CAPSTONE BANK

October 12, 2007

Dear Shareholder:

We are pleased to report the operating results for CapStone Bank for the quarter ended September 30, 2007. Total assets were reported at $98.1 million compared to $80.6 million at the end of the preceding quarter, an increase of $17.4 million (21.6%). We experienced good growth in both loans and deposits with loans growing by $9.5 million (14.6%) while deposits grew by $12.5 million (23.1%). The third quarter was our first to achieve positive quarterly net income. This comes after only fourteen months of operation which is historically fast for our industry. For the quarter ended September 30, 2007, we earned a net profit of $59,200 versus a loss of $182,900 for the preceding period. This was an increase in net income of $242,100 or 132.4% for the quarter. The increase in quarterly profit over the prior quarter was primarily the result of increasing our net interest income after the provision for loan loss reserves by $302,100 while non interest expenses grew only $50,000.

It is our pleasure to announce Bryan Pennington has joined the lending team at CapStone as Senior Vice President and Commercial Relationship Manager. Bryan has an extensive background in banking and significant experience in the Triangle market. His business development ability and strong analytical skills will be an asset to our team. We invite you to call on Bryan to discuss any of your financial needs.

During the third quarter, there were sixteen trades of CapStone Bank stock with 27,000 shares traded. The last trade was at $13.25 per share. If you have a desire to buy or sell shares of CapStone stock, please contact Susan Tannery, Corporate Secretary, at 919-256-6803 or at stannery@capstonebank.com.

In spite of the turmoil created in the financial markets during the past quarter by the sub prime mortgage industry and the subsequent liquidity issues it caused, we continue to be optimistic about the outlook for the remainder of the year. We believe the Federal Reserve has taken the appropriate actions to return liquidity and stability to the financial markets. Even though there may be modest slowdown in the overall economy later this year, we do not anticipate it having a negative effect on CapStone. We have very positive momentum, a strong balance sheet and an extremely talented banking team who remains committed to providing the highest quality service to our customers.

Thank you for your continued support of CapStone Bank and please call upon us if you a need for any of our services. We are confident you will enjoy the experience!

Sincerely,

Michael S. Patterson
Executive Chairman

Steven R. Ogburn
President and CEO

CAPSTONE BANK

Balance Sheet (Unaudited)
Dollars in Thousands

	September 30, 2007	June 30, 2007	Change $	Change %
Assets				
	$	$	$	
Cash and due from banks	1,059	1,064	(5)	-0.5%
Federal funds sold	2,655	947	1,708	180.4%
Investment securities	19,512	13,187	6,325	48.0%
Loans, net of unearned income	74,560	65,082	9,478	14.6%
Less: Allowance for loan losses	(932)	(814)	(118)	14.5%
Premises and equipment, net	575	558	17	3.0%
Accrued interest receivable & other assets	636	602	34	5.6%
	$	**$**	**$**	
Total Assets	**98,065**	**80,626**	**17,439**	**21.6%**
Liabilities & Shareholders' Equity				
Deposits:				
	$	$	$	
Non-Interest bearing	7,151	5,130	2,021	39.4%
Interest bearing	59,542	49,052	10,490	21.4%
Total Deposits	66,693	54,182	12,511	23.1%
FHLB Advances & other borrowings	8,084	3,723	4,361	117.1%
Accrued expenses and other liabilities	633	357	276	77.3%
Total Liabilities	**75,410**	**58,262**	**17,148**	**29.4%**
Shareholders' Equity	22,655	22,364	291	1.3%
	$	**$**	**$**	
Total Liabilities & Shareholders' Equity	**98,065**	**80,626**	**17,439**	**21.6%**