

# Shareholder News & Updates

2023 Year-End Report



## Dear Shareholder:

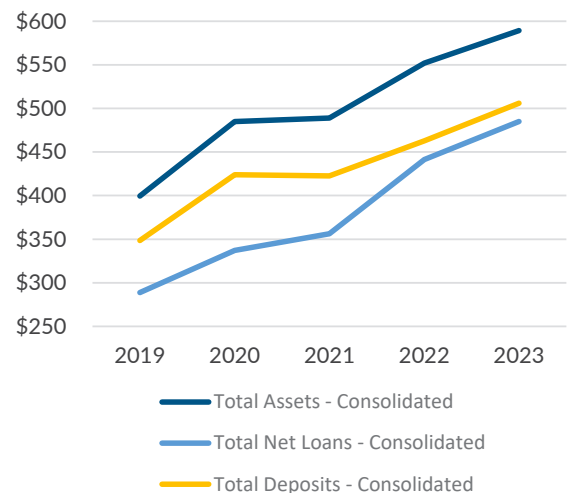
Shaped by the ongoing effects of persistent inflation, geopolitical issues, and the global economy, 2023 was a unique and challenging year for the banking sector. Banks and consumers were thrust into a rising interest rate environment at a velocity never before experienced in the United States. Despite these challenges, low unemployment and strong consumer spending helped support positive economic growth for the year.

In the banking industry specifically, we experienced unexpected disruption early in 2023, followed by heightened competition for deposit dollars while loan demand was impacted as the cost of borrowing increased. Despite these volatile economic conditions, Capitol Bank continues to provide exceptional customer service while safeguarding the integrity of our operations and focusing on sustainable asset quality and profitability. In the face of reduced profit margins, Capitol Bank is pleased to report strong balance sheet growth, superior asset quality, critical new staff hires, and progress on strategic initiatives. Without question, we remain committed to providing long-term value to shareholders and customers.

## Financial Highlights for December 31, 2023:

- Assets increased 6.95% to \$589.79 million year over year
- Net Loans outstanding increased 9.89% to \$485.01 million year over year
- Deposits increased 9.30% to \$505.97 million year over year
- Bank year-to-date Return on Equity of 6.36%
- Consolidated year-to-date earnings of \$3.48 million
- Book Value per Share increased 7.15% to \$61.13

## Assets, Net Loans & Deposits (in millions)



### Unique One-Time Items Impacting Our Income Statement in 2023:

- In 2019, Capitol Bank seized an opportunity to purchase a small (3.7%) minority interest in UFS, our long-term core data processor. In 2023, UFS was sold to BV Investment Partners which created a gain on investment for Capitol Bank of \$2 million in the fourth quarter. Capitol Bank will continue to utilize the data processing services and managed services of UFS in partnership with Fiserv.
- In the fourth quarter of 2023, Capitol Bank allocated an additional \$650,000 into the loan loss reserve bringing the balance to \$6.4 million (1.3% of loans). This was implemented to support our strong loan growth and to remain prepared to weather potential future economic downturns.
- In 2023, Wisconsin state tax law changed exempting banks from paying state income tax generated from small business loans of \$5 million or less. This will reduce our state tax burden moving forward; however, we were required to write down our deferred tax asset in the amount of \$859,000.
- Capitol Bank repositioned a portion of its investment portfolio to take advantage of the higher interest rate environment. While this will boost Bank earnings in future years, this decision prompted a one-time loss of \$315,000.

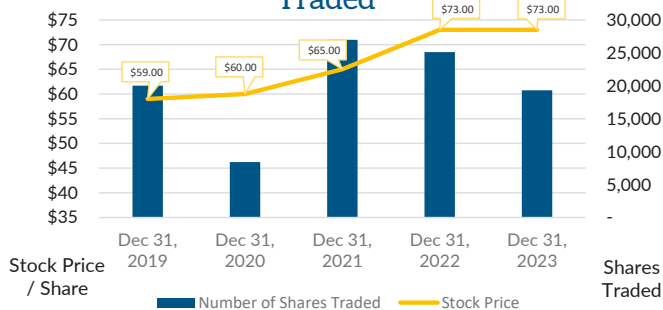
### High Interest Rates Squeeze Bank Margins:

The rapid rise in interest rates continues to place pressure on bank margins as deposit rates have risen faster than loan rates. Fortunately, this will normalize over time when either loan rates increase as they mature and reprice, or the Federal Reserve lowers rates which will in turn lower deposit rates.

Earnings (in millions) & Cost of Funds (percentage)



Stock Price & Number of Shares Traded



### Stock Update:

A historical summary of key financial measures for Capitol Bankshares, Inc., can be found on page 4. For the year ending December 31, 2023, a total of 19,320 shares traded. Of those transactions, 17,220 sold at \$73/share and 2,100 sold at \$75/share. The last transaction of 2023 sold at \$73/share. If you have questions regarding your shares or are interested in purchasing additional shares, please contact Ken Thompson or Paige Janquart at (608) 836-1616.

### Honorable Achievements and Announcements:

- Capitol Bank – honored as one of America’s top Regional Banks for 2024 by Newsweek
- Ken Thompson – elected to FHLBank of Chicago Board of Directors
- Lori Pond – promoted to Executive Vice President of Operations
- Brianne Schwichtenberg – promoted to Software Integration Officer



## Management Update:

Capitol Bank’s management succession plan was announced in 2022 and it proceeds as planned. Our executive management team remains highly committed to the principles that have driven the Bank’s success these past 28 years. While we continue to navigate economic uncertainties, we are focused on:



- The adoption of digital banking and financial technology to protect against the increase in fraud and cybersecurity threats.
- Maintaining high asset quality through automated systems while streamlining the credit process safely and efficiently.
- Leveraging our experienced bankers’ skillsets, and continuing to embrace technology to maximize customer experience.
- Diversifying and growing our Bank customer base across loan and deposit relationships.
- Repositioning the Bank to return to historical profitability levels.

## Recent Additions to the Capitol Bank Team:

- Bader Beheiri, Vice President - Retail Banking
- Tammy Fanning, Assistant Vice President - Treasury Management & Business Development
- Sam Wilder, Senior Credit Analyst
- Rylee Karins, Universal Banker - West Madison
- Dorene Schink, Universal Banker - Verona
- Alyssa Thompson, Universal Banker - East
- John Coughlin, Universal Banker - West Madison



## Annual Meeting:

Capitol Bank’s 2023 Annual Shareholder Meeting will be held on May 14th at 5:30 p.m., at the Holiday Inn & Suites, Madison West. We will communicate confirmed details with you in April, along with the annual proxy materials.

We wish to convey our heartfelt thanks and appreciation to the 62 employees who have dedicated themselves tirelessly throughout the year, ensuring the Bank is well-positioned for ongoing success. We are, as ever, deeply thankful for your continued support and trust in our services. It remains our honor to serve you.

Best wishes,

**Kenneth D. Thompson**  
 Chairman, Capitol Bankshares, Inc.  
 CEO, Capitol Bank

**Justin M. Hart**  
 President, Capitol Bankshares, Inc.  
 President, Capitol Bank



# December 2023 Financial Highlights

Safe, Focused, Strong

## Highlights & Stock Performance\*

During the twelve months ending December 31, 2023, net loans increased 9.89% to \$485.0M and deposits increased 9.30% to \$506.0M.

Period Ending	Last Transaction Price of the Period	Range of Transaction Prices		Total Shares Exchanged
		Highest	Lowest	
12/31/2023	\$73.00	\$75.00	\$73.00	19,320
12/31/2022	\$73.00	\$73.00	\$65.00	25,100
12/31/2021	\$65.00	\$65.00	\$60.00	26,990

## 5 Year Financial Highlights

	Year Ended				
	2023 (Preliminary)	2022	2021	2020	2019
Total Assets - Consolidated	589,793,601	551,419,476	489,004,508	485,118,907	399,476,823
Total Net Loans - Consolidated	485,010,145	441,373,678	356,107,029	337,139,705	288,760,107
Total Deposits - Consolidated	505,966,911	462,929,923	422,690,896	423,762,772	348,510,092
ROA YTD - Bank only	0.62%	0.95%	1.12%	1.12%	1.29%
ROE YTD - Bank only	6.36%	9.42%	9.74%	9.99%	10.78%
Earnings - Consolidated	3,483,570	4,928,148	5,361,397	5,047,317	4,833,376
Earning Before Taxes - Consolidated	5,311,850	6,584,385	7,192,034	6,770,402	6,454,225
Total Equity - Consolidated	60,842,045	56,527,009	57,854,007	54,019,438	48,188,673
Average Shares Outstanding net of Treasury	994,188	985,672	975,400	966,171	961,207
Ending Shares Outstanding net of Treasury	995,316	990,807	980,222	971,432	963,842
Shares held in the Treasury	-	-	864	2,614	3,364
Book Value per Share**	\$61.13	\$57.05	\$59.02	\$55.61	\$50.00
EPS (Average Shares)	\$3.50	\$5.00	\$5.50	\$5.22	\$5.03
Fully Diluted EPS (Avg Shares & Options)	\$3.34	\$4.77	\$5.20	\$4.94	\$4.77
Recent Sales Price	\$73.00	\$73.00	\$65.00	\$60.00	\$59.00
Price to Book	1.19	1.28	1.10	1.08	1.18
Price to Earnings	20.83	14.60	11.83	11.55	11.77
<b>Dividend Information</b>					
Dividend Per Share	\$0.56	\$0.65	\$0.52	\$0.50	\$0.48
Dividend Payout Ratio	11.31%	11.92%	10.05%	9.99%	10.00%

Average shares = weighted average shares held during the year by all shareholders. Earnings per share = annualized earnings divided by average shares. Measures amount of current year net income allocated to each shareholder. Book value = total equity divided by ending shares. Measures net amount to be received by each shareholder should the Company liquidate; also known as net worth per shareholder. Recent sales price = price per share on most recent stock sale. Price to book = recent sales price divided by book value. Price to earnings = recent sales price divided by earnings per share. Dividend per share = dividends paid in current year for each share of stock owned on declaration date. Dividend payout ratio = total dividends paid in current year divided by prior year consolidated earnings. Measures the percent of prior year earnings that was paid out to shareholders rather than retained in the Company as an increase in equity.

\*Private Party Transactions \*\*Book Value should not be construed as indicative of the current or anticipated future fair market of the stock.

