



PUBLIC DISCLOSURE

December 4, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Capital Bank, National Association
Charter Number: 23850

1 Church Street
Rockville, MD 20850

Office of the Comptroller of the Currency

400 7th Street S.W.
Washington, DC 20291

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, and should not be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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Overall CRA Rating: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

- The Bank's loan-to-deposit ratio is more than reasonable;
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels and to businesses of different sizes;
- The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the census tracts of different income levels.
- The geographic distribution of small loans to businesses reflects excellent dispersion;
- The Bank's community development activities demonstrate adequate responsiveness to community development needs in its assessment areas; and
- The Bank did not receive any CRA-related complaints during the evaluation period.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor

vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and home refinancing, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business(es): A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Description of Institution

Capital Bank, National Association (CBNA, Bank, or Institution) is an interstate community bank headquartered in Rockville, Maryland (MD). The Bank is a wholly-owned subsidiary of Capital Bancorp, a one-bank holding company. CBNA does not have any operating subsidiaries.

CBNA defines itself as a “Business Bank”, targeting closely held businesses, professionals, not-for-profit organizations and investors. The Bank’s primary market is Rockville and North Bethesda, MD. As of the evaluation date, CBNA operates a network of four full-service branch offices. Of the branch offices, one office is in a moderate-income census tract; three offices are in middle- income census tracts; and one office is in an upper-income census tract. The Bank does not have any branches located in low-income census tracts. All four branches are open weekdays from 9:00 AM until 4:00 PM and until 5:00 PM on Friday. All of the Bank’s branches have Automated Teller Machines (ATMs). In addition to these full service ATMs; CBNA has one ATM at Revitz House, a federally subsidized apartment facility for seniors and persons with physical disabilities located in Rockville, MD. A limited service branch, with office hours on Wednesdays, is also offered at the Revitz House. ATM services at foreign ATMs are available through Capital’s participation in the Star and Cirrus systems. CBNA refunds its customers for up to \$8.00 of fees monthly, charged by foreign ATMs. CBNA also operates four loan production offices (LPOs), of which two are located in Maryland, one in Virginia, and one in Washington, DC. All LPOs are located inside the Bank’s assessment areas (AAs). In December 2014, the Bank opened a new LPO in Phoenix, MD. In May 2017, the Columbia LPO was relocated from Little Patuxent Parkway to Columbia Gateway Drive and was expanded into a full service branch.

As of September 30, 2017, CBNA reported total assets of \$994.4 million and Tier 1 Capital of \$87.8 million. As of the same date, CBNA’s balance sheet includes \$893.8 million in total loans consisting of 42.14 percent residential real estate mortgages, 35.54 percent commercial real estate mortgages, 11.11 percent commercial & industrial loans, 7.89 percent home equity lines of credit, and 3.31 percent consumer loans. Deposits sourced from the Bank’s market area total \$877 million.

CBNA offers a wide variety of products and services for individuals and businesses. The Bank offers commercial and business loans including Small Business Administration (SBA) loans for the purchase or refinance of commercial properties, commercial lines of credit, commercial term loans, and commercial construction loans. The Bank also offers auto loans, secured credit cards, and other specialized lending programs. The Bank offers a variety of residential mortgage loans including fixed and adjustable loans to purchase or refinance a home, and home equity lines of credit. Affordable mortgage products include Federal Housing Administration (FHA) loans and Veterans Administration (VA) loans. The Bank sells the majority of its mortgage loans in the secondary market. In 2015, the Bank sold 2,134 home mortgage loans totaling approximately \$697.3 million in the secondary market. In 2016, the Bank sold 2,377

home mortgage loans totaling approximately \$803.9 million, in the secondary market. Deposit products include business and personal checking, savings, money market, certificate of deposits, and individual retirement accounts. CBNA also offers mobile and online banking, remote deposit services, and other Treasury Management services. In addition, the Bank participates in the Certificate of Deposit Account Registry Service (CDARS). The Bank's Internet website, <http://www.capitalbankmd.com> provides detailed information on products and services for both consumers and businesses. The Bank maintains a separate website for its mortgage division at www.capitalbankhomeloans.com and another separate website for its OpenSky VISA secured credit card at www.openskycc.com.

There are no financial or legal impediments to hinder CBNA's ability to help meet the credit needs of the communities it services. CBNA received a "Satisfactory" rating during its last Intermediate Small Bank CRA evaluation dated November 12, 2014.

Scope of the Evaluation

Evaluation Period/Products Evaluated

CBNA was evaluated under the Intermediate Small Bank (ISB) examination procedures. These procedures evaluate the Bank's performance based upon a Lending Test and a Community Development (CD) Test. The Lending Test considers the Institution's performance pursuant to the following criteria: Loan-to-Deposit (LTD) Ratio Analysis; Assessment Area (AA) Concentration; Geographic Distribution; Borrower Profile; and Response to Community Reinvestment Act (CRA) Complaints. The CD Test evaluates the Bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and CD services.

Home mortgage and small business lending performance were considered as part of this evaluation. This evaluation considered CBNA's HMDA-reportable loans (home purchase and home refinance) for the calendar years 2015 and 2016. Home improvement loans are not a primary product for the Bank; therefore, we did not include home improvement loans in our analysis or in the tables below. CBNA is not required to report small business lending and does not collect small business loan data; therefore, examiners based the analysis on a random statistical sample of 20 commercial loans totaling \$19.2 million originated during the evaluation period. Small business lending data is compared with 2016 Dun & Bradstreet (D&B) business demographic data.

The evaluation period for the CD Test is November 12, 2014, the date of the last CRA evaluation, through the date of this evaluation, December 4, 2017. The analysis took into consideration the economic, financial, and environmental factors that impact the Bank's CRA performance.

Refer to the table in Appendix A for more information on the scope of review.

Data Integrity

As part of our ongoing supervision of the Bank, we tested the accuracy of the Bank's HMDA data prior to the beginning of the CRA evaluation and determined that it was accurate. We also verified that community development loans, investments, and services submitted by Bank management met the regulatory definition for community development. We excluded any activities that did not meet the definition or purpose of community development.

Selection of Areas for Full-Scope Review

CBNA's assessment area includes areas within two contiguous Metropolitan Statistical Areas (MSAs): Washington-Arlington-Alexandria, DC-VA-MD-WV MSA 47900, and Baltimore-Towson, MD MSA 12580, which is part of the Consolidated Statistical Area (CSA) 548 (Washington-Baltimore-Arlington, DC-MD-VA-WV-PA). The MSA 47900 is further broken down into two Metropolitan Divisions (MDs): MD 47894 (Washington-Arlington-Alexandria, DC-VA-MD-WV), and MD 43524 (Silver Spring-Frederick-Rockville, MD). For the purpose of this evaluation, both MDs are combined as one area, which will be referred to as the Washington-Arlington-Alexandria, DC-VA-MD MSA AA. The Baltimore-Towson MSA 12580 is evaluated separately and will be referred to as the Baltimore-Towson MSA AA. The AAs meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income geographies.

The Washington-Arlington-Alexandria, DC-VA-MD MSA AA received a full-scope review since it had the majority of deposits and loans in this AA. We performed a limited-scope review in the Baltimore-Towson MD MSA AA. During the evaluation period, the Bank did not operate a branch or deposit taking ATM in the Baltimore-Towson AA.

Please refer to the table in Appendix B that provides demographic data for the AAs.

Ratings

The Washington-Arlington-Alexandria, DC-VA-MD MSA carried the greatest weight in our conclusions because it represented the Bank's most significant market in terms of deposit concentrations and loans.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Tests

LENDING TEST

CBNA's performance under the Lending Test is rated Satisfactory. The LTD ratio is more than reasonable. The Bank originated a majority of its loans outside its AAs; however, a substantial majority of the number and dollar volume of commercial loans were originated inside its AAs. The distribution of borrowers reflects reasonable penetration among individuals of different income levels and to businesses of different sizes, when considering performance context factors. The geographic distribution of home loans is reasonable in the Washington-Arlington-Alexandria, DC-VA-MD MSA AA and weak in the Baltimore-Towson MSA AA. The geographic distribution of small loans to businesses reflects excellent dispersion in the full-scope AA. We placed more weight on performance in the Washington-Arlington-Alexandria, DC-VA-MD MSA AA, because a majority of the Bank's lending originated in this AA. All Lending Test criteria are listed below:

Loan-to-Deposit Ratio

CBNA's quarterly average net LTD ratio is more than reasonable and exceeds the standards for satisfactory performance. The Bank's quarterly average LTD ratio over the thirteen-quarter review period was 103.01 percent. During this thirteen-quarter period, this ratio ranged from a quarterly low of 97.54 percent to a quarterly high of 110.17 percent. The quarterly average net LTD ratio for a peer group of five similarly situated institutions with assets ranging from \$882.4 million to \$413.5 million, and located in the same MSA was 84.34 percent over the same period. The peer group's ratio ranged from a quarterly low of 60.19 percent to a quarterly high of 100.75 percent during that time period.

Lending in Assessment Area

CBNA granted a majority of mortgage loans outside its delineated AAs, and does not meet the standard for satisfactory performance. This is attributed to the volume of its mortgage lending division, which provides mortgage loans in states across the country. When performance context factors are considered, the Bank's low lending proportion within its AAs is reasonably explained and related concerns are mitigated. CBNA originated 41.47 percent of the number of mortgage loans and 52.07 percent of the dollar volume within its delineated AAs during the evaluation period. This ratio is a Bank-wide calculation, and is not calculated by individual AA. Analysis is limited to Bank only originations and purchases.

CBNA granted a substantial majority of the number and dollar volume of commercial loans inside its AAs. Based on a sample of 20 loans originated from January 1, 2015 to December 31, 2016, one hundred percent of the Bank's commercial loans both by number and dollar amount were originated within the Bank's AAs.

Refer to the following table for more information:

| Table 1 – Lending in Assessment Area | | | | | | | | | | |
|---|-----------------|--------------|--------------|--------------|--------------|-------------------|--------------|------------------|--------------|-------------------|
| Loan Type | Number of Loans | | | | | Dollars of Loans | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Home Purchase | 781 | 53.90 | 668 | 46.10 | 1,449 | 321,185 | 62.48 | 192,867 | 37.52 | 514,052 |
| Home Refinance | 2,251 | 38.21 | 3,640 | 61.79 | 5,891 | 983,257 | 49.38 | 1,007,760 | 50.62 | 1,991,017 |
| Total HMDA Loans | 3,032 | 41.31 | 4,308 | 58.69 | 7,340 | 1,304,442 | 52.07 | 1,200,627 | 47.93 | 2,505,069 |
| Commercial Loans | 20 | 100.00 | 0 | 0.00 | 20 | 19,164,106 | 100.00 | 0 | 0.00 | 19,164,106 |
| Total Loans | 3,052 | 41.47 | 4,308 | 58.53 | 7,360 | 20,468,548 | 94.46 | 1,200,627 | 5.54 | 21,669,175 |

Source: CBNA's HMDA & Commercial loan sample – reported data from 01/01/15 – 12/31/16

Lending to Borrowers of Different Incomes

Performance in the Washington-Arlington-Alexandria, DC-VA-MD MSA AA

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and to businesses of different sizes, and CBNA's record of lending to borrowers of different incomes meets the standard for satisfactory performance.

In our analysis, we took into consideration the lack of affordability for a low- or moderate-income family to purchase a home. Based on the 2010 census data, the median cost of housing was \$439,830. The 2016 Federal Financial Institutions Examination Council (FFIEC) updated median family income is \$107,200, which means a low-income family earned less than \$53,600 per year. Additionally, moderate-income families earned at least \$53,600 but less than \$85,760. Therefore, low- and moderate-income borrowers would have difficulty qualifying for home mortgage loans. Furthermore, 6.73 percent of households in the AA are below the poverty level.

Home Purchase Loans

CBNA's percentage of home purchase loans to low-income borrowers was substantially lower than the percentage of low-income families in Washington-Arlington-Alexandria, DC-VA-MD MSA AA; however, the percentage of home purchase loans to moderate-income borrowers exceeded the percentage of moderate-income families in the AA. With an overall market share of less than one percent, a market share analysis was not meaningful.

Home Refinance Loans

CBNA's percentage of home refinance loans to low-income borrowers was significantly lower than the percentage of low-income families in the AA. The percentage of home refinance loans to moderate-income borrowers was lower than the percentage of moderate-income families in the AA. With an overall market share of less than one percent, a market share analysis was not meaningful.

The following table shows the distribution of home loan products among borrowers of different income levels in the AA for the period of January 1, 2015 through December 31, 2016 as compared to the percentage of families in each income category:

| Table 2A – CBNA HMDA-Reportable Loans By Borrower Income Level in the Washington-Arlington-Alexandria, DC-VA-MD MSA AA | | | | | | | | |
|---|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans |
| Home Purchase | 20.81 | 3.25 | 17.28 | 20.41 | 21.23 | 26.04 | 40.68 | 50.30 |
| Home Refinance | 20.81 | 2.69 | 17.28 | 12.37 | 21.23 | 26.48 | 40.68 | 58.47 |

Source: CBNA's HMDA data 1/1/2015 - 12/31/2016; 2010 U.S. Census data

Commercial Loans

The distribution of sampled business loans reflects reasonable penetration to small businesses, defined as businesses with gross annual revenues of \$1 million dollars or less. The number of loans to small businesses in our sample was slightly less than AA demographics but the dollar volume exceeded AA demographics. The following table shows the distribution of commercial loans among businesses of different sizes in the AA:

| Table 2B - CBNA Borrower Distribution to Businesses in the Washington-Arlington-Alexandria, DC-VA-MD MSA AA | | | | |
|--|----------------|---------------|-------------|---------|
| Business Revenues (or Sales) | <= \$1,000,000 | > \$1,000,000 | Unavailable | Total |
| % of AA Businesses | 84.31 | 6.22 | 9.47 | 100.00% |
| % of Bank Loans in AA by # | 75.00% | 25.00% | 0.00% | 100.00% |
| % of Bank Loans in AA by \$ | 93.05% | 6.95% | 0.00% | 100.00% |

Source: Sample of Commercial loans originated between January 1, 2015 and December 31, 2016; 2016 D&B data.

Performance in the Baltimore-Towson MSA AA

Based on a limited-scope review, the Bank's performance in the Baltimore-Towson MSA AA is not inconsistent with performance in the full-scope area.

The following table shows the distribution of home loan products among borrowers of different income levels in the AA for the period of January 1, 2015 through December 31, 2016 as compared to the percentage of families in each income category:

| Table 2C – CBNA HMDA-Reportable Loans By Borrower Income Level in the Baltimore-Towson MSA AA | | | | | | | | |
|--|---------------------|----------------------------|---------------------|----------------------------|---------------------|----------------------------|---------------------|----------------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Families | % of Number of Loans |
| Home Purchase | 21.42 | 3.42 | 17.32 | 17.12 | 20.96 | 28.77 | 40.31 | 50.68 |
| Home Refinance | 21.42 | 0.69 | 17.32 | 10.34 | 20.96 | 23.79 | 40.31 | 65.17 |

Source: CBNA's HMDA data 1/1/2015 - 12/31/2016; 2010 U.S. Census data

Commercial Loans

Due to the very low volume of commercial loans within the Baltimore-Towson MSA AA, we did not perform a distribution analysis; as such, analysis would not have been meaningful.

Geographic Distribution of Loans

Performance in the Washington-Arlington-Alexandria, DC-VA-MD MSA AA

The geographic distribution of mortgage loans in the Washington-Arlington-Alexandria, DC-VA-MD MSA AA is considered reasonable when considering performance context in the AA. The geographic distribution of small loans to businesses reflects excellent dispersion. No unexplained conspicuous gaps were identified.

Competition for home mortgage loans is strong with numerous banks, mortgage companies and financial institutions competing for these products. Based on 2016 HMDA Peer Mortgage Data, CBNA ranked 103 for home purchase loans, 57 for home mortgage refinance loans with respective market shares of 0.16 percent, and 0.44 percent.

Home Purchase Loans

CBNA's percentage of home purchase loans in low-income geographies slightly exceeded the percentage of owner-occupied housing units in low-income geographies.

The percentage of home purchase loans in moderate-income geographies was slightly below the percentage of owner-occupied housing units in moderate-income geographies. With an overall market share of less than one percent in the low-and moderate-income geographies, a market share analysis was not meaningful.

Home Refinance Loans

CBNA’s percentage of home refinance loans in low- and moderate-income geographies was somewhat lower than the percentage of owner-occupied housing units in low- and moderate income geographies. With an overall market share of less than one percent in the low-and moderate-income geographies, a market share analysis was not meaningful.

The following table details the Bank’s performance compared to the percentage of owner-occupied housing units in each census tract income level for the period of January 1, 2015 through December 31, 2016:

| Table 3A – CBNA HMDA-Reportable Loans By Census Tract Income Level in the Washington-Arlington-Alexandria, DC-VA-MD MSA AA | | | | | | | | |
|--|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan type | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans |
| Home Purchase | 3.63 | 3.66 | 18.73 | 16.90 | 40.05 | 33.52 | 37.59 | 45.92 |
| Home Refinance | 3.63 | 2.20 | 18.73 | 13.60 | 40.05 | 31.99 | 37.59 | 52.20 |

Source: CBNA’s HMDA data 1/1/2015 - 12/31/2016; 2010 U.S. Census data

Commercial Loans

The geographic distribution of small business loans reflects excellent dispersion. The percentage of small loans to businesses in both low- and moderate-income geographies substantially exceeds demographic comparators and therefore exceeds the standard for satisfactory performance.

The following chart illustrates that the Bank’s loans originated to businesses in both the low and moderate-income census tracts are comparable to demographic data.

| Table 3B - Geographic Distribution of Loans to Businesses in the Washington-Arlington-Alexandria, DC-VA-MD MSA AA | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| | 4.43 | 10.00 | 19.57 | 30.00 | 34.70 | 20.00 | 40.97 | 40.00 |

Source: Sample of Commercial loans originated between January 1, 2015 and December 31, 2016; 2016 D&B data.

Performance in the Baltimore-Towson MSA AA

Based on a limited-scope review, the Bank's performance in the Baltimore-Towson MSA AA is not inconsistent with performance in the full-scope area.

The following table details the Bank's performance as compared to the percentage of owner-occupied housing units in each census tract income level for the period of January 1, 2015 through December 31, 2016:

| Table 3C – CBNA HMDA-Reportable Loans By Census Tract Income Level in the Baltimore-Towson MSA AA | | | | | | | | |
|---|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan type | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans |
| Home Purchase | 5.64 | 0.65 | 16.61 | 8.50 | 38.99 | 41.18 | 38.76 | 49.67 |
| Home Refinance | 5.64 | 0.98 | 16.61 | 4.18 | 38.99 | 32.92 | 38.76 | 61.92 |

Source: CBNA's HMDA data 1/1/2015 - 12/31/2016; 2010 U.S. Census data

Commercial Loans

Due to the very low volume of commercial loans within the Baltimore-Towson MSA AA, we did not perform a distribution analysis; as such, analysis would not have been meaningful.

Responses to Complaints

CBNA has not received any complaints about its performance in helping to meet AA's credit needs during this evaluation period.

COMMUNITY DEVELOPMENT TEST

CBNA's community development activities in its primary assessment area demonstrate adequate responsiveness to the community development needs. On a combined basis, the Bank provided \$16.7 million in qualified CD loans, \$930,856 in qualified investments and \$37,250 in qualified donations to help meet community development needs. Additionally, the Bank provided technical assistance on financial matters to nonprofit and government organizations serving the needs of low- and moderate-income individuals, areas, and geographies.

Number and Amount of Community Development Loans

Performance in the Washington-Arlington-Alexandria, DC-VA-MD MSA AA

During the evaluation period, the Bank originated seven qualifying CD loans totaling approximately \$16.4 million for the rehabilitation or construction of affordable housing in the Washington-Arlington-Alexandria, DC-VA-MD MSA AA. Community contacts identified affordable housing as a primary community need for low- and moderate-income individuals, making these loans particularly responsive to the AA needs.

Performance in the Baltimore-Towson MSA AA

Our review noted that the Bank's performance in the Baltimore-Towson MSA AA is weaker than the Bank's overall satisfactory performance under the CD Lending Test. Weaker performance is a result of branch distribution within the AA. Performance differences in this area are not significant enough to affect the Bank's overall rating based on the Bank's limited market share and presence in the limited-scope AA.

During the evaluation period, the Bank extended only one CD loan totaling approximately \$322,000.

Number and Amount of Qualified Investments

CBNA's level of qualified investments and donations demonstrate adequate responsiveness to the CD needs in the AA. Described below are the various investments made by the Bank during the evaluation period.

Performance in the Washington-Arlington-Alexandria, DC-VA-MD MSA AA

In August 2012, CBNA entered into an agreement to purchase limited partnership interests between SEFC 160, LLC, a District of Columbia limited liability company and Foundry Loft Workforce, LLC, a Delaware limited liability company in an "80-20" multi-family residential building located in District of Columbia. The Property was financed with District of Columbia Housing Finance Agency FHA-Insured Multifamily Housing Revenue Bonds ("NIBP Program—Foundry Lofts Project") Series 2009A-6 in the principal amount of \$47.7 million. The NIBP an initiative for state and local housing

finance agencies implemented through a partnership of the U.S. Department of the Treasury. Its purpose is to expand affordable housing opportunities and help grow local economies. A portion of the project is targeted towards families earning fifty percent or less of the area median income, with adjustments for household size. CBNA funded approximately \$930,856 of the investment during the current review period. The remaining tax credits are valued at \$2.5 million.

During the evaluation period, CBNA originated 13 grants and donations in the Washington-Arlington-Alexandria, DC-VA-MD MSA AA, totaling \$37,250 to benefit various community groups in the AA. The donations helped provide a variety of services to low- and moderate-income individuals and families, including assistance with food, affordable housing, and the development of low- and moderate-income communities.

Performance in the Baltimore -Towson MSA AA

The Bank did not provide any qualifying CD investments within the Baltimore-Towson MSA AA during the evaluation period. The Bank's lack of CD investment within the Baltimore-Towson MSA AA is reasonably explained by the concentration of its branch locations and deposit base within the Washington-Arlington-Alexandria, DC-VA-MD MSA AA.

Extent to Which the Bank Provides Community Development Services

CBNA employees have contributed their financial expertise to local community development organizations through their memberships and active participation in various loan programs, which are targeted to low- and moderate-income families.

Performance in the Washington-Arlington-Alexandria, DC-VA-MD MSA AA

CBNA's performance in providing CD services is adequate in the Washington-Arlington-Alexandria, DC-VA-MD MSA AA. CD services focused on affordable housing and community services targeted to low- and moderate-income individuals and families. The following are examples of the community development services provided by the Bank:

- The Bank's President serves on the Board of Directors for a local nonprofit organization. The organization provides basic services including housing, healthcare, homecare, education, and emergency assistance to most vulnerable Montgomery County residents
- CBNA's employees provided first-time homebuyer classes in conjunction with a CD organization that focuses on providing assistance to low- and moderate-income first-time homebuyers.

Additionally, the Bank provided technical assistance on financial matters to nonprofit and government organizations serving the needs of low- and moderate-income individuals, areas, and geographies. CBNA offers several loan programs that are designed to help meet the credit needs of low- and moderate-income borrowers. Examples of notable loan programs in which the Bank participates in are summarized below:

FHLBA Affordable Housing Grant Program

In January 2017, CBNA initiated participation in the FHLB of Atlanta (FHLBA's) set-aside grant program. FHLBA's affordable housing program provides down payment and closing cost assistance to homebuyers at or below 80 percent of the area median family income. During the review period, CBNA originated 17 HMDA-reportable loans to first-time homebuyers who received \$90,000 in FHLB down payment assistance.

CityLIFT Down Payment Assistance Program

CityLIFT is a down payment assistance program funded by Wells Fargo Foundation in collaboration with NeighborWorks America. The program provides down payment assistance to homebuyers at or below 120 percent of the area median income for Baltimore City. The program offers zero percent interest rate and is forgivable 20 percent each year for five years. Potential participants are required to complete homebuyer education through a third party counseling agency approved by the Department of Housing and Urban Development. During the evaluation period, CBNA originated two loans totaling \$746,234, resulting in \$11,000 in grants to the borrowers through this program.

The Home Purchase Assistance Program

CBNA participates in the Home Purchase Assistance Program (HPAP), which provides down payment and closing cost assistance for the purchase of single-family homes, condominiums or cooperative units to District of Columbia homebuyers earning between 80 and 110 percent of area median income. Through this program, CBNA originated 22 loans to first-time homebuyers who received \$1.3 million in down payment assistance.

Performance in the Baltimore-Towson MSA AA

The Bank did not provide any CD services directly to the Baltimore-Towson MSA AA during the evaluation period. The lack of any CD services hours for this AA does not diminish the Bank's responsiveness to this AA, given the Bank's adequate performance in the Washington-Arlington-Alexandria, DC-VA-MD MSA AA.

Responsiveness to Community Development Needs

CBNA's CD performance demonstrates an adequate level of responsiveness to CD needs within its combined AAs. As mentioned by the community contacts there is a

need for affordable housing throughout the AAs. CBNA has adequately responded to this need by the level of affordable housing loans, investments, and CD services, which promote affordable housing efforts.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

| | | |
|---|--|--|
| Time Period Reviewed | Lending Test: (01/01/2015 to 12/31/2016) Investment and Service Tests and CD Loans: (11/12/2014 to 12/4/2017) | |
| Financial Institution | Products Reviewed | |
| Capital Bank, NA (“CBNA”) Rockville, Maryland | Residential Mortgage Loans Commercial Loans Community Development Loans, Investments, and Services | |
| Affiliate(s) | Affiliate Relationship | Products Reviewed |
| None Reviewed | | |
| List of Assessment Areas and Type of Examination | | |
| Assessment Area | Type of Exam | Other Information |
| 1) Washington-Arlington-Alexandria, DC-VA-MD MSA 47900 | Full-Scope | Portion of the Washington-Arlington-Alexandria, DC-VA-MD (MD 47894) comprised of: <ul style="list-style-type: none"> ➤ <i>Washington, District of Columbia;</i> ➤ <i>Prince George’s County, Maryland;</i> ➤ <i>Arlington, Fairfax, & Loudoun counties, Virginia;</i> ➤ <i>Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park cities, Virginia</i> Portion of the Silver Spring-Frederick-Rockville, Maryland (MD 43524) comprised of : <ul style="list-style-type: none"> ➤ <i>Frederick and Montgomery counties, Maryland</i> |
| 2) Baltimore-Towson, MD MSA 12580 | Limited-Scope | Portion of the Baltimore-Towson MD MSA 12580 comprised of: <ul style="list-style-type: none"> ➤ <i>Anne Arundel, Baltimore, Carroll, Harford, Queen Anne’s and Howard counties, Maryland, and Baltimore City.</i> |

Appendix B: Community Profiles for Full-Scope Areas

Washington-Arlington-Alexandria, DC-VA-MD MSA AA

| Demographic Information for Full-Scope Area Washington-Arlington-Alexandria, DC-VA-MD MSA AA 47900 | | | | | | |
|--|-----------|-----------------------------|---|------------------|-----------------|---------------|
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts/BNAs) | 1,297 | 9.18 | 23.98 | 34.93 | 31.07 | 0.85 |
| Population by Geography | 5,391,103 | 8.27 | 23.46 | 36.23 | 31.90 | 0.14 |
| Owner-Occupied Housing by Geography | 1,283,152 | 3.63 | 18.73 | 40.05 | 37.59 | 0.00 |
| Business by Geography | 450,446 | 4.27 | 19.75 | 35.04 | 40.63 | 0.32 |
| Farms by Geography | 8,196 | 2.75 | 19.69 | 43.12 | 34.41 | 0.04 |
| Family Distribution by Income Level | 1,261,862 | 20.81 | 17.28 | 21.23 | 40.68 | 0.00 |
| Distribution of Low and Moderate Income Families throughout AA Geographies | 480,696 | 14.87 | 34.63 | 35.31 | 15.18 | 0.00 |
| Median Family Income FFIEC Adjusted Median Family Income for 2016 Households Below Poverty Level | | 102,007 107,200 6.73% | Median Housing Value Unemployment Rate (2010 US Census) | 439,830 3.6% | | |

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 US Census and 2016 FFIEC updated MFI

CBNA's banking activities within its assessment areas were primarily conducted in MSA 47900. The AA is comprised of two MDs: MD 47894 (Washington-Arlington-Alexandria, DC-VA-MD-WV), and MD 43524 (Silver Spring-Frederick-Rockville, MD). Both are part of the greater Washington-Arlington-Alexandria DC-VA-MD-WV (MSA 47900). MD 47894 includes the Virginia counties of Arlington, Fairfax, and Loudoun located in northeast Virginia, Prince George's County in Maryland, and independent cities of Alexandria, Fairfax, Falls Church, Manassas, Manassas Park, and the District of Columbia. MD 43524 includes the counties of Frederick and Montgomery located in central Maryland. Principal cities within the counties are Frederick, Rockville, and Silver Spring. The AA consists of contiguous geographies, and does not arbitrarily exclude low- and moderate-income geographies.

The AA consists of 1,297 census tracts, of which there are 119 low-income census tracts, 311 moderate-income census tracts, 453 middle-income census tracts, 403 upper-income census tracts, and 11 have not been assigned an income classification.

The 2010 U.S. Census reported the total population of the AA at 5,391,103. Within the AA, there are 1,946,762 households and 1,261,862 families. There are 2,106,219 housing units, of which, 60.92 percent are owner-occupied, 31.51 percent are rental-occupied, and 7.57 percent are vacant housing units. Approximately 3.63 percent of

owner-occupied housing is located in low-income geographies, 18.73 percent in moderate-income geographies, 40.05 percent in middle-income geographies, and 37.59 percent in upper-income geographies. The median housing cost is \$ \$439,830.

The 2010 median family income for this AA was \$109,747, and the 2016 FFIEC updated median family income is \$107,253. Approximately 20.81 percent of families are low-income, 17.28 percent are moderate-income, 21.23 percent are middle-income, and 40.68 percent are upper-income. Additionally, 18.12 percent of households received social security, 18.09 percent were retired, and 6.73 percent of households were below the poverty level.

Competition for mortgage loans is strong and includes local commercial and savings banks and branches of larger regional and nationwide banks. Based upon the most recent 2016 Peer Mortgage Data, there were 807 lending institutions within CBNA's AA competing for mortgage applications. CBNA ranks 73 with a market share of 0.29 percent. The top five lenders are: Wells Fargo Bank, NA, SunTrust Mortgage, Inc., Quicken Loans, PennyMac Loan Services LLC, and Navy Federal Credit Union (NFCU).

Based on the June 30, 2017 FDIC Summary of Deposit Market Share report, CBNA's deposit market share within the Washington-Arlington-Alexandria, DC-VA-MD-WV MSA was 0.21 percent, ranking CBNA 23 out of 81 institutions in the MSA. The Bank's primary competitors are: E*TRADE Bank (1 office, 16.76 percent market share), Bank of America, NA (153 offices, 13.27 percent market share), Wells Fargo Bank, NA (163 offices, 13.14 percent market share), Capital One, NA (136 offices, 11.51 market share, and SunTrust Bank (156 offices, 8.15 percent market share).

According to the Bureau of Labor Statistics, the September 30, 2017 the unemployment rate for Silver Spring-Frederick-Rockville, MD Metropolitan Division was 2.9 percent. As of the same date, the unemployment rate for Washington-Arlington-Alexandria, DC-VA-MD-WV was 3.6 percent.

Data compiled by Moody's Analytics indicates that Washington-Arlington-Alexandria is back on a favorable track after a federal government hiring freeze dented the economy earlier in the year. The federal government and professional/business services firms dependent on federal contracts felt the impact most acutely, but the freeze dented hiring in most private industries. When the freeze was lifted in April, private job growth resumed with gusto, greatly exceeding that in the Northeast and U.S. over the last three months. Almost half of the 42,000 net new jobs in 2017 are in education/healthcare. More mid and high-wage jobs in logistics and office industries are also contributing to moderate growth in average hourly earnings. A drop-off in housing starts this year is concentrated entirely in multifamily building; single-family starts are steady, and annual price growth is below average.

According to Moody's Analytics, strengths for the area include high per capita income and educated workforce, major center for information technology, and popular tourist destination. The weaknesses for the area are above-average living costs, high direct

and indirect exposure to federal government, high business and regulatory costs and deteriorating subway system.

Baltimore-Towson, MSA AA 12580

The Baltimore-Towson MSA AA consists of Baltimore City, and Anne Arundel, Carroll, Baltimore and Howard counties. In December 2014, the Bank opened a new LPO in Phoenix, MD. In May 2017, the Columbia LPO was relocated from Little Patuxent Parkway to Columbia Gateway Drive and was expanded into a full service branch. CBNA does not have a significant market share in this AA. The AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas.

Refer to the table below for additional information:

| Demographic Information for Limited-Scope Area Baltimore-Towson AA MSA 12580 | | | | | | |
|--|-----------|---------------------------|---|------------------|-----------------|---------------|
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts/BNAs) | 681 | 14.68 | 21.59 | 33.33 | 28.93 | 1.47 |
| Population by Geography | 2,710,489 | 10.61 | 20.58 | 35.55 | 32.75 | 0.51 |
| Owner-Occupied Housing by Geography | 692,428 | 5.64 | 16.61 | 38.98 | 38.76 | 0.01 |
| Business by Geography | 185,232 | 6.82 | 14.00 | 37.64 | 41.31 | 0.23 |
| Farms by Geography | 4,317 | 1.81 | 7.67 | 41.37 | 49.11 | 0.05 |
| Family Distribution by Income Level | 665,999 | 21.42 | 17.32 | 20.96 | 40.31 | 0.00 |
| Distribution of Low and Moderate Income Families throughout AA Geographies | 257,969 | 18.98 | 29.49 | 33.76 | 17.76 | 0.00 |
| Median Family Income FFIEC Adjusted Median Family Income for 2016 Households Below Poverty Level | | 81,788 86,700 9.33% | Median Housing Value Unemployment Rate (2010 US Census) | | 296,066 3.6% | |

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 US Census and 2016 FFIEC updated MFI