850**	$ 9,440,870	$ 7,491,708
Basic earnings per share	$ **2.53**	$ 3.44	$ 3.12
Diluted earnings per share	$ **2.49**	$ 3.36	$ 2.96
Weighted average common shares outstanding:			
Basic earnings per share	**2,815,283**	2,740,783	2,405,020
Diluted earnings per share	**2,857,000**	2,822,261	2,622,009

See Notes to Consolidated Financial Statements

Capital Bancorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2017, 2016, and 2015

	2017	2016	2015
Net income	**$ 7,108,850**	$ 9,440,870	$ 7,491,708
Other comprehensive loss			
Unrealized loss on investment securities available for sale	**(302,029)**	(382,856)	(209,854)
Unrealized gain (loss) on cash flow hedging derivative	**12,973**	7,832	(14,284)
	(289,056)	(375,024)	(224,138)
Income tax benefit relating to the items above	**114,048**	147,962	88,347
Other comprehensive loss	**(175,008)**	(227,062)	(135,791)
Total comprehensive income	**$ 6,933,842**	$ 9,213,808	$ 7,355,917

See Notes to Consolidated Financial Statements

Capital Bancorp, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2017, 2016, and 2015

	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Shares	Amount				
Balance, December 31, 2014	2,390,705	$ 23,907	$ 20,743,316	$ 29,117,805	$ 331,590	$ 50,216,618
Net income	—	—	—	7,491,708	—	7,491,708
Unrealized loss on investment securities available for sale, net of income taxes of $82,277	—	—	—	—	(127,077)	(127,077)
Unrealized loss on cash flow hedging derivative, net of income taxes of $5,570	—	—	—	—	(8,714)	(8,714)
Stock options exercised, including tax benefit of $221,519	52,035	520	803,248	—	—	803,768
Common stock issued upon conversion of debt	138,839	1,388	1,664,680	—	—	1,666,068
Shares issued as compensation	32,370	324	631,910	—	—	632,234
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	36,609,513	195,799	59,656,839
Net income	—	—	—	9,440,870	—	9,440,870
Unrealized loss on investment securities available for sale, net of income taxes of $151,017	—	—	—	—	(231,839)	(231,839)
Unrealized gain on cash flow hedging derivative, net of income taxes of $3,055	—	—	—	—	4,777	4,777
Stock options exercised, including tax benefit of $100,874	47,935	479	769,985	—	—	770,464
Common stock issued upon conversion of debt	277,828	2,779	3,331,157	—	—	3,333,936
Shares issued as compensation	19,970	200	554,504	—	—	554,704
Stock-based compensation	—	—	638,722	—	—	638,722
Shares repurchased and retired	(116,004)	(1,160)	(3,419,611)	—	—	(3,420,771)
Balance, December 31, 2016	2,786,174	27,862	24,700,720	46,050,383	(31,263)	70,747,702
Net income	**—**	**—**	**—**	**7,108,850**	**—**	**7,108,850**
Unrealized loss on investment securities available for sale, net of income taxes of **$119,165**	**—**	**—**	**—**	**—**	**(182,893)**	**(182,893)**
Unrealized gain on cash flow hedging derivative, net of income taxes of **$5,118**	**—**	**—**	**—**	**—**	**7,885**	**7,885**
Reclassification of other comprehensive loss due to tax rate change	**—**	**—**	**—**	**40,424**	**(40,424)**	**—**
Stock options exercised, including tax benefit of **$129,972**	**89,583**	**895**	**1,666,608**	**—**	**—**	**1,667,503**
Shares issued as compensation	**25,665**	**257**	**775,553**	**—**	**—**	**775,810**
Stock-based compensation	**—**	**—**	**506,160**	**—**	**—**	**506,160**
Shares repurchased and retired	**(17,123)**	**(171)**	**(511,771)**	**—**	**—**	**(511,942)**
Balance, December 31, 2017	**2,884,299**	**$ 28,843**	**$ 27,137,270**	**$ 53,199,657**	**$ (246,695)**	**$ 80,119,075**

See Notes to Consolidated Financial Statements

Capital Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

For the Years ended December 31, 2017, 2016, and 2015

	2017	2016	2015
Cash flows from operating activities			
Interest received	**$ 56,385,684**	$ 49,567,807	$ 38,474,607
Noninterest revenue received	**4,823,780**	4,170,047	2,900,043
Interest paid	**(7,413,596)**	(6,319,406)	(4,269,317)
Cash paid to employees and suppliers	**(43,691,703)**	(39,992,366)	(32,216,475)
Origination of loans held for sale	**(435,821,602)**	(853,673,849)	(754,964,791)
Proceeds from sale of loans held for sale	**469,021,187**	859,837,110	770,891,223
Income taxes paid	**(8,360,709)**	(6,053,689)	(4,146,530)
Net cash provided by operating activities	**34,943,041**	7,535,654	16,668,760
Cash flows from investing activities			
Proceeds from maturity, paydowns, or call of investment securities available for sale	**6,202,621**	13,468,457	8,945,620
Purchase of investment securities available for sale	**(12,809,934)**	(22,882,626)	(9,154,735)
Purchase of Federal Reserve Bank and FHLB stock	**(75,750)**	(173,150)	870,800
(Increase) decrease in certificates of deposit in other financial institutions	**—**	—	3,711,500
Loans originated, net of repayments	**(126,403,322)**	(126,907,142)	(134,381,906)
Proceeds from sale of foreclosed real estate	**1,026,435**	10,200	258,721
Purchase of property, equipment, and software	**(1,307,623)**	(670,425)	(1,955,045)
Net cash used by investing activities	**(133,367,573)**	(137,154,686)	(131,705,045)
Cash flows from financing activities			
Increase (decrease) in			
Time deposits	**8,114,105**	78,980,629	27,296,462
Other deposits	**105,860,381**	82,127,183	100,545,978
Securities sold under agreements to repurchase	**1,601,269**	(2,780,858)	451,492
Federal Home Loan Bank advances, net	**(4,000,000)**	(5,000,000)	(25,000,000)
Other borrowed funds	**—**	(2,968,349)	13,233,193
Repurchase of common stock	**(511,942)**	(3,420,771)	(1,378,475)
Proceeds from exercise of stock options	**1,537,531**	669,590	582,249
Net cash provided by financing activities	**112,601,344**	147,607,424	115,730,899
Net increase in cash and cash equivalents	**14,176,812**	17,988,392	694,614
Cash and cash equivalents, beginning of year	**38,134,199**	20,145,807	19,451,193
Cash and cash equivalents, end of year	**$ 52,311,011**	$ 38,134,199	$ 20,145,807
Reconciliation of net income to net cash provided (used) by operating activities			
Net income	**$ 7,108,850**	$ 9,440,870	$ 7,491,708
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for loan losses	**2,654,774**	4,291,217	1,608,771

See Notes to Consolidated Financial Statements

Capital Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows, continued

For the Years ended December 31, 2017, 2016, and 2015

	2017	2016	2015
Provision for off balance sheet credit risk	**100,000**	225,000	15,000
Provision for recourse on mortgage loans sold, net	**15,212**	(120,121)	20,016
Depreciation and amortization	**982,833**	949,238	906,810
Net amortization on investment securities	**261,405**	221,713	132,349
Stock-based compensation	**506,160**	638,722	360,709
Director and employee compensation paid in Company stock	**775,810**	554,704	632,234
Deferred income taxes	**(238,698)**	(1,359,370)	(342,382)
Deferred tax asset adjustment for change in corporate income tax rate	**1,385,599**	—	—
Amortization of core deposit intangible	**—**	16,838	22,543
Income tax benefit of stock options exercised	**129,972**	100,874	221,519
Write-down of foreclosed real estate	**—**	104,707	104,000
Loss on sale of foreclosed real estate	**51,568**	44,800	12,274
Loss on disposal of premises and equipment	**77,306**	—	30,685
Amortization of debt issuance costs	**34,391**	—	—
(Increase) decrease in			
Loans held for sale	**22,822,564**	(10,289,139)	3,781,608
Accrued interest receivable	**(654,181)**	(411,302)	(591,323)
Other assets and prepaid income taxes	**(491,778)**	(1,392,454)	1,177,905
Increase (decrease) in			
Accrued interest payable	**307,186**	164,585	308,408
Other liabilities and income taxes payable	**(998,813)**	3,840,440	96,097
Deferred loan origination fees	**112,881**	514,332	679,829
Net cash provided by operating activities	**$ 34,943,041**	$ 7,535,654	$ 16,668,760
Supplemental cash flow information			
Loans transferred to foreclosed real estate	**$ 1,081,166**	$ 46,445	$ 123,811

See Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

Basis of presentation:

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

Nature of operations:

The Company's primary operations are conducted by the Bank, which operates branches in Rockville, Columbia 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.

The Bank purchased three failed banks through FDIC auctions in 2011, 2012, and 2013, two in the Philadelphia, Pennsylvania market and one in Asheville, North Carolina. Loans acquired from the three institutions are included within Note 4.

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, interest bearing deposits with banks and federal funds sold. Generally, federal funds are sold for one-day periods.

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 outstanding Federal Home Loan Bank advances to the Company.

Note 1 - Summary of Significant Accounting Policies (continued)

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.

Loans held for sale:

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

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

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

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. Generally, interest payments on nonaccrual loans are recorded as a reduction of the principal balance.

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

Note 1 - Summary of Significant Accounting Policies (continued)

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.

In December 2017, the President of the United States signed the Tax Cuts and Jobs Act of 2017. While a reduction in the federal corporate income tax rate from 34% to 21% will take effect in 2018, the enactment of the law in 2017 required the Company to revalue its deferred tax assets and liabilities as of December 31, 2017. The Company recorded net income tax expense of **$1,385,599** related to this revaluation. Of this amount, **$40,424** of expense was attributable to the Company's net deferred tax asset for unrealized losses on available for sale securities and cash flow hedge. In addition to adjusting the deferred tax asset for this item, the Company recorded an adjustment to accumulated other comprehensive income with a transfer to retained earnings.

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, 2017, 2016, and 2015, were:

	2017	2016	2015
Investment included in other assets	$ **299,733**	$ 302,117	$ 305,720
Related income included in noninterest revenue	**29,944**	30,649	31,414

The Company recognized affordable tax credits of **$375,494** for 2017, 2016, and 2015, and other tax benefits of **$125,000,** $163,000, and $147,000, for 2017, 2016, and 2015, respectively.

Note 1 - Summary of Significant Accounting Policies (continued)

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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (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.

Earnings per share:

Earnings per share is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding, adjusted for the dilutive effect of stock options and restricted stock using the treasury stock method, and assuming the conversion of shares under the convertible subordinated notes using the if-converted method. The following is a reconciliation of the numerators and denominators used in computing basic and diluted earnings per common share:

	2017			2016			2015		
	Income (Numerator)	**Shares (Denominator)**	**Per Share Amount**	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS									
Net income available to common stockholders	**$ 7,108,850**	**2,815,283**	**$ 2.53**	$ 9,440,870	2,740,783	$ 3.44	$ 7,491,708	2,405,020	**$ 3.12**
Effect of dilutive securities	**—**	**41,717**		46,758	81,478		280,500	216,989	
Dilutive EPS per common share	**$ 7,108,850**	**2,857,000**	**$ 2.49**	$ 9,487,628	2,822,261	$ 3.36	$ 7,772,208	2,622,009	**$ 2.96**

The assumption of conversion of shares under the convertible subordinated notes using the if-converted method increased net income for purposes of calculating diluted earnings per share by $46,758 and $280,500 for the years ended December 31, 2016 and 2015, respectively.

Note 1 - Summary of Significant Accounting Policies (continued)

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.

Comprehensive income:

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

The Company's only two components of other comprehensive income are unrealized gains and losses on investment securities available-for-sale, net of income taxes and unrealized gains and losses on cash flow hedges, net of income taxes. Information concerning the Company's accumulated other comprehensive income (loss) for the years ended December 31, 2017, 2016, and 2015 are as follows:

	2017	2016	2015
Unrealized gains (losses) on securities available-for-sale	$ **(347,155)**	$ (45,126)	$ 337,730
Deferred tax (expense) benefit	**95,528**	17,799	(133,217)
Other comprehensive income (loss), net of tax	**(251,627)**	(27,327)	204,513
Unrealized gains (losses) on cash flow hedges	**6,521**	(6,452)	(14,284)
Deferred tax (expense) benefit	**(1,589)**	2,516	5,570
Other comprehensive income (loss), net of tax	**4,932**	(3,936)	(8,714)
Total accumulated comprehensive income (loss)	$ **(246,695)**	$ (31,263)	$ 195,799

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, 2017, 2016, and 2015, the Company recorded compensation expense related to stock options granted of **$506,160**, $638,722, and $360,709 respectively.

Subsequent events:

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

Note 1 - Summary of Significant Accounting Policies (continued)

Recently issued accounting pronouncements:

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Company for reporting periods beginning after December 15, 2017.

The Company will apply the guidance using a modified retrospective approach. The Company's revenue is comprised of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. Accordingly, the majority of our revenues will not be affected. The Company is currently assessing our revenue contracts related to revenue streams that are within the scope of the standard. Our accounting policies will not change materially since the principles of revenue recognition from the Accounting Standards Update (ASU) are largely consistent with existing guidance and current practices applied by our businesses. We have not identified material changes to the timing or amount of revenue recognition. Based on the updated guidance, we do anticipate changes in our disclosures associated with our revenues. We will provide qualitative disclosures of our performance obligations related to our revenue recognition as we continue to evaluate disaggregation for significant categories of revenue in the scope of the guidance.

In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company will apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values will be applied prospectively to equity investments that exist as of the date of adoption of the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

We expect to adopt the guidance using the modified retrospective method and practical expedients for transition. The practical expedients allow us to largely account for our existing leases consistent with current guidance except for the incremental balance sheet recognition for lessees. We have started an initial evaluation of our leasing contracts and activities. We have also started developing our methodology to estimate the right-of use assets and lease liabilities, which is based on the present value of lease payments (the December 31, 2017 future minimum lease payments were $2.8 million). We do not expect a material change to the timing of expense recognition, but we are early in the implementation process and will continue to evaluate the impact. We are evaluating our existing disclosures and may need to provide additional information as a result of adoption of the ASU.

In March 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify the implementation guidance on principal versus agent considerations and address how an entity should assess whether it is the principal or the agent in contracts that include three or more parties. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning

Note 1 - Summary of Significant Accounting Policies (continued)

after December 15, 2019. Early adoption is permitted for all organizations for periods beginning after December 15, 2018.

The Company will apply the amendments to the ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. While early adoption is permitted beginning in first quarter 2019, we do not expect to elect that option. We are evaluating the impact of the ASU on our consolidated financial statements. In addition to our allowance for loan losses, we will also record an allowance for credit losses on debt securities instead of applying the impairment model currently utilized. The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.

In March 2017, the FASB amended the Receivables topic of the Accounting Standards Codification to eliminate the current diversity in practice with respect to the amortization period for certain purchased callable debt securities held at a premium. The amendments in this update shorten the amortization period for callable debt securities held at a premium, requiring the premium to be amortized to the earliest call date. This guidance is effective for the Company beginning after December 15, 2019. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2017, the FASB amended the Intangibles topic of the Accounting Standards Codification to simplify an entity's required test for impairment of goodwill by eliminating Step 2 from the goodwill impairment test. In Step 2, an entity measured goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Under this Update, an entity should perform its annual or quarterly goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount and record an impairment charge for the excess of the carrying amount over the reporting unit's fair value. The loss recognized should not exceed the total amount of goodwill allocated to the reporting unit and the entity must consider the income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. This guidance is effective for the Company beginning after December 15, 2019. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2017, the FASB amended the Business Combinations topic of the Accounting Standards Codification to clarify the definition of a business to provide entities with assistance in evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The update provides a screen to determine when an integrated set of assets and activities (a "set") is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable assets or a group of similar identifiable assets, the set is not a business. The screen thus reduces the number of transactions that need to be further evaluated. If the screen is not met, the amendments in this Update (1) require that to be considered a business, a set must include, at a minimum, an input and substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The amendments provide a framework to assist entities in evaluating whether both an input and a substantive process are present. The framework includes two sets of criteria to consider that depend on whether a set has outputs. Although outputs are not required for an asset to be a business, outputs generally are a key element of a business; therefor, the Board has developed more stringent criteria for sets without outputs. This guidance is effective for the Company beginning after December 15, 2017, including interim periods within those periods. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2017, the FASB amended the Other Income Topic of the Accounting Standards Codification to clarify the scope of the guidance on nonfinancial asset derecognition as well as the accounting for partial sales of nonfinancial assets. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard. The amendments will be effective for the Company for reporting periods beginning after

Note 1 - Summary of Significant Accounting Policies (continued)

December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

In May 2017, the FASB amended the requirements in the Compensation-Stock Compensation Topic of the Accounting Standards Codification related to changes to the terms or conditions of a share-based payment award. The amendments provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendments will be effective for the Company for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2017, the FASB amended the requirements of the Derivatives and Hedging Topic of the Accounting Standards Codification to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The amendments will be effective for the Company for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In September 2017, the FASB updated the Revenue from Contracts with Customers and the Leases Topics of the Accounting Standards Codification. The amendments incorporate into the Accounting Standards Codification recent SEC guidance about certain public business entities (PBEs) electing to use the non-PBE effective dates solely to adopt the FASB's new standards on revenue and leases. The amendments were effective upon issuance. The Company is currently in the process of evaluating the impact of adoption of this guidance, however it does not expect these amendments to have a material effect on its financial statements.

In November 2017, the FASB updated the Income Statement and Revenue from Contracts with Customers Topics of the Accounting Standards Codification. The amendments incorporate into the Accounting Standards Codification recent SEC guidance related to revenue recognition. The amendments were effective upon issuance. The Company is currently evaluating the impact on revenue recognition, however it does not expect these amendments to have a material effect on its financial statements.

In February 2018, the FASB updated the Income Statement – Reporting Comprehensive Income and Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income Topics of the ASC. The update requires companies to reclassify the stranded effects in other comprehensive income to retained earnings as a result of the change in the tax rates under the Tax Cuts and Jobs Act (the "2017 Tax Act"). The Company has opted to early adopt this pronouncement by retrospective application to each period in which the effect of the change in the tax rate under the 2017 Tax Act is recognized. The impact of the reclassification from other comprehensive income to retained earnings is included in the Statement of Changes in Stockholders' Equity.

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

Reclassifications:

Certain reclassifications have been made to the amounts reported for 2016 and 2015 to conform to the current year presentation. The reclassifications had no effect on net income or total stockholders' equity.

Note 2. Cash and Cash Equivalents

Note 2 - Cash and Cash Equivalents

The Bank is required by regulation to maintain an average cash reserve balance based on a percentage of deposits. At December 31, 2017, 2016, and 2015, the requirements were satisfied by amounts on deposits with the Federal Reserve Bank and cash on hand.

Note 3 - Investment Securities

The amortized cost and estimated fair value of investment securities at December 31, 2017, 2016, and 2015, are summarized as follows:

December 31, 2017	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
U.S. government-sponsored enterprises	$ 17,487,633	$ 1,896	$ 119,822	$ 17,369,707
Municipal	518,460	—	2,774	515,686
Corporate	3,059,661	66,700	49,918	3,076,443
	21,065,754	68,596	172,514	20,961,836
Mortgage-backed securities	33,310,113	178,782	422,019	33,066,876
Equity securities	85,000	—	—	85,000
	$ 54,460,867	$ 247,378	$ 594,533	$ 54,113,712
December 31, 2016				
Available for sale				
U.S. government-sponsored enterprises	$ 17,479,807	$ 46,600	$ 58,494	$ 17,467,913
Corporate	3,060,151	37,900	19,505	3,078,546
	20,539,958	84,500	77,999	20,546,459
Mortgage-backed securities	27,490,001	274,922	326,549	27,438,374
Equity securities	85,000	—	—	85,000
	$ 48,114,959	$ 359,422	$ 404,548	$ 48,069,833
December 31, 2015				
Available for sale				
U.S. government-sponsored enterprises	$ 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

No securities were sold during the years ended December 31, 2017, 2016, and 2015.

Note 3 - Investment Securities (continued)

Information related to unrealized losses in the investment portfolio as of December 31, 2017, 2016, and 2015, are as follows:

	Less than 12 months		12 months or longer		Total	
December 31, 2017	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. government-sponsored enterprises	**$ 8,967,200**	**$ 26,300**	**$ 7,905,500**	**$ 93,522**	**$ 16,872,700**	**$ 119,822**
Municipal	**515,686**	**2,774**	**—**	**—**	**515,686**	**2,774**
Corporate	**—**	**—**	**1,009,750**	**49,918**	**1,009,750**	**49,918**
Mortgage-backed securities	**11,203,762**	**164,635**	**13,645,164**	**257,384**	**24,848,926**	**422,019**
	$ 20,686,648	**$ 193,709**	**$ 22,560,414**	**$ 400,824**	**$ 43,247,062**	**$ 594,533**
December 31, 2016						
U.S. government-sponsored enterprises	$ 7,940,000	$ 58,494	$ —	$ —	$ 7,940,000	$ 58,494
Corporate	522,496	5,163	518,150	14,342	1,040,646	19,505
Mortgage-backed securities	16,859,505	314,584	106,208	11,965	16,965,713	326,549
	$ 25,322,001	$ 378,241	$ 624,358	$ 26,307	$ 25,946,359	$ 404,548
December 31, 2015						
U.S. government-sponsored enterprises	$ 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

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.

A summary of pledged securities at December 31, 2017, 2016, and 2015, are shown below:

	2017		2016		2015	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities pledged for						
Securities sold under agreements to repurchase	**$ 14,404,672**	**$ 14,474,731**	$ 16,440,448	$ 16,580,196	$ 20,984,673	$ 21,259,204
Federal Home Loan Bank advances	**7,432,948**	**7,453,508**	8,373,566	8,453,348	9,554,612	9,680,612
	$ 21,837,620	**$ 21,928,239**	$ 24,814,014	$ 25,033,544	$ 30,539,285	$ 30,939,816

Note 3 - Investment Securities (continued)

Contractual maturities of U.S. government-sponsored enterprises and corporate securities at December 31, 2017, 2016, and 2015, 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.

	2017		2016		2015	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturing						
Within one year	$ —	$ —	$ —	$ —	$ 497,536	$ 504,900
Over one to five years	**17,487,633**	**17,369,707**	17,479,807	17,467,909	17,491,251	17,525,127
Over five to ten years	**2,518,460**	**2,582,386**	—	—	—	—
Over ten years	**1,059,661**	**1,009,743**	3,060,151	3,078,550	1,060,608	1,022,550
	$ 21,065,754	**$ 20,961,836**	$ 20,539,958	$ 20,546,459	$ 19,049,395	$ 19,052,577

Mortgage-backed securities are due in monthly installments and are not included in the above tables.

Note 4 - Loans Receivable

Major classifications of loans as of December 31 are as follows:

	2017	2016	2015
Real estate			
Residential	**342,683,903**	286,331,803	225,184,783
Commercial	**259,852,933**	234,869,664	190,776,541
Construction	**144,932,066**	134,540,068	129,304,099
Commercial	**108,981,942**	87,562,830	79,003,446
Credit card	**31,506,477**	20,445,914	13,811,810
Other consumer	**1,053,233**	1,156,701	2,232,736
	889,010,554	764,906,980	640,313,415
Deferred origination fees, net	**(1,590,250)**	(1,477,369)	(963,037)
Allowance for loan losses	**(10,033,200)**	(8,597,008)	(6,572,923)
Loans receivable, net	**877,387,104**	754,832,603	632,777,455

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.

Approximately **$29.4 million**, $19.3 million, and $13.3 million of the credit card balances were secured by savings deposits held by the Company, as of December 31, 2017, 2016, and 2015, respectively.

Note 4 - Loans receivable (continued)

Loans acquired through acquisitions are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan losses. In estimating the fair value of loans acquired, certain factors were considered, including the remaining lives of the acquired loans, payment history, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, and the net present value 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 **$601 thousand,** $1.1 million, and $1.5 million as of December 31, 2017, 2016, and 2015, respectively. Loans with nonaccretable discounts had a carrying value of **$1.5 million,** $2.3 million, and $2.5 million as of December 31, 2017, 2016, and 2015, respectively. The activity in the accretable discounts on loans acquired during the years ended December 31, 2017, 2016, and 2015, was as follows:

	2017	2016	2015
Accretable discount at beginning of year	**$ 676,200**	$ 1,083,916	$ 2,005,369
Accretion and payoff of loans	**(133,637)**	(338,682)	(383,704)
Reclassification from nonaccretable	—	—	125,416
Reclassification to nonaccretable	—	(69,034)	(663,165)
Accretable discount at end of year	**$ 542,563**	$ 676,200	$ 1,083,916

Note 4 - Loans receivable (continued)

A summary of transactions in the allowance for loan losses, by loan classification, during the years ended December 31, 2017, 2016, and 2015, follows:

						Allowance for loan losses ending balance evaluated for impairment:		Outstanding loan balances evaluated for impairment:	
December 31, 2017	Beginning balance	Provision for loan losses	Charge-offs	Recoveries	Ending balance	Individually	Collectively	Individually	Collectively
Real estate									
Residential	**$ 2,663,555**	**$ 664,419**	**$ (190,502)**	**$ —**	**$ 3,137,472**	**$ —**	**$ 3,137,472**	**$ 1,765,932**	**$ 340,917,971**
Commercial	**2,682,171**	**374,671**	**(311,586)**	**115,100**	**2,860,356**	**—**	**2,860,356**	**4,292,963**	**255,559,970**
Construction	**1,590,778**	**55,406**	**—**	**—**	**1,646,184**	**—**	**1,646,184**	**626,831**	**144,305,235**
Commercial	**1,174,316**	**344,357**	**(24,849)**	**2,871**	**1,496,695**	**59,959**	**1,436,736**	**1,544,165**	**107,437,777**
Credit card	**477,308**	**1,217,147**	**(1,124,357)**	**314,741**	**884,839**	**—**	**884,839**	**—**	**31,506,477**
Other consumer	**8,880**	**(1,226)**	**—**	**—**	**7,654**	**—**	**7,654**	**—**	**1,053,233**
	$ 8,597,008	**$ 2,654,774**	**$ (1,651,294)**	**$ 432,712**	**$ 10,033,200**	**$ 59,959**	**$ 9,973,241**	**$ 8,229,891**	**$ 880,780,663**
December 31, 2016									
Real estate									
Residential	$ 2,006,009	$ 692,283	$ (42,025)	$ 7,288	$ 2,663,555	$ —	$ 2,663,555	$ 1,585,395	$ 284,746,408
Commercial	2,111,325	544,372	(62,000)	88,474	2,682,171	—	2,682,171	1,117,346	233,752,318
Construction	1,564,922	25,856	—	—	1,590,778	—	1,590,778	—	134,540,068
Commercial	726,863	2,204,292	(1,764,869)	8,030	1,174,316	63,351	1,110,965	726,203	86,836,627
Credit card	110,494	868,844	(639,878)	137,848	477,308	—	477,308	—	20,445,914
Other consumer	53,310	(44,430)	—	—	8,880	—	8,880	—	1,156,701
	$ 6,572,923	$ 4,291,217	$ (2,508,772)	$ 241,640	$ 8,597,008	$ 63,351	$ 8,533,657	$ 3,428,944	$ 761,478,036
December 31, 2015									
Real estate									
Residential	$ 1,457,731	$ 561,066	$ (13,001)	$ 213	$ 2,006,009	$ —	$ 2,006,009	$ 2,560,472	$ 222,624,311
Commercial	1,967,314	298,083	(154,072)	—	2,111,325	—	2,111,325	2,272,579	188,503,962
Construction	1,257,077	231,634	—	76,211	1,564,922	—	1,564,922	—	129,304,099
Commercial	810,747	162,269	(262,880)	16,727	726,863	29,100	697,763	935,930	78,067,516
Credit card	—	340,073	(229,579)	—	110,494	—	110,494	—	13,811,810
Other consumer	37,687	15,646	(23)	—	53,310	—	53,310	—	2,232,736
	$ 5,530,556	$ 1,608,771	$ (659,555)	$ 93,151	$ 6,572,923	$ 29,100	$ 6,543,823	$ 5,768,981	$ 634,544,434

Note 4 - Loans receivable (continued)

Past due loans, segregated by age and class of loans, as of December 31, 2017, 2016, and 2015, were as follows:

December 31, 2017	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
Real estate								
Residential	**$ 8,311,391**	**$ 967,529**	**$ 9,278,920**	**$ 333,404,983**	**$ 342,683,903**	**$ —**	**$ 1,827,652**	**$ 255,607**
Commercial	**127,508**	**333,041**	**460,549**	**259,392,384**	**259,852,933**	**—**	**1,648,456**	**35,728**
Construction	**—**	**280,192**	**280,192**	**144,651,874**	**144,932,066**	**280,192**	**498,839**	**32,470**
Commercial	**1,219,313**	**910,568**	**2,129,881**	**106,852,061**	**108,981,942**	**—**	**1,067,445**	**69,839**
Credit card	**2,982,081**	**85,154**	**3,067,235**	**28,439,242**	**31,506,477**	**85,154**	**—**	**—**
Other consumer	**—**	**—**	**—**	**1,053,233**	**1,053,233**	**—**	**—**	**—**
	$ 12,640,293	**$ 2,576,484**	**$ 15,216,777**	**$ 873,793,777**	**$ 889,010,554**	**$ 365,346**	**$ 5,042,392**	**$ 393,644**
Acquired loans included in total above	**$ 207,818**	**$ 634,972**	**$ 842,790**	**$ 9,525,686**	**$ 10,368,476**	**$ —**	**$ 1,366,617**	**$ 130,940**
December 31, 2016								
Real estate								
Residential	$ 2,108,637	$ 1,309,329	$ 3,417,966	$ 282,913,837	$ 286,331,803	$ —	$ 1,821,609	$ 283,786
Commercial	320,160	1,275,524	1,595,684	233,273,980	234,869,664	752,680	1,193,486	142,073
Construction	—	150,000	150,000	134,390,068	134,540,068	—	—	—
Commercial	328,405	560,880	889,285	86,673,545	87,562,830	—	749,758	208,796
Credit card	2,091,793	—	2,091,793	18,354,121	20,445,914	—	—	—
Other consumer	—	—	—	1,156,701	1,156,701	—	—	—
	$ 4,848,995	$ 3,295,733	$ 8,144,728	$ 756,762,252	$ 764,906,980	$ 752,680	$ 3,764,853	$ 634,655
Acquired loans included in total above	$ 444,970	$ 2,499,308	$ 2,944,278	$ 10,083,159	$ 13,027,437	$ 752,680	$ 2,608,370	$ 451,882
December 31, 2015								
Real estate								
Residential	$ 2,226,437	$ 1,666,022	$ 3,892,459	$ 221,292,324	$ 225,184,783	$ 19,220	$ 2,392,496	$ 269,555
Commercial	—	2,354,617	2,354,617	188,421,924	190,776,541	752,680	1,675,092	266,573
Construction	—	518,463	518,463	128,785,636	129,304,099	—	—	5,924
Commercial	280,930	752,052	1,032,982	77,970,464	79,003,446	—	935,930	141,009
Credit card	1,091,593	143	1,091,736	12,720,074	13,811,810	143	—	—
Other consumer	—	—	—	2,232,736	2,232,736	—	—	—
	$ 3,598,960	$ 5,291,297	$ 8,890,257	$ 631,423,158	$ 640,313,415	$ 772,043	$ 5,003,518	$ 683,061
Acquired loans included in total above	$ 429,305	$ 2,650,908	$ 3,080,213	$ 13,929,653	$ 17,009,866	$ 771,900	$ 2,292,945	$ 451,882

Note 4 - Loans receivable (continued)

Impaired loans include loans acquired on which management has recorded a nonaccretable discount. Impaired loans as of December 31, 2017, 2016, and 2015, were as follows:

December 31, 2017	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment	Related allowance	Average recorded investment	Interest recognized
Real estate							
Residential	$ 2,328,874	$ 1,765,932	$ —	$ 1,765,932	$ —	$ 1,947,998	$ 29,909
Commercial	4,677,261	4,292,963	—	4,292,963	—	4,406,692	169,124
Construction	659,301	626,831	—	626,831	—	880,468	24,267
Commercial	1,824,078	1,177,875	366,290	1,544,165	59,959	1,599,588	47,963
Credit card	—	—	—	—	—	—	—
Other consumer	—	—	—	—	—	—	—
	$ 9,489,514	$ 7,863,601	$ 366,290	$ 8,229,891	$ 59,959	$ 8,834,746	$ 271,263
Acquired loans included in total above	$ 2,149,101	$ 1,365,695	$ —	$ 1,365,695	$ —	$ 1,552,781	$ 1,313
December 31, 2016							
Real estate							
Residential	$ 2,149,348	$ 1,585,395	$ —	$ 1,585,395	$ —	$ 1,670,946	$ 1,312
Commercial	1,711,373	1,117,346	—	1,117,346	—	1,151,705	6,639
Construction	—	—	—	—	—	—	—
Commercial	1,422,782	306,184	420,019	726,203	63,351	743,275	—
Credit card	—	—	—	—	—	—	—
Other consumer	—	—	—	—	—	—	—
	$ 5,283,503	$ 3,008,925	$ 420,019	$ 3,428,944	$ 63,351	$ 3,565,926	$ 7,951
Acquired loans included in total above	$ 3,738,711	$ 2,251,111	$ 44,729	$ 2,295,840	$ 12,729	$ 2,353,650	$ 7,951
December 31, 2015							
Real estate							
Residential	$ 3,284,710	$ 2,560,472	$ —	$ 2,560,472	$ —	$ 2,616,231	$ 25,867
Commercial	3,273,470	2,272,579	—	2,272,579	—	2,333,503	62,072
Construction	—	—	—	—	—	—	—
Commercial	1,630,620	561,105	374,825	935,930	29,100	1,098,959	15,668
Credit card	—	—	—	—	—	—	—
Other consumer	—	—	—	—	—	—	—
	$ 8,188,800	$ 5,394,156	$ 374,825	$ 5,768,981	$ 29,100	$ 6,048,693	$ 103,607
Acquired loans included in total above	$ 4,826,534	$ 3,058,409	$ —	$ 3,058,409	$ —	$ 3,205,649	$ 87,939

Note 4 - Loans receivable (continued)

Credit quality indicators

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

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

Special Mention

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

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

Substandard

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

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

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.

Note 4 - Loans receivable (continued)

The following table presents the December 31, 2017, 2016, and 2015, balances of classified loans based on the risk grade. Classified loans include Special Mention, Substandard, and Doubtful loans.

December 31, 2017	Special Mention	Substandard	Doubtful	Total
Real estate				
Residential	**$ —**	**$ 1,830,112**	**$ —**	**$ 1,830,112**
Commercial	**6,175,269**	**2,385,836**	**—**	**8,561,105**
Construction	**—**	**498,839**	**—**	**498,839**
Commercial	**5,729,478**	**1,384,630**	**—**	**7,114,108**
Credit card	**—**	**—**	**—**	**—**
Other consumer	**—**	**—**	**—**	**—**
	$ 11,904,747	**$ 6,099,417**	**$ —**	**$ 18,004,164**
Acquired loans included in total above	**$ 39,098**	**$ 2,103,998**	**$ —**	**$ 2,143,096**
December 31, 2016				
Real estate				
Residential	$ —	$ 1,587,395	$ —	$ 1,587,395
Commercial	3,526,379	1,870,026	—	5,396,405
Construction	—	—	—	—
Commercial	1,071,210	726,203	—	1,797,413
Credit card	—	—	—	—
Other consumer	—	—	—	—
	$ 4,597,589	$ 4,183,624	$ —	$ 8,781,213
Acquired loans included in total above	$ 39,228	$ 3,050,520	$ —	$ 3,089,748
December 31, 2015				
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
Acquired loans included in total above	$ 38,778	$ 3,551,708	$ —	$ 3,590,486

Note 4 - Loans receivable (continued)

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 follows:

Note 4 - Loans receivable (continued)

	Number of contracts	Recorded Investment		
		Performing	Nonperforming	Total
December 31, 2017				
Real estate				
Residential	**5**	**$ —**	**$ 253,949**	**$ 253,949**
Commercial	**1**	**2,709,243**	**—**	**2,709,243**
Construction	**—**	**—**	**—**	**—**
Commercial	**3**	**509,535**	**338,024**	**847,559**
Credit card	**—**	**—**	**—**	**—**
Other consumer	**—**	**—**	**—**	**—**
	9	**$ 3,218,778**	**$ 591,973**	**$ 3,810,751**
Acquired loans included in total above	**4**	**$ —**	**$ 151,269**	**$ 151,269**
December 31, 2016				
Real estate				
Residential	7	$ —	$ 491,396	$ 491,396
Commercial	1	—	102,490	102,490
Construction	—	—	—	—
Commercial	3	—	347,024	347,024
Credit card	—	—	—	—
Other consumer	—	—	—	—
	11	$ —	$ 940,910	$ 940,910
Acquired loans included in total above	6	$ —	$ 270,249	$ 270,249
December 31, 2015				
Real estate				
Residential	11	$ 267,154	$ 996,378	$ 1,263,532
Commercial	3	—	977,477	977,477
Construction	—	—	—	—
Commercial	1	—	181,446	181,446
Credit card	—	—	—	—
Other consumer	—	—	—	—
	15	$ 267,154	$ 2,155,301	$ 2,422,455
Acquired loans included in total above	7	$ 267,154	$ 426,721	$ 693,875

During the year ended December 31, 2017, the Company modified two nonperforming loans that were considered TDRs. The loans had balances totaling **$3,218,778** as of December 31, 2017, and were considered performing. During the year ended December 31, 2016, the Company modified two commercial loans that were considered TDRs. The loans had balances totaling $165,878 as of December 31, 2016, and were considered nonperforming. During the year ended December 31, 2015, the Company modified one commercial loan that was considered a TDR. The loan had a balance totaling $181,146 as of December 31, 2015, and was considered nonperforming.

Note 4 - Loans receivable (continued)

No loans restructured in the twelve months prior to December 31, 2017 or 2016 went into default during the period ended December 31, 2017 or 2016. Two loans restructured in the twelve months prior to December 31, 2015 went into default during the period ended December 31, 2015.

There were **$503,190,** $535,577, and $315,109, respectively, of loans secured by one to four family residential properties in the process of foreclosure as of December 31, 2017, 2016, and 2015.

Note 5 - Premises and Equipment

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

	Useful lives	**2017**	2016	2015
Leasehold improvements	10 years	**$ 1,065,260**	$ 978,529	$ 948,310
Furniture and equipment	2 - 7 years	**4,106,735**	3,681,000	3,260,357
Vehicle	3 years	**53,777**	53,777	53,777
		5,225,772	4,713,306	4,262,444
Accumulated depreciation and amortization		**3,714,698**	3,187,015	2,656,967
Premises and equipment, net		**$ 1,511,074**	$ 1,526,291	$ 1,605,477
Depreciation and amortization expense		**$ 527,683**	$ 530,047	$ 479,623

Included in other assets at December 31, 2017, 2016, and 2015, is computer software carried at an amortized cost of **$960,176,** $713,475, and $913,102, respectively. Software amortization expense was **$455,150,** $419,191, and $427,187 in 2017, 2016, and 2015, respectively. Also included in other assets at December 31, 2015, were capitalized project costs of $52,003 for designing a credit card application processing website. During the year ended December 31, 2016, the project was completed and placed in service. At December 31, 2017, $112,043 was included in other assets for additional redesigning of the website.

Note 6 - Derivative Financial Instruments

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

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.

At December 31, 2017, 2016, and 2015, the Company had open forward sales agreements with notional values of **$41.0 million,** $51.5 million, and $55.8 million, respectively. At December 31, 2017, 2016, and 2015, the Company had open mandatory delivery commitments of **$12.6 million,** $25.6 million, and $26.4 million, respectively. The open forward delivery sales agreements are composed of forward sales of loans. The fair values of the open forward sales agreements were **$(42,109),** $117,899, and $(57,454) at December 31, 2017, 2016, and 2015, respectively. The fair values of the open mandatory delivery commitments were **$17,982,** $(597,452), and $(36,843) at December 31, 2017, 2016, and 2015, respectively. 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 **$56.9 million,** $65.6 million, and $69.3 million at December 31, 2017, 2016, and 2015, respectively and included **$6.2 million,** $6.9 million, and $3.2 million of commitments that were made on a Best Efforts basis at December 31, 2017, 2016, and 2015, respectively. The fair values of these best efforts commitments were **$102,299,** $64,452, and $56,714 at December 31, 2017, 2016, and 2015, respectively. The remaining hedged interest rate lock commitments totaling **$50.7 million,** $58.7 million, and $66.1 million at December 31, 2017, 2016, and 2015, had fair values of **$107,922,** $(370,418), and $133,899, respectively.

On January 7, 2015, the Company entered into an interest rate swap transaction with a notional amount of $2 million. 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, 2017, 2016, and 2015, the swap had a fair value of **$6,521,** $(6,452), and $(14,284), respectively. The unrealized loss, net of income tax, has been recorded in other comprehensive income. Management believes there is no hedge ineffectiveness as of December 31, 2017.

Note 7 - Interest-Bearing Deposits

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

	2017	2016	2015
NOW accounts	$ **74,662,973**	$ 51,744,274	$ 36,331,262
Money market accounts	**312,809,008**	270,663,300	237,235,585
Savings	**3,450,486**	3,083,738	3,757,794
Certificates of deposit of $250,000 or more	**74,930,476**	46,220,015	24,980,952
Other time deposits	**242,410,566**	263,006,922	205,265,356
	$ **708,263,509**	$ 634,718,249	$ 507,570,949

The aggregate amount of brokered certificates of deposit was **$72.5 million**, $60.6 million, and $36.6 million at December 31, 2017, 2016, and 2015, respectively. The aggregate amount of Certificate of Deposit Account Registry Service ("CDARS") reciprocal deposits was **$61.0 million**, $62.1 million, and $39.3 million at December 31, 2017, 2016, and 2015, respectively.

As of December 31, 2017, certificates of deposit mature as follows:

2018	$ **263,085,448**
2019	**41,522,868**
2020	**1,258,355**
2021	**11,202,371**
2022, and thereafter	**272,000**
	$ **317,341,042**

Note 8 - 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:

	2017	2016	2015
Average amount outstanding	$ **9,683,753**	$ 10,279,683	$ 11,552,542
Average rate paid during the year	**0.15%**	0.15%	0.14%
Maximum amount outstanding at month end	$ **12,471,656**	$ 13,031,543	$ 14,050,606
Investment securities pledged to secure the underlying agreements at year end			
Amortized cost	$ **14,404,672**	$ 16,440,448	$ 20,984,673
Estimated fair value	**14,474,731**	16,580,196	21,259,204

Note 9 - Borrowed Funds

As of December 31, 2017, 2016, and 2015, the Company was indebted as follows:

	2017		2016		2015	
Description	**Balance**	**Interest**	Balance	Interest	Balance	Interest
FHLB advance March 25, 2019	**$ 2,000,000**	**4.26%**	$ 2,000,000	4.26%	$ 2,000,000	4.26%
FHLB advance February 12, 2017	—	**—%**	2,000,000	1.15%	2,000,000	1.15%
FHLB advance September 7, 2017	—	**—%**	2,000,000	3.69%	2,000,000	3.69%
FHLB advance March 4, 2016	—	**—%**	—	—%	5,000,000	0.59%
Subtotal - FHLB advances	**2,000,000**		6,000,000		11,000,000	
Senior promissory note July 31, 2019	**2,000,000**	**5.50%**	2,000,000	5.00%	5,000,000	6.75%
Junior subordinated debentures June 15, 2036	**2,062,000**	**3.56%**	2,062,000	2.87%	2,062,000	2.48%
Convertible Subordinated Notes December 31, 2017	—	**—%**	—	—%	3,333,932	8.50%
Other subordinated notes December 1, 2025	**13,500,000**	**6.95%**	13,500,000	6.95%	13,500,000	6.95%
Less: Unamortized debt issuance costs	**(200,769)**		(235,160)		(266,807)	
Subtotal - other borrowed funds	**17,361,231**		17,326,840		23,629,125	
	$ 19,361,231		$ 23,326,840		$ 34,629,125	

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 Company repaid $3,000,000 on this note on July 30, 2016. On that date, the Note was amended and the interest rate was fixed at 5.00% through September 30, 2017. Effective October 1, 2017, the Note was again amended to fix the interest rate at 5.50% through March 31, 2018. After March 31, 2018, the interest rate converts to a floating rate of the one-year LIBOR plus 6.00% adjusted on the first business day of each quarter.

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.

Note 9 - Borrowed Funds (continued)

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, 2017, 2016, and 2015, the rate for the Trust was **3.56%**, 2.87%, and 2.48% respectively. 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.

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 matured on December 31, 2017. The Notes were convertible into shares of the Company's common stock at any time before maturity. The number of shares that would have been granted upon such a conversion would be determined by dividing the principal amount of the Notes by the conversion price, $12.00 per share. The conversion price would 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 had 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 of Notes outstanding that it would redeem the remaining balance on March 31, 2016. During the year ended December 31, 2016, $3,333,932 of principal was converted to 277,828 newly issued shares of common stock at the $12.00 conversion price.

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 $278,231. The costs are amortized to interest expense through the maturity date of the notes.

Note 9 - Borrowed Funds (continued)

Available lines of credit

The Company has available lines of credit of **$28,000,000** with other correspondent banks.

The Company may borrow up to 25% of its assets from 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, 2017, 2016, and 2015, the Company had pledged loans providing borrowing capacity of **$78.8 million,** $80.4 million, and $65.5 million, respectively. As of December 31, 2017, 2016, and 2015, the Company had pledged investment securities with a fair value of **$7.5 million,** $8.5 million, and $9.7 million, respectively, to the FHLB. As of December 31, 2017, 2016, and 2015, the Company had **$84.1 million,** $82.7 million, and $63.9 million, respectively, of available borrowing capacity from the FHLB.

As of December 31, 2017, 2016, and 2015, the Company had pledged commercial loans to the Federal Reserve Bank of Richmond to provide a borrowing capacity totaling **$17.9 million,** $29.7 million, $29.7 million, respectively, under its discount window program. There were no advances outstanding under this facility as of December 31, 2017, 2016, and 2015.

Certificate of deposit funding through a financial network is limited to 15% of the Bank's assets, or approximately **$152.4 million,** $135.1 million, and $109.4 million as of December 31, 2017, 2016, and 2015, respectively.

Note 10 - Retirement Plan

The Company provides a defined contribution plan qualifying under Section 401(k) of the Internal Revenue Code to eligible employees. The Company contributes 3% of eligible compensation on behalf of all full-time employees up to limits prescribed by the Internal Revenue Code. The Company's contribution to the plan was **$527,031** in 2017, $588,313 in 2016, and $513,887 in 2015.

Note 11 - 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 2017, 2016, and 2015 follows:

	2017	2016	2015
Balance at beginning of year	**$ 13,529,110**	$ 19,786,393	$ 12,738,071
New loans	**34,385,710**	1,506,104	9,344,946
Amounts collected	**(36,446,775)**	(7,672,087)	(2,296,624)
Relationship changes	**4,800,000**	(91,300)	—
Balance at end of year	**$ 16,268,045**	$ 13,529,110	$ 19,786,393

Deposits from officers and directors and their related interests were **$178.0 million** at December 31, 2017, $169.2 million at December 31, 2016, and $100.9 million at December 31, 2015.

Note 11 - Related-Party Transactions (continued)

A director is an owner of a firm that provided professional services to the Company. Fees paid to the firm were **$3,425,** $11,381, and $11,985, in 2017, 2016, and 2015, 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 **$555,063,** $539,018, and $479,699 in 2017, 2016, and 2015, respectively.

Company directors, or their related interests, held **$1.4 million,** $1.4 million, and $3.4 million of the senior promissory notes outstanding as of December 31, 2017, 2016, and 2015, respectively.

Company directors, or their related interests, held $2.0 million of the convertible subordinated notes outstanding as of December 31, 2015.

Company directors, or their related interests, held **$4.6 million**, $5.0 million, and $2.9 million of participation loans from Church Street Capital as of December 31, 2017, 2016, and 2015, respectively.

Note 12 - Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act (the "2017 Tax Act") became law. The 2017 Tax Act includes a number of changes to existing U.S. tax laws that impact the Company, most notably a reduction of the U.S. corporate income tax rate to 21 percent for tax years beginning after December 31, 2017.

The components of income tax expense are as follows:

	2017	2016	2015
Current			
Federal	**$ 4,612,141**	$ 5,947,760	$ 3,940,671
State	**1,230,480**	1,531,931	1,088,919
	5,842,621	7,479,691	5,029,590
Deferred	**(238,698)**	(1,359,370)	(342,382)
Change in corporate income tax rate	**1,385,599**	—	—
	$ 6,989,522	$ 6,120,321	$ 4,687,208

Note 12 - Income Taxes (continued)

The components of deferred tax benefit are as follows:

	2017	2016	2015
Allowance for loan and credit losses	$ (705,537)	$ (967,403)	$ (459,521)
Reserve for recourse on mortgage loans sold	(6,001)	47,382	(7,896)
Nonaccrual interest	102,131	22,024	39,906
Foreclosed real estate write-downs	24,089	(8,168)	9,901
Stock-based compensation	(60,802)	(132,357)	(32,911)
Accrued severance	—	—	27,936
Long-term incentive program (LTIP)	(110,446)	—	—
Core deposit intangible	4,366	(2,276)	(4,526)
Net operating loss carryforward	(21,615)	(32,632)	(25,958)
Unrealized gain on loans held for sale	341,644	(316,971)	(78,734)
Accumulated depreciation	171,858	(1,601)	163,463
Valuation allowance	21,615	32,632	25,958
	$ (238,698)	$ (1,359,370)	$ (342,382)

Note 12 - Income Taxes (continued)

The components of the net deferred tax asset are:

	2017	2016	2015
Deferred tax assets			
Allowance for loan and credit losses	**$ 3,002,748**	$ 3,602,436	$ 2,635,033
Reserve for recourse on mortgage loans sold	**125,721**	174,215	221,597
Nonaccrual interest	**268,090**	486,424	508,448
Foreclosed real estate write-downs	**8,128**	35,740	27,572
Stock-based compensation	**187,914**	208,564	76,207
Long-term incentive program (LTIP)	**77,049**	—	—
Core deposit intangible	**26,621**	42,525	40,249
Unrealized loss on cash flow hedging derivative	—	2,516	5,570
Unrealized loss on investment securities available for sale	**95,529**	17,801	—
Unrealized loss on loans held for sale	—	329,020	12,049
Net operating loss carryforward	**212,367**	155,805	123,173
	4,004,167	5,055,046	3,649,898
Deferred tax liabilities			
Unrealized gain on investment securities available for sale	—	—	133,218
Unrealized gain on cash flow hedging derivative	**1,589**	—	—
Unrealized gain on loans held for sale	**8,807**	—	—
Accumulated depreciation	**399,275**	483,977	485,578
Deferred casualty gain	**647**	928	928
	410,318	484,905	619,724
Net deferred tax asset before valuation allowance	**3,593,849**	4,570,141	3,030,174
Valuation allowance	**212,367**	155,805	123,173
Net deferred tax asset	**$ 3,381,482**	$ 4,414,336	$ 2,907,001

Note 12 - 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:

	2017	2016	2015
Statutory federal income tax rate	**34.00%**	34.00%	34.00%
Increase (decrease) resulting from			
State income taxes, net of federal income tax benefit	**5.37**	4.00	4.00
Nondeductible expenses	**0.84**	1.10	0.80
Tax exempt income	**(0.22)**	(0.20)	(0.20)
Change in corporate income tax rate	**9.83**	—	—
Other	**(0.24)**	0.43	(0.11)
	49.58%	39.33%	38.49%

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the net deferred tax assets to net realizable value. As of December 31, 2017, management has determined that it is more likely than not that the majority of the deferred tax asset from continuing operations will be realized. At December 31, 2017, 2016, and 2015, a valuation allowance of **$212,367,** $155,805, and $123,173 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, 2014.

Note 13 - 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.

Note 13 - Capital Standards (continued)

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, 2017, the Bank met all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements were fully in effect.

The implementation of the capital conservation buffer began on January 1, 2016, at the 0.625% level and will 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.

As of December 31, 2017, 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.

The following table presents actual and required capital ratios as of December 31, 2017, 2016, and 2015, for the Company and the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2017, 2016, and 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.

Note 13 - Capital Standards (continued)

(Dollar amounts in thousands)	Actual		Minimum capital adequacy		To be well capitalized		Full Phase In of Basel III	
December 31, 2017	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
The Company								
Tier 1 leverage ratio (to average assets)	**$ 82,428**	**8.10%**	**$ 40,724**	**4.00%**	**N/A**	**N/A**	**$ 40,724**	**4.00%**
Tier 1 capital (to risk-weighted assets)	**82,428**	**10.18%**	**58,717**	**7.25%**	**N/A**	**N/A**	**68,841**	**8.50%**
Common equity tier 1 capital ratio (to risk-weighted assets)	**80,366**	**9.92%**	**46,569**	**5.75%**	**N/A**	**N/A**	**56,693**	**7.00%**
Total capital ratio (to risk-weighted assets)	**92,562**	**11.43%**	**74,915**	**9.25%**	**N/A**	**N/A**	**85,039**	**10.50%**
The Bank								
Tier 1 leverage ratio (to average assets)	**$ 86,150**	**8.55%**	**$ 40,316**	**4.00%**	**$ 50,395**	**5.00%**	**$ 40,316**	**4.00%**
Tier 1 capital (to risk-weighted assets)	**86,150**	**10.78%**	**57,928**	**7.25%**	**63,920**	**8.00%**	**67,915**	**8.50%**
Common equity tier 1 capital ratio (to risk-weighted assets)	**86,150**	**10.78%**	**45,943**	**5.75%**	**51,935**	**6.50%**	**55,930**	**7.00%**
Total capital ratio (to risk-weighted assets)	**96,148**	**12.03%**	**73,908**	**9.25%**	**79,900**	**10.00%**	**83,895**	**10.50%**
December 31, 2016								
The Company								
Tier 1 leverage ratio (to average assets)	$ 72,841	8.01 %	$ 36,388	4.00 %	N/A	N/A	$ 36,388	4.00 %
Tier 1 capital (to risk-weighted assets)	72,841	10.02 %	48,145	6.63 %	N/A	N/A	61,764	8.50 %
Common equity tier 1 capital ratio (to risk-weighted assets)	70,779	9.74 %	37,244	5.13 %	N/A	N/A	50,865	7.00 %
Total capital ratio (to risk-weighted assets)	95,437	13.13 %	62,679	8.63 %	N/A	N/A	76,297	10.50 %
The Bank								
Tier 1 leverage ratio (to average assets)	$ 80,155	8.86 %	$ 36,175	4.00 %	$ 45,218	5.00 %	$ 36,175	4.00 %
Tier 1 capital (to risk-weighted assets)	80,155	11.12 %	47,764	6.63 %	57,678	8.00 %	61,283	8.50 %
Common equity tier 1 capital ratio (to risk-weighted assets)	80,155	11.12 %	36,950	5.13 %	46,863	6.50 %	50,468	7.00 %
Total capital ratio (to risk-weighted assets)	89,171	12.37 %	62,184	8.63 %	72,097	10.00 %	75,702	10.50 %
December 31, 2015								
The Company								
Tier 1 leverage ratio (to average assets)	$ 61,513	8.51 %	$ 28,904	4.00 %	N/A	N/A	$ 28,904	4.00 %
Tier 1 capital (to risk-weighted assets)	61,513	10.01 %	36,858	6.00 %	N/A	N/A	52,215	8.50 %
Common equity tier 1 capital ratio (to risk-weighted assets)	59,451	9.68 %	27,643	4.50 %	N/A	N/A	43,001	7.00 %
Total capital ratio (to risk-weighted assets)	82,162	13.38 %	49,144	8.00 %	N/A	N/A	64,501	10.50 %
The Bank								
Tier 1 leverage ratio (to average assets)	$ 67,998	9.51 %	$ 28,590	4.00 %	$ 35,738	5.00 %	$ 28,590	4.00 %
Tier 1 capital (to risk-weighted assets)	67,998	11.35 %	35,961	6.00 %	47,949	8.00 %	50,945	8.50 %
Common equity tier 1 capital ratio (to risk-weighted assets)	67,998	11.35 %	26,971	4.50 %	38,958	6.50 %	41,955	7.00 %
Total capital ratio (to risk-weighted assets)	74,951	12.51 %	47,949	8.00 %	59,936	10.00 %	62,932	10.50 %

Note 14 - Stock-Based Compensation

Compensation cost is recognized for stock options and restricted stock awards issued to employees. Compensation cost is measured as the fair value of these awards on their date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used as the fair value of restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period for stock option awards and as the restriction period for restricted stock awards. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

The expense recognition of employee stock option and restricted stock awards resulted in net expense of approximately **$625,870,** $759,012, and $460,259 during the years ended December 31, 2017, 2016, and 2015, respectively.

Stock options:

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 August 2017, the Company's stockholders approved an increase in the number of shares available for grant to 1,043,380, of which 230,050 are available for future grant at December 31, 2017. 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, 2017, 2016, and 2015, is as follows:

	2017		2016		2015	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year	**399,994**	**$ 25.45**	391,416	$ 22.48	339,563	$ 18.45
Granted	**65,150**	**49.50**	67,050	33.70	111,700	29.37
Exercised	**(89,583)**	**18.61**	(47,935)	13.97	(52,035)	11.19
Expired/cancelled/forfeited	**(34,700)**	**23.48**	(10,537)	20.01	(7,812)	21.14
Outstanding at end of year	**340,861**	**$ 32.04**	399,994	$ 25.45	391,416	$ 22.48
Exercisable at end of year	**161,118**	**$ 25.89**	195,510	$ 21.27	161,622	$ 17.50

The weighted average fair value of options granted during the years ended December 31, 2017, 2016, and 2015, was **$10.71,** $7.74, and $7.22, respectively.

Note 14 - Stock-Based Compensation (continued)

A summary of information about stock options outstanding is as follows at December 31, 2017, 2016, and 2015:

December 31, 2017	Weighted average exercise price	Average remaining life (years)	Outstanding shares	Exercisable shares
	$ 20.00	**1.0**	**52,988**	**52,988**
	26.50	**2.0**	**80,948**	**54,717**
	30.00	**3.0**	**82,225**	**38,525**
	34.00	**4.0**	**59,550**	**14,888**
	49.50	**5.0**	**65,150**	**—**
	32.04	**2.6**	**340,861**	**161,118**
Intrinsic value on December 31, 2017			**$ 5,951,363**	**$ 4,271,277**
December 31, 2016				
	$ 14.00	0.7	7,143	7,143
	17.00	1.0	69,989	69,989
	20.00	2.0	71,138	53,354
	26.50	3.0	95,424	42,712
	30.00	4.0	94,250	22,312
	34.00	5.0	62,050	—
	25.45	2.9	399,994	195,510
Instrinsic value on December 31, 2016			$ 3,421,285	$ 2,489,212
December 31, 2015				
	$ 12.25	1.0	43,525	43,525
	14.00	1.8	7,143	5,357
	17.00	2.0	73,636	55,227
	20.00	3.0	74,638	37,319
	26.50	4.0	100,774	20,194
	30.00	5.0	91,700	—
	22.49	3.3	391,416	161,622
Intrisnic value on December 31, 2015			$ 1,645,530	$ 1,252,400

The aggregate intrinsic value as presented in the preceding tables is calculated by determining the difference between the estimated fair value of the stock as of December 31, 2017, 2016, and 2015, and the exercise price of the option, then multiply 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.

At December 31, 2017, there was **$996,283** of total unrecognized compensation expense related to nonvested stock options to be recognized over the next four years. At December 31, 2016, there was $881,868 of total unrecognized compensation expense related to nonvested stock options to be recognized over the next four years. At December 31,

Note 14 - Stock-Based Compensation (continued)

2015, there was $1.1 million 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 **$1.2 million,** $628,487, and $671,510, during the years ended December 31, 2017, 2016, and 2015, respectively.

The weighted average fair value of options granted during 2017, 2016, and 2015, were estimated using the Black-Scholes option-pricing model with the following assumptions:

	2017	2016	2015
Dividend yield	**0.00%**	0.00%	0.00%
Risk free interest rate	**2.20%**	1.94%	1.76%
Expected volatility	**18.94%**	21.07%	24.08%
Expected life in years	**5**	5	5

Restricted stock:

The Company from time-to-time also grants shares of restricted stock to key employees. These awards help align the interests of these employees with the interests of the stockholders of the Company by providing economic value directly related to increases in the value of the Company's stock. These awards typically hold service requirements over various vesting periods. The value of the stock awarded is established as the fair market value of the stock at the time of the grant. The Company recognizes expense, equal to the total value of such awards, ratably over the vesting period of the stock grants.

All restricted stock agreements are conditioned upon continued employment. Termination of employment prior to a vesting date, as described below, would terminate any interest in non-vested shares. All restricted shares will fully vest in the event of change in control of the Company.

Nonvested restricted stock for the years ended December 31, 2017, 2016, and 2015, is summarized in the following table.

	2017		2016		2015	
	Shares	Weighted Average grant-date fair value	Shares	Weighted Average grant-date fair value	Shares	Weighted Average grant-date fair value
Nonvested at beginning of year	**13,000**	**$ 29.81**	—	$ —	14,600	$ 14.00
Granted	**2,500**	**49.50**	13,000	29.81	—	—
Vested	**(4,000)**	**30.00**	—	—	(14,600)	14.00
Forfeited	**(1,000)**	**27.50**	—	—	—	—
Nonvested at end of year	**10,500**	**$ 34.64**	13,000	$ 29.81	—	$ —

Note 14 - Stock-Based Compensation (continued)

The vesting schedule of these shares as of December 31, 2017 is as follows:

Year	Shares
2018	4,000
2019	4,625
2020	625
2021	625
2022	625
	10,500

At December 31, 2017, there was **$243,750** of total unrecognized compensation expense related to nonvested restricted stock. At December 31, 2016, there was $267,210 of total unrecognized compensation expense related to nonvested restricted stock. There was no unrecognized compensation expense related to nonvested stock at December 31, 2015.

Note 15 - Loan Commitments

Outstanding loan commitments at December 31 were as follows:

	2017	2016	2015
Unused lines of credit			
Commercial	**$ 46,580,356**	$ 44,926,179	$ 32,633,945
Commercial real estate	**7,529,902**	9,342,205	6,725,795
Residential real estate	**7,072,371**	8,489,332	2,908,878
Home equity	**25,394,675**	23,880,014	20,332,609
Secured credit card	**30,160,522**	20,376,666	14,911,148
Personal	**147,524**	996,372	572,282
Construction commitments			
Residential real estate	**56,462,928**	55,369,209	51,630,141
Commercial real estate	**7,349,726**	3,119,288	—
	$ 180,698,004	$ 166,499,265	$ 129,714,798
Commitments to originate residential loans held for sale	**$ 4,137,725**	$ 6,777,809	$ 4,725,342
Letters of credit	**$ 6,759,499**	$ 4,597,637	$ 3,970,505

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.

Note 15 - 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, 2017, 2016, and 2015, respectively, the Company had an allowance for off-balance-sheet credit risk of **$901,298,** $801,298, and $576,298, 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, 2017, 2016, and 2015, the activity in this reserve is as follows:

Year Ended December 31,	**2017**	2016	2015
Balance at beginning of year	**$ 441,665**	$ 561,786	$ 541,770
Provision charged to operating expense	**115,255**	209,509	176,145
Recoveries	—	—	—
Charge-offs	**(100,043)**	(329,630)	(156,129)
Balance at end of year	**$ 456,877**	$ 441,665	$ 561,786

Note 16 - Parent Company Financial Information

The balance sheets as of December 31, 2017, 2016, and 2015, and statements of income and cash flows for the years then ended, for Capital Bancorp, Inc. (Parent only) are presented below:

Balance Sheets

December 31,	**2017**	2016	2015
Assets			
Cash and cash equivalents	**$ 798,106**	$ 1,551,594	$ 323,077
Investment in Capital Bank, NA	**85,897,663**	80,127,446	68,209,417
Investment in Church Street Capital, LLC	**3,092,134**	2,483,470	2,255,217
Capital Bancorp (MD) Statutory Trust	**62,000**	62,000	62,000
Loans receivable, net	**7,207,965**	3,650,330	12,275,696
Accrued interest receivable	**82,928**	56,533	53,081
Due from subsidiaries	**—**	50,278	6,525
Prepaid income taxes	**134,972**	203,763	239,237
Deferred income taxes	**18,235**	34,612	72,400
Other assets	**536,998**	93,548	85,901
	$ 97,831,001	$ 88,313,574	$ 83,582,551
Liabilities and Stockholders' Equity			
Borrowed funds	**$ 17,361,231**	$ 17,326,840	$ 23,629,125
Accrued interest payable	**81,585**	81,534	99,738
Due to subsidiaries	**94,110**	—	—
Other liabilities	**175,000**	157,498	196,849
	17,711,926	17,565,872	23,925,712
Stockholders' equity			
Common stock	**28,843**	27,862	25,564
Additional paid-in capital	**27,137,270**	24,700,720	22,825,963
Retained earnings	**53,199,657**	46,050,383	36,609,513
Accumulated other comprehensive income (loss)	**(246,695)**	(31,263)	195,799
Total stockholders' equity	**80,119,075**	70,747,702	59,656,839
	$ 97,831,001	$ 88,313,574	$ 83,582,551

Note 16 - Parent Company Financial Information (continued)

Statements of Income

Years Ended December 31,	**2017**	2016	2015
Interest and dividend revenue	**$ 341,876**	$ 460,754	$ 286,830
Dividend from Capital Bank, NA	**2,450,000**	2,700,000	1,700,000
Dividend from Capital Bancorp (MD) Statutory Trust	**1,927**	1,609	1,362
Total interest and dividend revenue	**2,793,803**	3,162,363	1,988,192
Interest expense	**1,147,933**	1,357,279	953,492
Net interest income	**1,645,870**	1,805,084	1,034,700
Provision for (recovery of) loan losses	**—**	(102,158)	135,000
Net interest income after provision for loan losses	**1,645,870**	1,907,242	899,700
Noninterest income	**1,200**	750	2,025
Noninterest expenses	**(137,477)**	(50,977)	(40,362)
Income before income taxes	**1,509,593**	1,857,015	861,363
Income tax benefit	**308,449**	286,615	285,137
Income before undistributed net income of subsidiaries	**1,818,042**	2,143,630	1,146,500
Equity in undistributed net income of subsidiaries	**5,290,808**	7,297,240	6,345,208
Net income	**$ 7,108,850**	$ 9,440,870	$ 7,491,708

Note 16 - Parent Company Financial Information (continued)

Statements of Cash Flows

Years Ended December 31,	**2017**	2016	2015
Cash flows from operating activities			
Interest and dividends received	$ 2,767,408	$ 3,158,911	$ 1,945,762
Noninterest revenue received	1,200	750	2,025
Interest paid	(1,113,491)	(1,375,483)	(855,809)
Cash paid to suppliers, net of reimbursements	(334,960)	22,217	234,960
Income taxes refunded	708,401	414,128	387,386
Net cash provided by operating activities	2,028,558	2,220,523	1,714,324
Cash flows from investing activities			
Investment in Capital Bank, NA	—	(4,000,000)	(6,500,000)
Investment in Church Street Capital, LLC	(250,000)	—	—
Loans originated, net of repayments	(3,557,635)	8,727,524	(8,249,110)
Net cash provided (used) by investing activities	(3,807,635)	4,727,524	(14,749,110)
Cash flows from financing activities			
(Repayment)/Issuance of debt	—	(2,968,349)	13,233,193
Repurchase of common stock	(511,942)	(3,420,771)	(1,378,475)
Proceeds from exercise of stock options	1,537,531	669,590	582,249
Net cash provided (used) by financing activities	1,025,589	(5,719,530)	12,436,967
Net increase (decrease) in cash and cash equivalents	(753,488)	1,228,517	(597,819)
Cash and cash equivalents at beginning of year	1,551,594	323,077	920,896
Cash and cash equivalents at end of year	$ 798,106	$ 1,551,594	$ 323,077
Reconciliation of net income to cash flows from operating activities			
Net income	$ 7,108,850	$ 9,440,870	$ 7,491,708
Equity in undistributed net income of subsidiaries	(5,290,808)	(7,297,240)	(6,345,208)
Provision for loan losses	—	(102,158)	135,000
Deferred income taxes	16,377	34,734	(51,470)
Amortization of debt issuance costs	34,391	—	—
(Increase) decrease in other assets	(525,586)	(11,547)	(184,660)
Increase (decrease) in accrued interest payable	51	(18,204)	97,683
Increase (decrease) in other liabilities	17,502	(39,351)	52,877
Income tax benefit of stock options exercised	129,972	100,874	211,519
Director and employee compensation paid in Company stock	537,809	112,545	306,875

Note 16 - Parent Company Financial Information (continued)

Statements of Cash Flows

Years Ended December 31,	**2017**	2016	2015
	$ 2,028,558	$ 2,220,523	$ 1,714,324

Note 17 - 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.

Note 17 - Fair Value (continued)

The Company has categorized its financial instruments measured at fair value on a recurring basis as of December 31, 2017, 2016, and 2015, as follows:

December 31, 2017	Total	Level 1 inputs	Level 2 inputs	Level 3 inputs
Investment securities available for sale				
U.S. government-sponsored enterprises	**$ 17,369,707**	**$ —**	**$ 17,369,707**	**$ —**
Municipal bonds	**515,686**	**—**	**515,686**	**—**
Corporate bonds	**3,076,443**	**—**	**3,076,443**	**—**
Mortgage-backed securities	**33,066,876**	**—**	**33,066,876**	**—**
Equity securities	**85,000**	**—**	**85,000**	**—**
	$ 54,113,712	**$ —**	**$ 54,113,712**	**$ —**
Loans held for sale	**$ 26,344,241**	**$ —**	**$ 26,344,241**	**$ —**
Derivative assets	**$ 100,422**	**$ —**	**$ 100,422**	**$ —**
Derivative liabilities	**$ (72,773)**	**$ —**	**$ (72,773)**	**$ —**
December 31, 2016				
Investment securities available for sale				
U.S. government-sponsored enterprises	$ 17,467,913	$ —	$ 17,467,913	$ —
Corporate bonds	3,078,546	—	3,078,546	—
Mortgage-backed securities	27,438,374	—	27,438,374	—
Equity securities	85,000	—	85,000	—
	$ 48,069,833	$ —	$ 48,069,833	$ —
Loans held for sale	$ 49,166,805	$ —	$ 49,166,805	$ —
Derivative assets	$ 1,948,700	$ —	$ 1,948,700	$ —
Derivative liabilities	$ (140,199)	$ —	$ (140,199)	$ —
December 31, 2015				
Investment securities available for sale				
U.S. government agency	$ 17,525,072	$ —	$ 17,525,072	$ —
Municipal bonds	—	—	—	—
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)	$ —

Note 17 - Fair Value (continued)

Financial instruments recorded using FASB ASC 825-10

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

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

December 31, 2017	Aggregate fair value	Difference	Contractual principal
Loans held for sale	**$ 26,344,241**	**$ 707,379**	**$ 25,636,862**
December 31, 2016			
Loans held for sale	$ 49,166,805	$ 481,458	$ 48,685,347
December 31, 2015			
Loans held for sale	$ 38,877,666	$ 920,671	$ 37,956,995

During the years ended December 31, 2017, 2016, and 2015, 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. During the year ended December 31, 2017, mortgage banking revenue increased by **$866,127** as a result of the change in fair value of loans held for sale. During the years ended December 31, 2016 and 2015, mortgage banking revenue was reduced by $803,577 and $199,606, respectively, as a result of the change in fair value of loans held for sale.

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. As of December 31, 2017, 2016, and 2015, the fair values consist of loan balances of **$8,229,891,** $3,428,944, and $5,768,981, net of valuation allowances of **$59,959,** $63,351, and $29,100, 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.

Note 17 - Fair Value (continued)

Transactions in foreclosed real estate were as follows:

	2017	2016	2015
Beginning of year balance	**$ 89,551**	$ 202,813	$ 453,997
Improvement and additions	**1,081,166**	46,445	123,811
Write-downs	**—**	(104,707)	(104,000)
Proceeds from sale	**(1,026,435)**	(10,200)	(258,721)
Loss on sale	**(51,568)**	(44,800)	(12,274)
End of year balance	**$ 92,714**	$ 89,551	$ 202,813

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

December 31, 2017	**Total**	**Level 1 inputs**	**Level 2 inputs**	**Level 3 inputs**
Impaired loans	$ 8,169,932	$ —	$ —	$ 8,169,932
Foreclosed real estate	$ 92,714	$ —	$ —	$ 92,714
December 31, 2016				
Impaired loans	$ 3,365,593	$ —	$ —	$ 3,365,593
Foreclosed real estate	$ 89,551	$ —	$ —	$ 89,551
December 31, 2015				
Impaired loans	$ 5,739,881	$ —	$ —	$ 5,739,881
Foreclosed real estate	$ 202,813	$ —	$ —	$ 202,813

Note 17 - Fair Value (continued)

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, 2017		December 31, 2016		December 31, 2015	
	Carrying amount	**Fair value**	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Level 1						
Federal Reserve Bank and FHLB stock	**$ 2,284,250**	**$ 2,284,250**	$ 2,208,500	$ 2,208,500	$ 2,035,350	$ 2,035,350
Level 3						
Loans receivable, net	**$ 877,387,104**	**$ 872,445,859**	$ 754,832,603	$ 753,358,701	$ 632,777,455	$ 633,969,249
Financial liabilities						
Level 1						
Noninterest-bearing deposits	**$ 196,635,473**	**$ 196,635,473**	$ 156,206,247	$ 156,206,247	$ 122,245,735	$ 122,245,735
Securities sold under agreements to repurchase	**11,260,363**	**11,260,363**	9,659,094	9,659,094	12,439,952	12,439,952
Level 3						
Interest-bearing deposits	**708,263,509**	**702,929,521**	634,718,249	632,469,124	507,570,949	505,098,524
FHLB advances and other borrowed funds	**19,361,231**	**19,413,256**	23,326,840	23,634,283	34,629,125	34,921,945

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.

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.

Note 18 - Lease Commitments

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

Location	Office	Lease expiration
Rockville, Maryland	Headquarters and branch office	June 30, 2018
North Bethesda, Maryland	Branch office	September 30, 2021
Washington, D.C.	Branch office and business development suite	April 30, 2022
Annapolis, Maryland	Mortgage production offices	September 30, 2018
Horsham, Pennsylvania	Credit card operations	April 30, 2020
Baltimore, Maryland	Loan production office	Month-to-month agreement
Bethesda, Maryland	Loan production office	October 31, 2018
Columbia, Maryland	Loan production office	May 1, 2022
Reston, Virginia	Loan production office	June 30, 2023

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.

At December 31, 2017, the minimum rental commitment under the noncancellable leases is as follows:

Year	Amount
2018	$ 974,501
2019	574,500
2020	506,559
2021	463,863
2022	224,976
After 2022	70,259
	$ 2,814,658

Rent expense was **$1.4 million,** $1.3 million, and $1.2 million, for the years ended December 31, 2017, 2016, and 2015, respectively.

Note 19 - 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.

Note 20 - Quarterly Results of Operations

The following table presents condensed unaudited information relating to quarterly periods in 2017 and 2016 (*in thousands*).

	2017				2016			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Interest Income	$ 14,679	$ 15,003	$ 14,211	$ 12,773	$ 13,490	$ 12,559	$ 12,101	$ 11,093
Interest Expense	2,117	2,044	1,866	1,728	1,802	1,670	1,494	1,517
Net Interest Income	12,562	12,959	12,345	11,045	11,688	10,889	10,607	9,576
Provision for Loan Losses	785	700	620	550	1,068	1,207	1,560	456
Noninterest Income	3,024	4,901	4,342	2,883	5,422	5,986	5,334	3,731
Noninterest Expense	13,385	12,180	11,387	10,355	10,896	11,572	11,121	9,790
Income Before Provision for Income Taxes	1,416	4,980	4,680	3,023	5,146	4,096	3,260	3,061
Provision for Income Taxes	2,062	1,941	1,822	1,164	2,240	1,452	1,251	1,177
Net Income (Loss)	$ (646)	$ 3,039	$ 2,858	$ 1,859	$ 2,906	$ 2,644	$ 2,009	$ 1,884
Basic earnings (losses) per common share	$ (0.23)	$ 1.07	$ 1.02	$ 0.67	$ 1.09	$ 0.97	$ 0.70	$ 0.68
Diluted earnings (losses) per common share	$ (0.23)	$ 1.06	$ 1.00	$ 0.66	$ 1.05	$ 0.96	$ 0.69	$ 0.66