CapStone Bank

October 20, 2011

Dear Shareholder:

We are pleased to report continued positive operating results for CapStone Bank for the quarter ended September 30, 2011. We ended the quarter with $222.1 million in total assets compared to $195.3 million on September 30, 2010, an increase of $26.8 million or 13.7%. Loans outstanding for the period ended September 30, 2011 were $143.5 million versus $130.9 million for the same period a year ago, an increase of $12.6 million or 9.6%. For the same comparative periods, deposits increased to $153.0 million from $124.8 million, an increase of $28.3 million or 22.6%. For the first nine months of 2011, total assets grew to $222.1 million from $197.2 million, an increase of $24.9 million or 12.6%. During the same comparative period, loans increased by $7.3 million or 5.4%, while deposits increased by $26.9 million or 21.3%.

Net income for the third quarter of 2011 was $159,000 compared to $384,000 for the same period in 2010, a decrease of $225,000 or 58.5%. Net income for the first nine months of 2011 was $1,099,000 compared to $1,128,000 for the same nine months in 2010, a decrease of $29,000 or 2.6%. The results for the third quarter and, accordingly, the year to date were negatively impacted by a one-time nonrecurring personnel expense of $407,000 after taxes. Absent this non-recurring charge, net income increased by 47.4% over the third quarter of last year and by 33.4% over the nine months ended September 30, 2010.

Our earnings growth for the first nine months of 2011 (absent the non-recurring charge) was primarily due to an increase in net interest income which grew by $661,000 or 12.5% over the same period in 2010. This increase in net interest income was a result of the growth in the balance sheet, as well as a strong net interest margin. In addition, the asset quality of the Bank allowed us to provide $416,000 less for loan losses during the first nine months of 2011 compared to 2010. During this same period, we increased the provision for losses as a percentage of outstanding loans from 2.22% to 2.35%. As of September 30, 2011, our non-performing assets totaled $1.1 million or 0.51% of total assets as compared to $2.6 million or 1.34% as of September 30, 2010.

Given the extremely difficult economic environment of the past three years, we are very pleased with the overall performance of CapStone to date. We do have a strong desire to grow the Bank through actively lending to qualified borrowers. To assist us in our efforts, we are currently offering extremely attractive rates and terms on Residential and Commercial (owner occupied) mortgages. I invite you to call us for further details. Thank you for your continued support and we encourage you to contact us with any questions you may have about CapStone Bank.

Sincerely,

Michael S. Patterson
Chairman, President and CEO

CapStone Bank

Balance Sheet

(Unaudited)

	Actual Sep 2011	Actual Sep 2010	$ Change	% Change
Assets				
Cash and due from banks	5,912,316	1,348,618	4,563,698	338.4
Fed funds sold & repos	5,009,437	43,976	4,965,461	11291.2
Interest bearing deposits with banks	17,957,218	29,353,833	-11,396,615	-38.8
Investment Securities - Taxable	33,537,033	21,656,103	11,880,930	54.9
Investment Securities - Tax-exempt	13,116,261	6,114,177	7,002,085	114.5
Loans, net of unearned income	143,546,502	130,943,522	12,602,980	9.6
Less: Allowance for loan losses	-3,378,718	-2,617,175	-761,543	-29.1
Premises and equipment, net	221,016	338,495	-117,478	-34.7
Accrued interest receivable	732,701	600,121	132,580	22.1
Other assets	5,458,533	7,489,402	-2,030,869	-27.1
Total Assets	**222,112,299**	**195,271,071**	**26,841,228**	**13.7**
Liabilities				
Non-Interest Bearing Deposits	19,957,898	12,449,883	7,508,015	60.3
Interest bearing demand deposits	32,017,743	19,649,314	12,368,429	62.9
Savings and Money Market Deposits	40,836,233	39,780,344	1,055,889	2.7
Time Deposits - Retail	29,530,157	30,524,998	-994,841	-3.3
Time Deposits - Wholesale	30,687,248	22,353,260	8,333,988	37.3
Total Deposits	153,029,279	124,757,799	28,271,479	22.7
Accrued expenses and other liabilities	1,945,934	1,878,572	67,362	3.6
FHLB Advances	35,000,000	37,000,000	-2,000,000	-5.4
Other Borrowings	3,548,797	4,869,895	-1,321,099	-27.1
Total Liabilities	**193,524,009**	**168,506,267**	**25,017,742**	**14.8**
Equity				
Common stock	12,974,365	10,812,000	2,162,365	20
Capital surplus	11,607,421	13,657,289	-2,049,868	-15
Retained earnings	1,534,382	301,305	1,233,077	409.2
Accumulated other comprehensive income (loss)	1,372,632	865,825	506,807	58.5
Net Income	1,099,489	1,128,385	-28,896	-2.6
Total Equity	**28,588,290**	**26,764,804**	**1,823,485**	**6.8**
Total Liabilities & Equity	**222,112,299**	**195,271,071**	**26,841,228**	**13.7**

CapStone Bank

Income Statement

(Unaudited)

	YTD Actual Sep 2011	YTD Actual Sep 2010	$ Change	% Change
Interest Income				
Interest on Loans	5,701,198	5,575,104	126,094	2.3
Fees on Loans	158,674	137,321	21,353	15.6
Interest on federal funds sold	5,971	2,613	3,358	128.5
Interest on deposits with banks	322,279	341,727	-19,448	-5.7
Investment Securities - Taxable	702,023	723,296	-21,273	-2.9
Investment Securities - Tax-exempt	299,367	181,609	117,757	64.8
Total Interest Income	7,189,512	6,961,671	227,841	3.3
Interest Expense				
Interest bearing demand deposits	111,199	160,244	-49,046	-30.6
Savings and Money Market Deposits	212,691	337,324	-124,633	-36.9
Time Deposits - Retail	304,130	474,421	-170,290	-35.9
Time Deposits - Wholesale	159,171	254,486	-95,314	-37.5
Total Interest Expense on Deposits	787,192	1,226,475	-439,283	-35.8
FHLB Advances	444,220	427,709	16,511	3.9
Interest on other borrowings	3,195	13,977	-10,781	-77.1
Total Interest Expense	1,234,608	1,668,161	-433,554	-26
Net Interest Income	**5,954,904**	**5,293,510**	**661,395**	**12.5**
Provision for loan losses	362,000	778,000	-416,000	-53.5
Net In. Inc. After Prov. for Loan Losses	**5,592,904**	**4,515,510**	**1,077,395**	**23.9**
Non Interest Income				
Service charges and fees	55,883	49,707	6,176	12.4
Securities gains (losses), net	2,603	0	2,603	0
Mortgage loan and related fees	14,702	10,266	4,436	43.2
Other noninterest income	92,348	92,818	-471	-0.5
Total Non Interest Income	165,536	152,792	12,743	8.3
Non Interest Expense				
Salaries and employee benefits	2,799,730	1,664,761	1,134,968	68.2
Occupancy	306,642	303,132	3,510	1.2
Other noninterest expense	1,011,579	1,045,837	-34,258	-3.3
Total Non Interest Expense	4,117,951	3,013,730	1,104,221	36.6
Income Before Taxes	**1,640,489**	**1,654,572**	**-14,083**	**-0.9**
Income taxes	541,000	526,187	14,813	2.8
Net Income	**1,099,489**	**1,128,385**	**-28,896**	**-2.6**