

*Welcome*

**CAPSTONE BANK**

**2011 Annual Shareholders'  
Meeting**

# Board of Directors

<b>Carole S. Anders</b>	<b>Community Volunteer</b>
<b>Ronald A. Batchelor</b>	<b>Batchelor, Tillery &amp; Roberts, LLP – CPA</b>
<b>Robert A. Boyette</b>	<b>Ashland Construction Company – President</b>
<b>Ronald P. Gibson</b>	<b>Real Estate Investments</b>
<b>Robert L. Guthrie</b>	<b>Retired (Insurance Business)</b>
<b>R. Merrill Hunter, MD</b>	<b>Carolina Cardiovascular Associates, PA – Cardiovascular Surgeon</b>
<b>Steven R. Ogburn</b>	<b>CapStone Bank - President and CEO</b>
<b>R. Doyle Parrish</b>	<b>Summit Hospitality Group Ltd. – CEO</b>
<b>Michael S. Patterson</b>	<b>CapStone Bank – Executive Chairman</b>
<b>Edythe M. Poyner</b>	<b>Capital Land Investment Co. -- President</b>
<b>Richard A. Urquhart III</b>	<b>Investors Management Corporation – Chief Operating Officer</b>
<b>Sydnor M. White, Jr.</b>	<b>White Oak Commercial, Inc. – President</b>
<b>Charles P. Wilkins</b>	<b>Broughton, Wilkins, Smith, Sugg and Thompson, PLLC – Attorney</b>

# Proposal 1

**Proposal 1 seeks to elect the following four persons to serve on the Board of Directors for terms of three years or until their successors are duly elected and qualified:**

**Robert L. Guthrie**

**R. Merrill Hunter, MD**

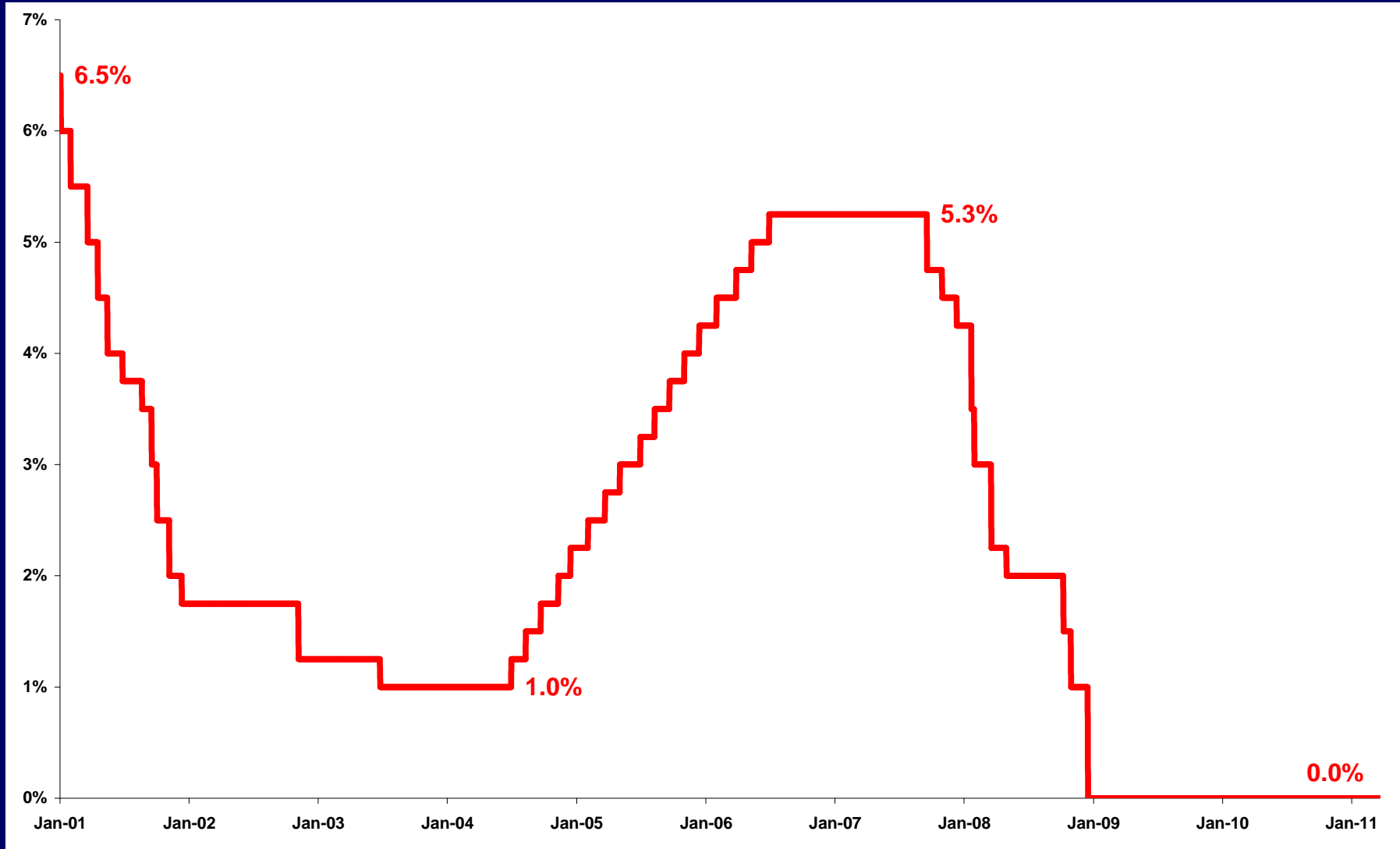
**Steven R. Ogburn**

**R. Doyle Parrish**

# Proposal 2

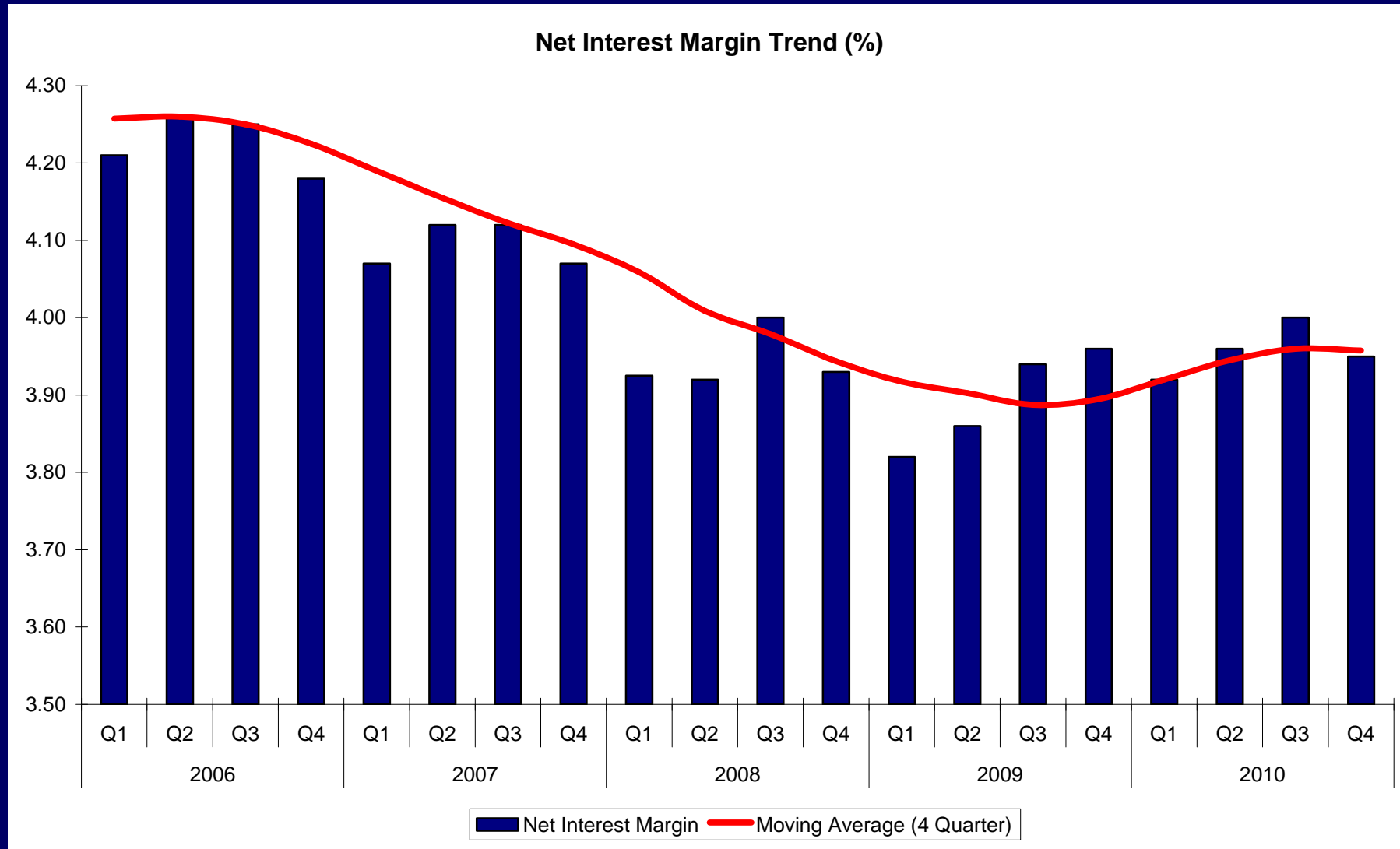
**Proposal 2 seeks ratification of the appointment of Elliott Davis, PLLC as the Bank's independent registered public accounting firm for 2011.**

# Federal Funds Target Rate



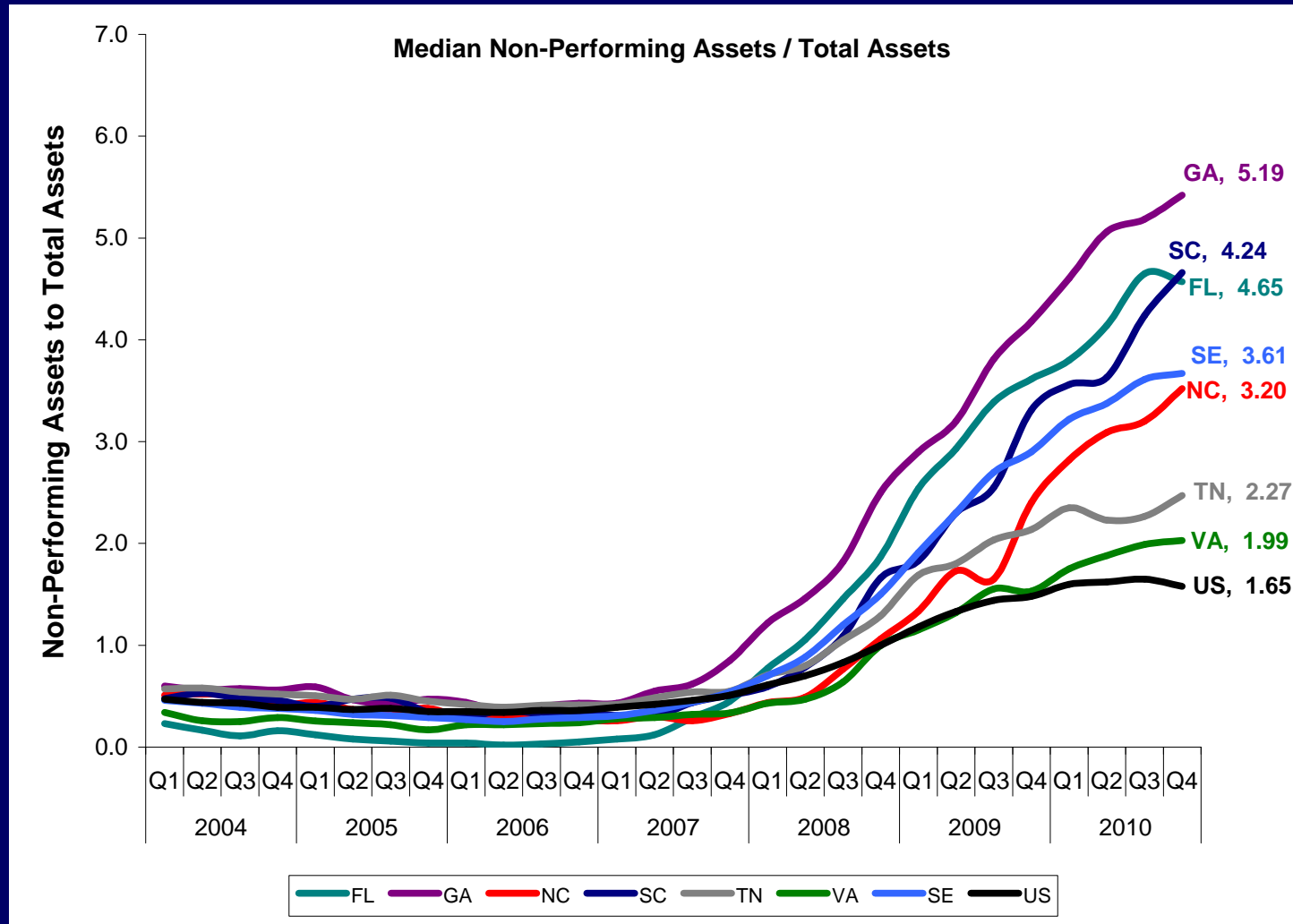
\*Source: St. Louis Fed; Values as of 3/31/2011

# Net Interest Margins of Community Banks



\*Source: SNL Financial, LC; Includes all U.S. banks under \$5B in assets

# Asset Quality\* of Community Banks



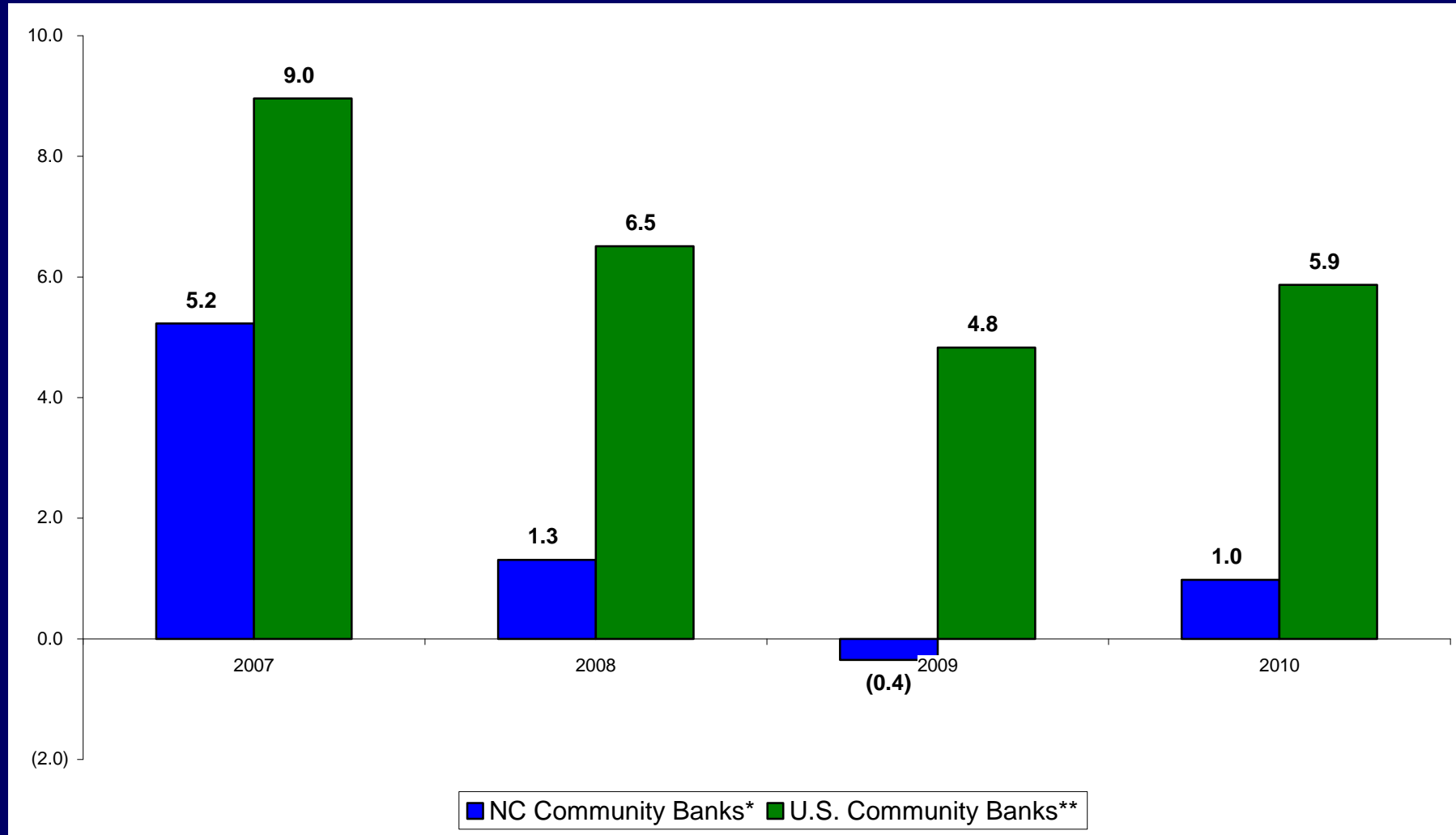
\*NPA / assets - includes loans 90 days or more past due, non-accrual loans, and OREO  
 Source: SNL Financial, LC; Includes all U.S. banks under \$5B in assets

# Changes at NC Community Banks\*

Medians for NC Community Banks*				
	2008	2009	2010	Change (%) 2008-2010
Number	89	86	84	(6%)
Assets (\$000's)	270,202	267,598	287,693	6%
NPA's / assets (%)	1.07	2.40	3.58	235%
Loan loss provision / average assets (%)	0.48	0.87	1.13	134%
Net charge-offs / average assets (%)	0.23	0.76	1.15	400%
Return on average assets (%)	0.12	(0.03)	0.09	(29%)
Return on average equity (%)	1.5	(0.4)	0.9	(43%)

\*NC banks under \$5 billion in assets  
Source: SNL Financial, LC

# Return on Equity Trends

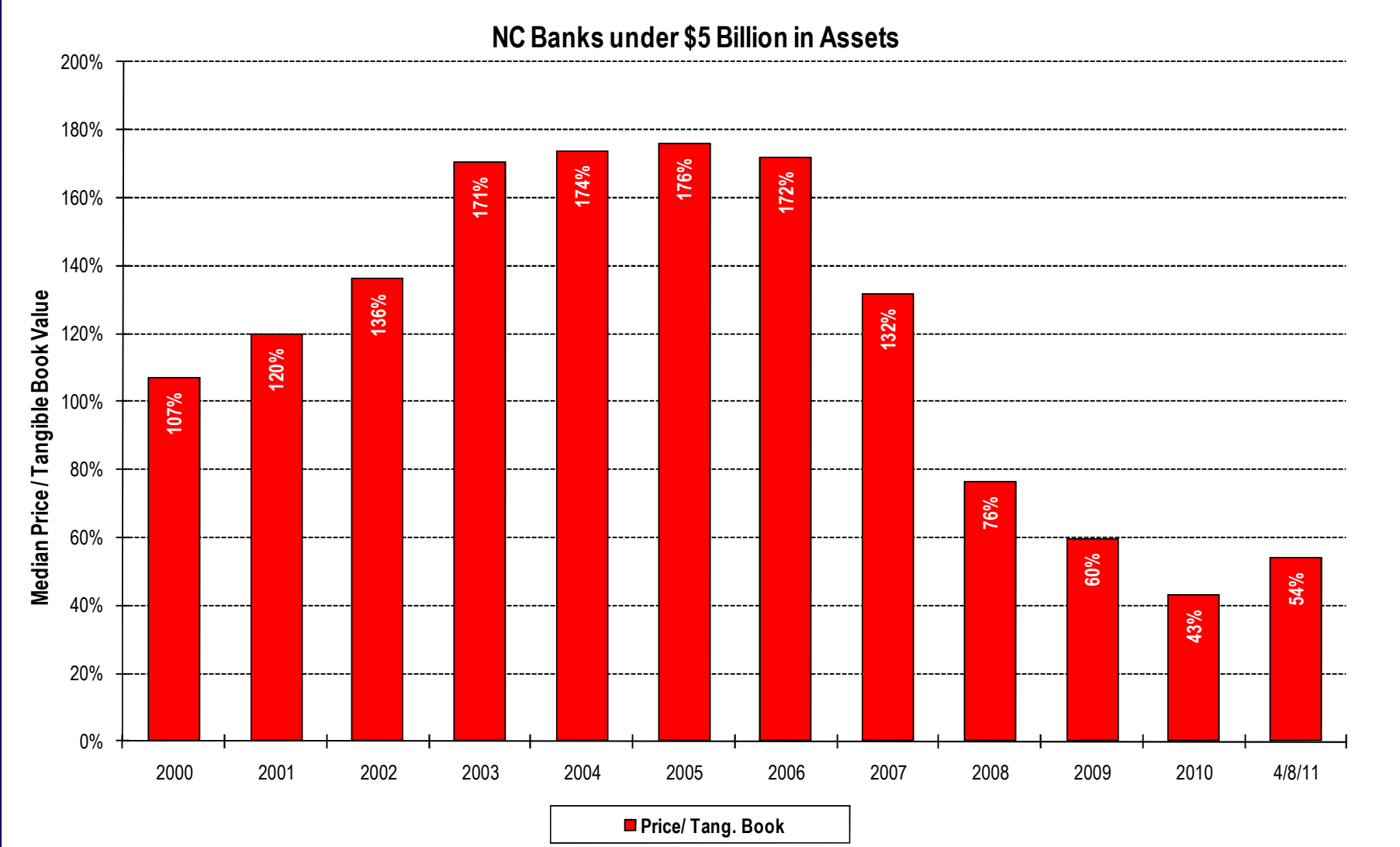


\*Median for NC banks under \$5 billion in assets

\*\*Median for US banks under \$5 billion in assets

Source: SNL Financial, LC

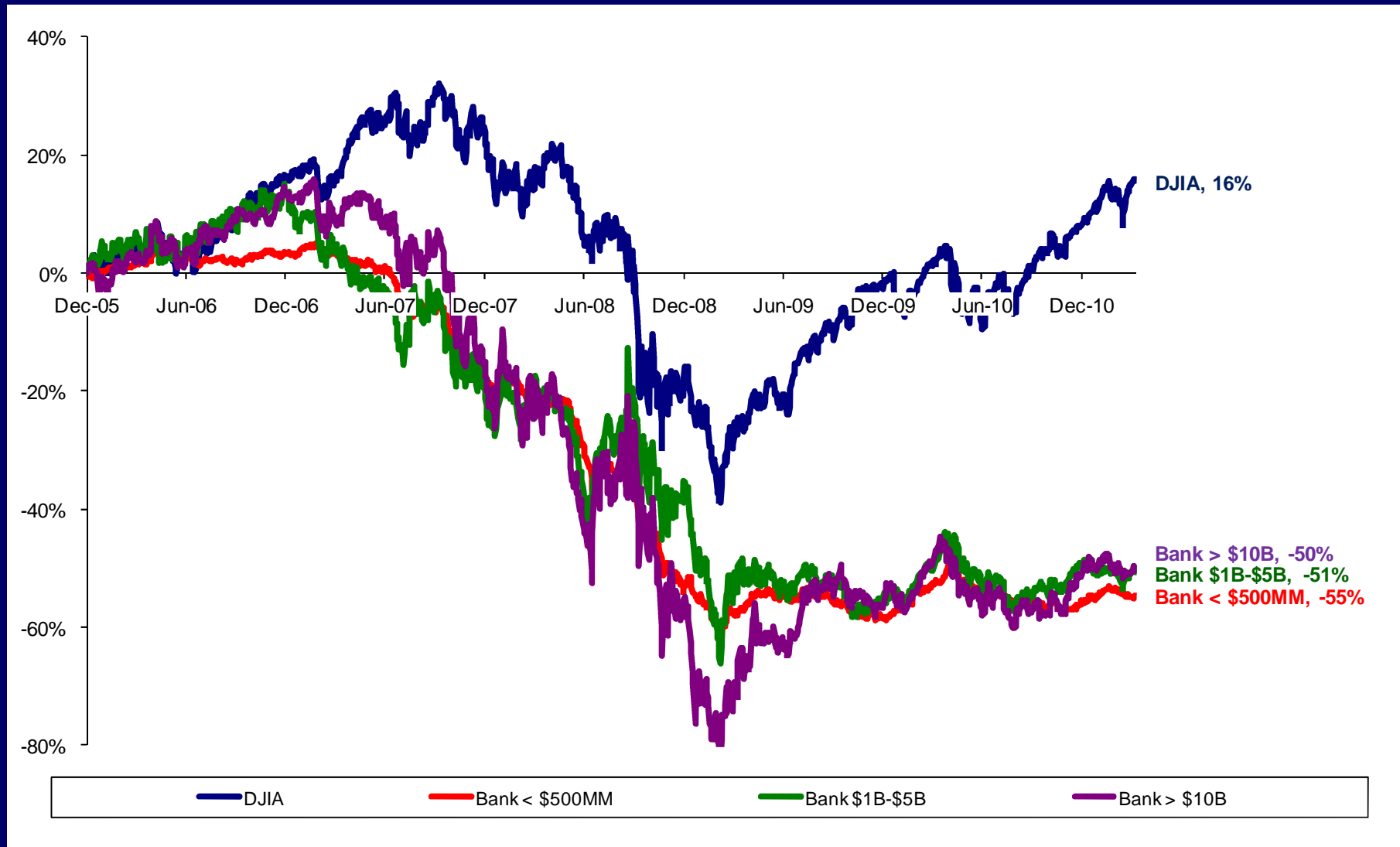
# Price to Tangible Book Value Trends



Source: SNL Financial, LC; As of 4/08/2011

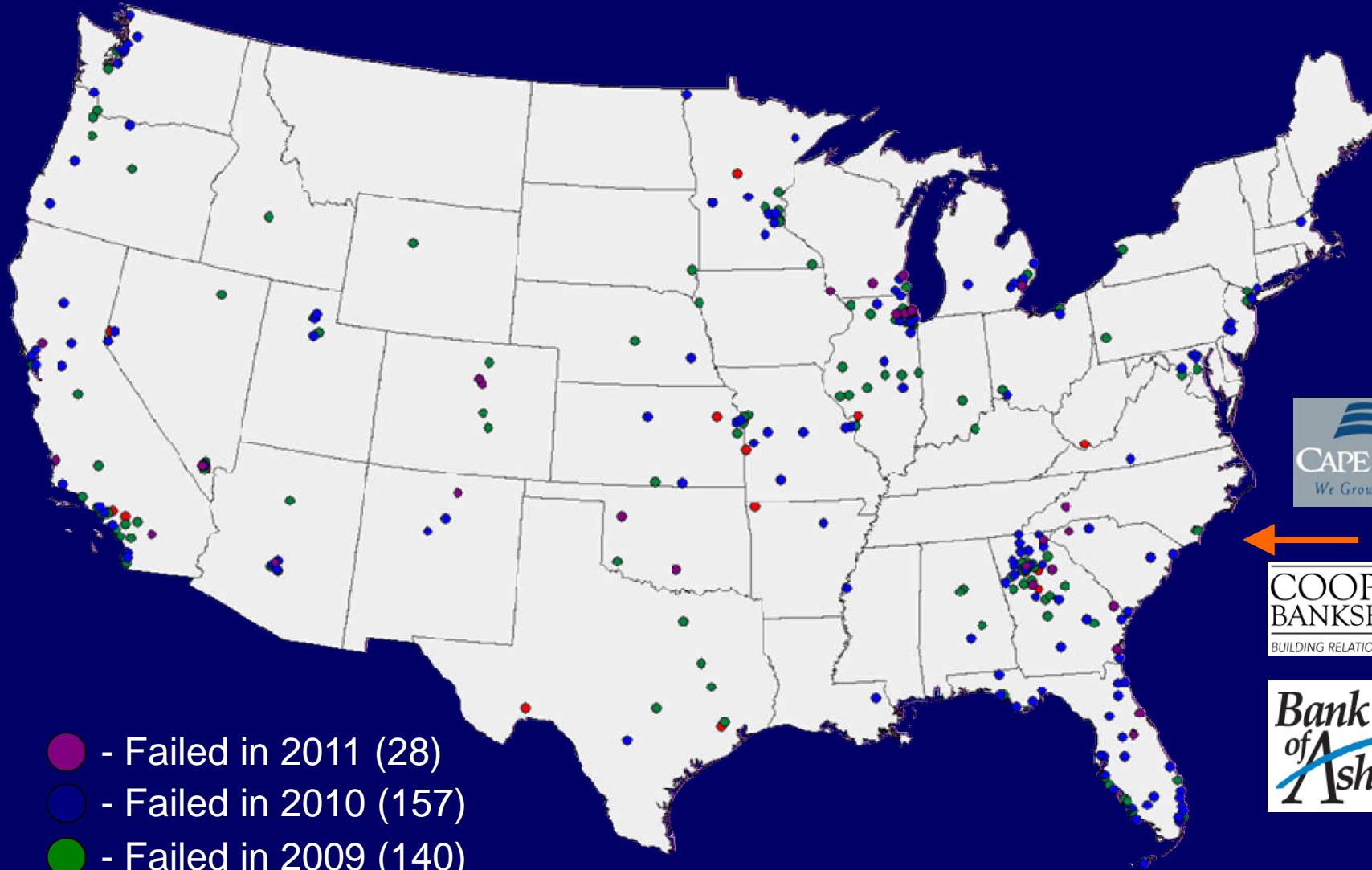
# Bank Stock Index Performance

Dow Jones Industrials    Banks < \$500MM    Banks \$1B - \$5B    Banks \$10B+



Source: SNL Financial, LC; As of 4/08/2011

# Recent Bank Failures



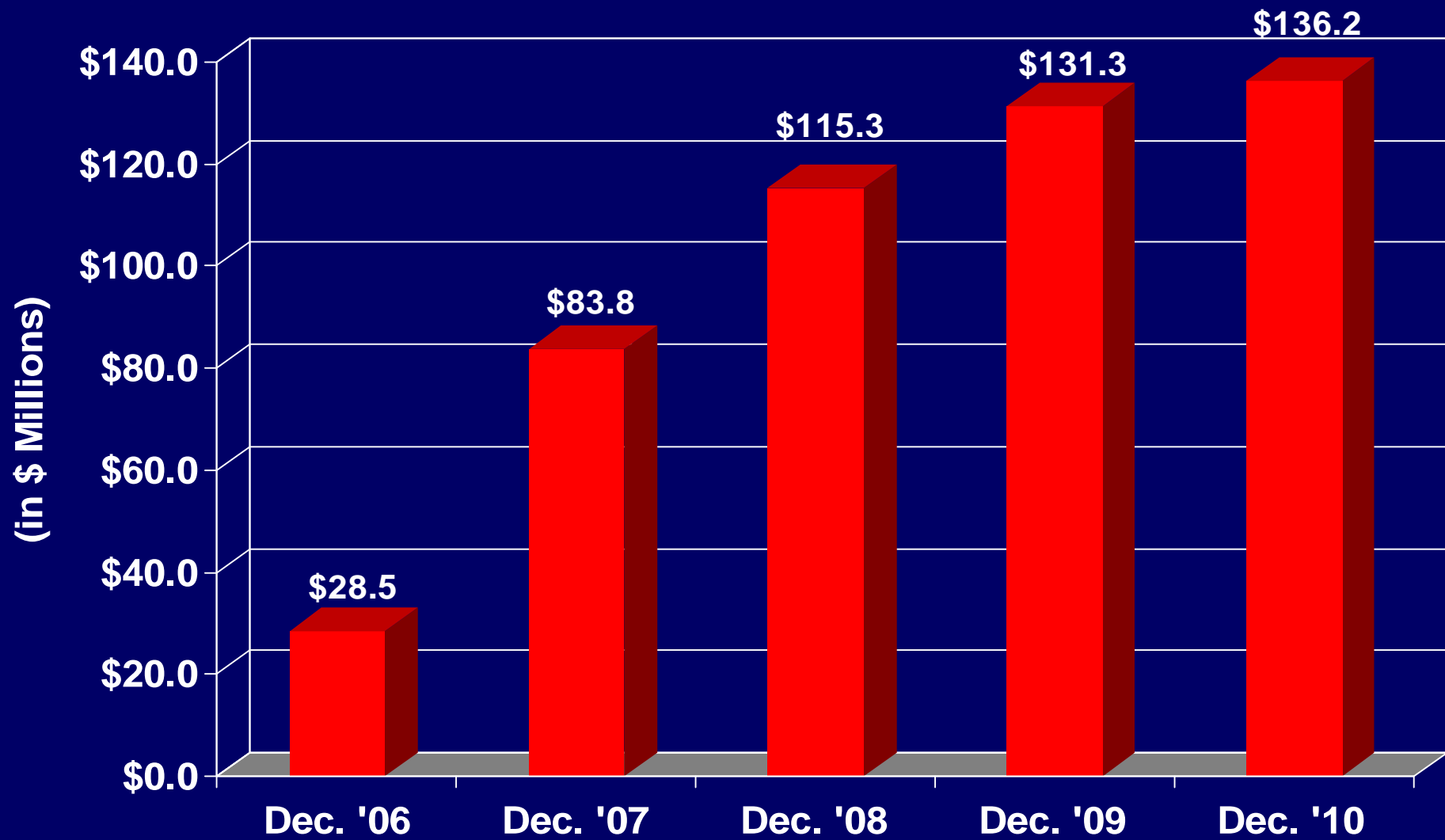
- - Failed in 2011 (28)
- - Failed in 2010 (157)
- - Failed in 2009 (140)
- - Failed in 2008 (26)



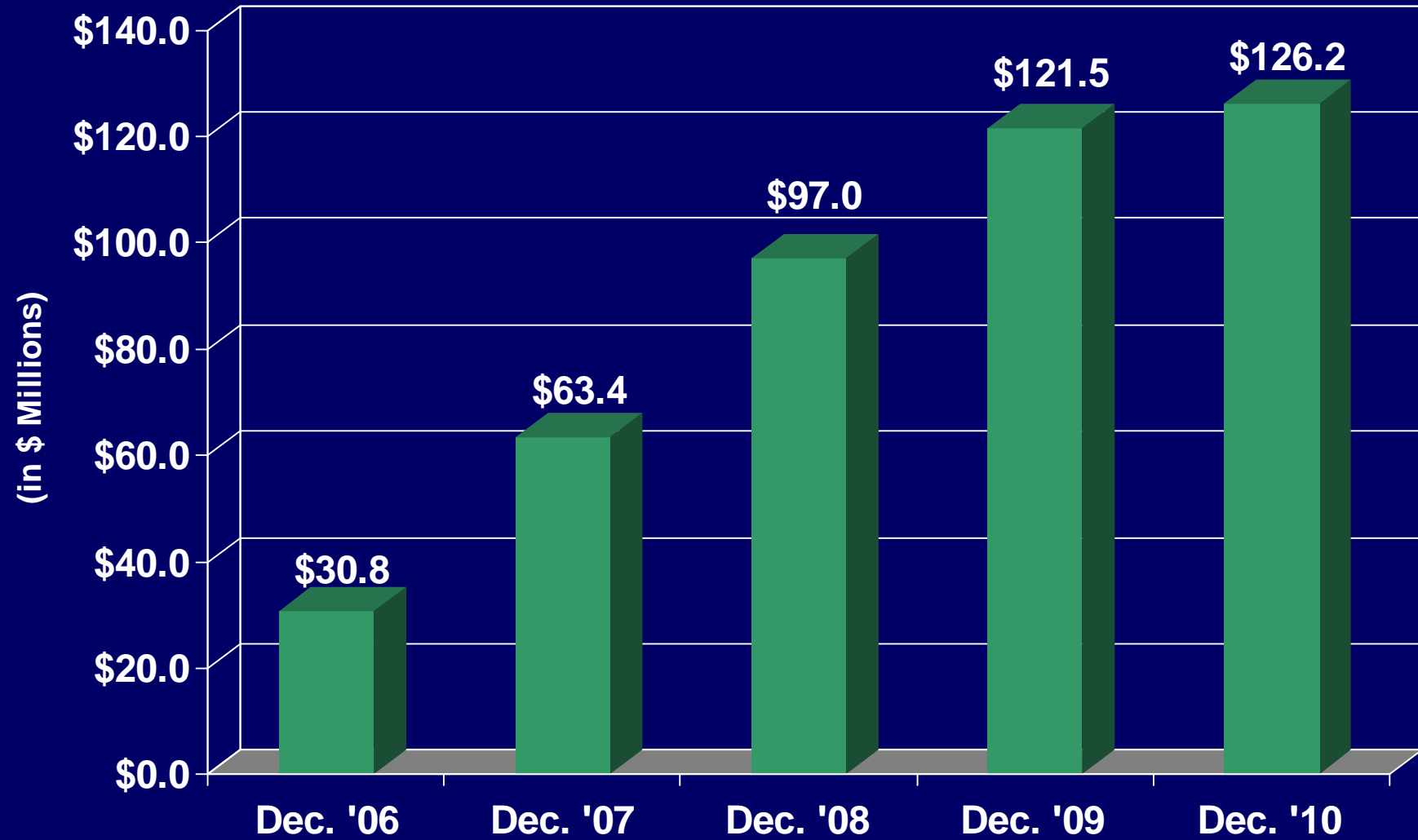
● There have been three failures in NC so far

Source: SNL Financial, LC; As of 4/08/2011

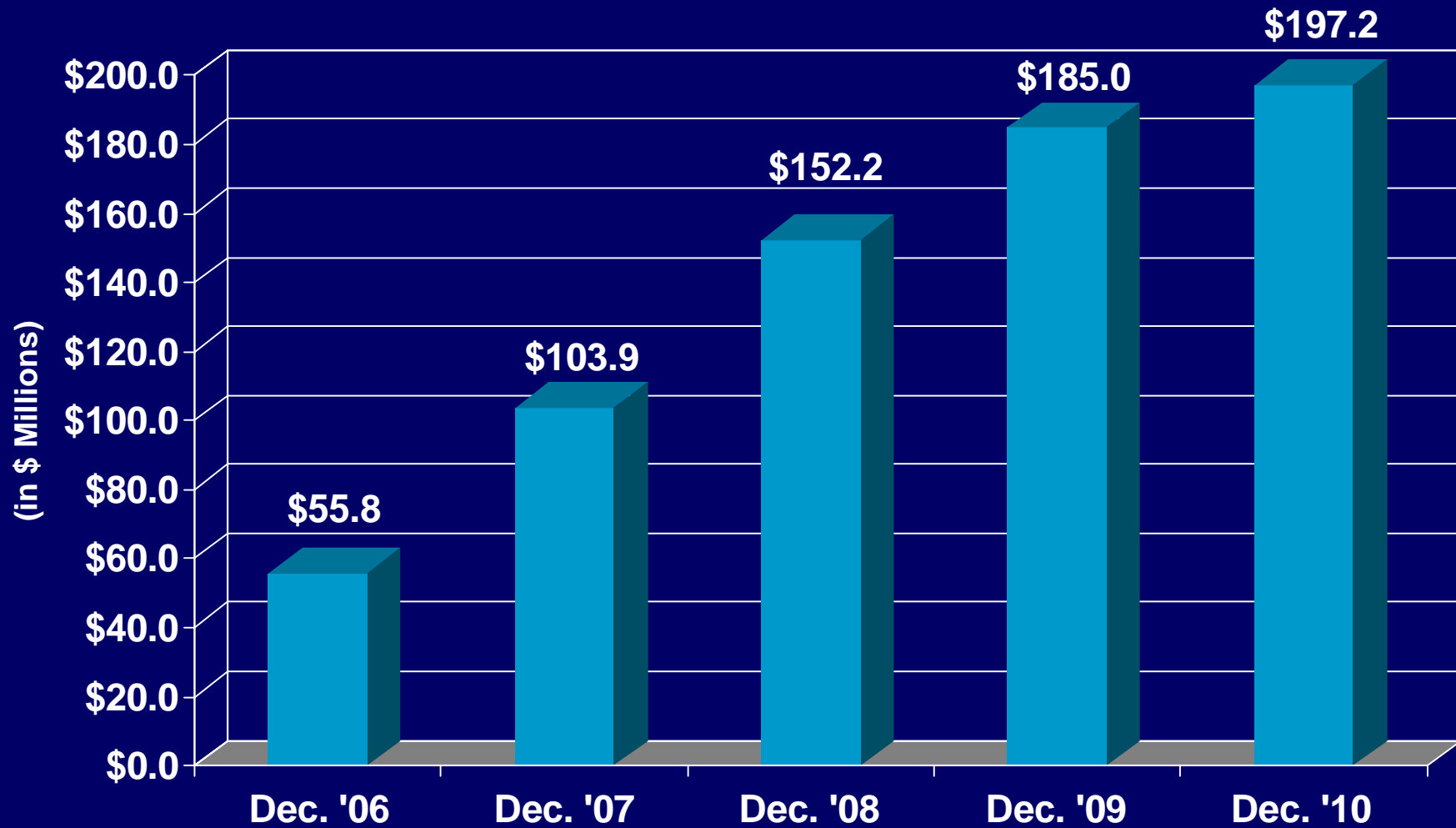
# Loans



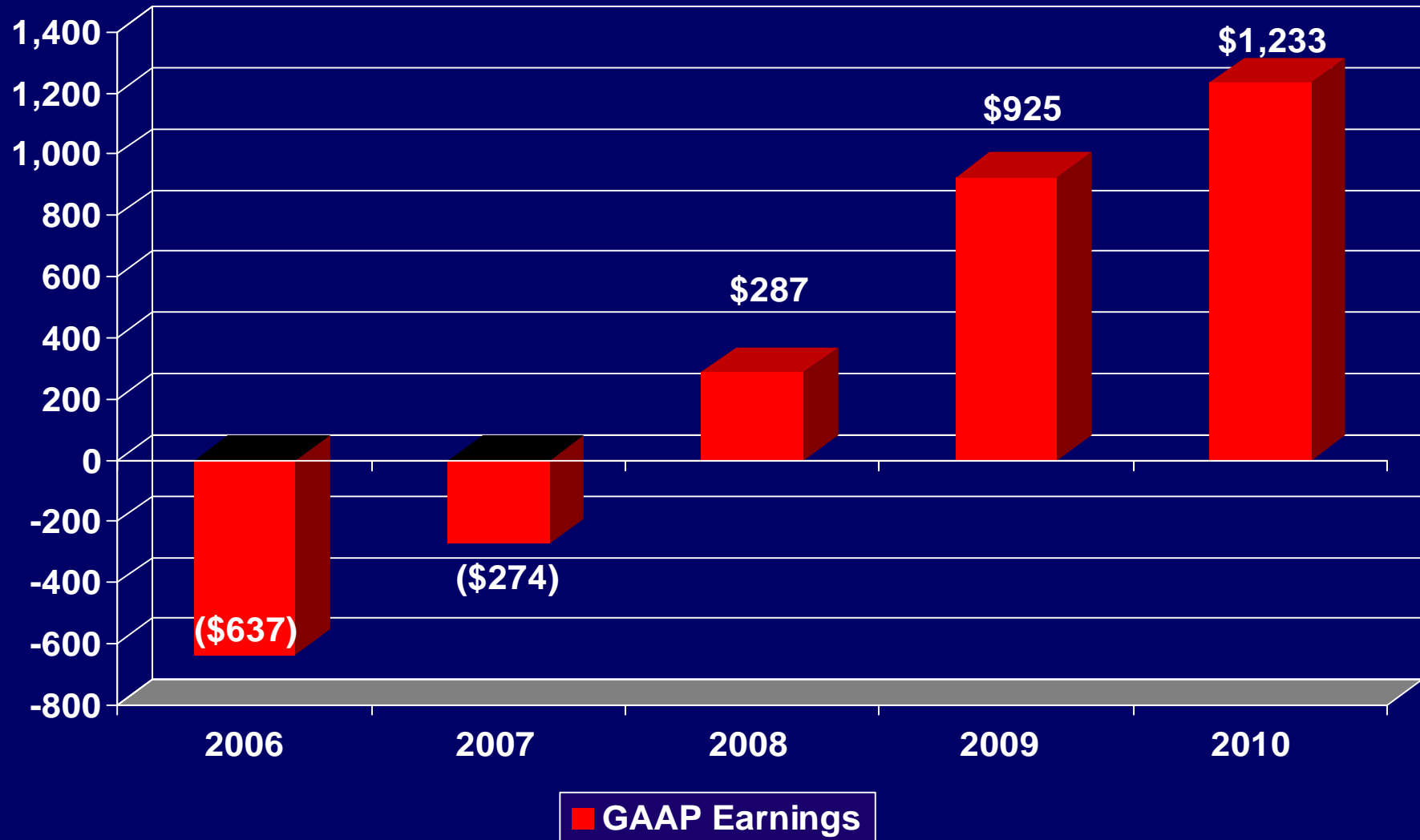
# Deposits



# Assets



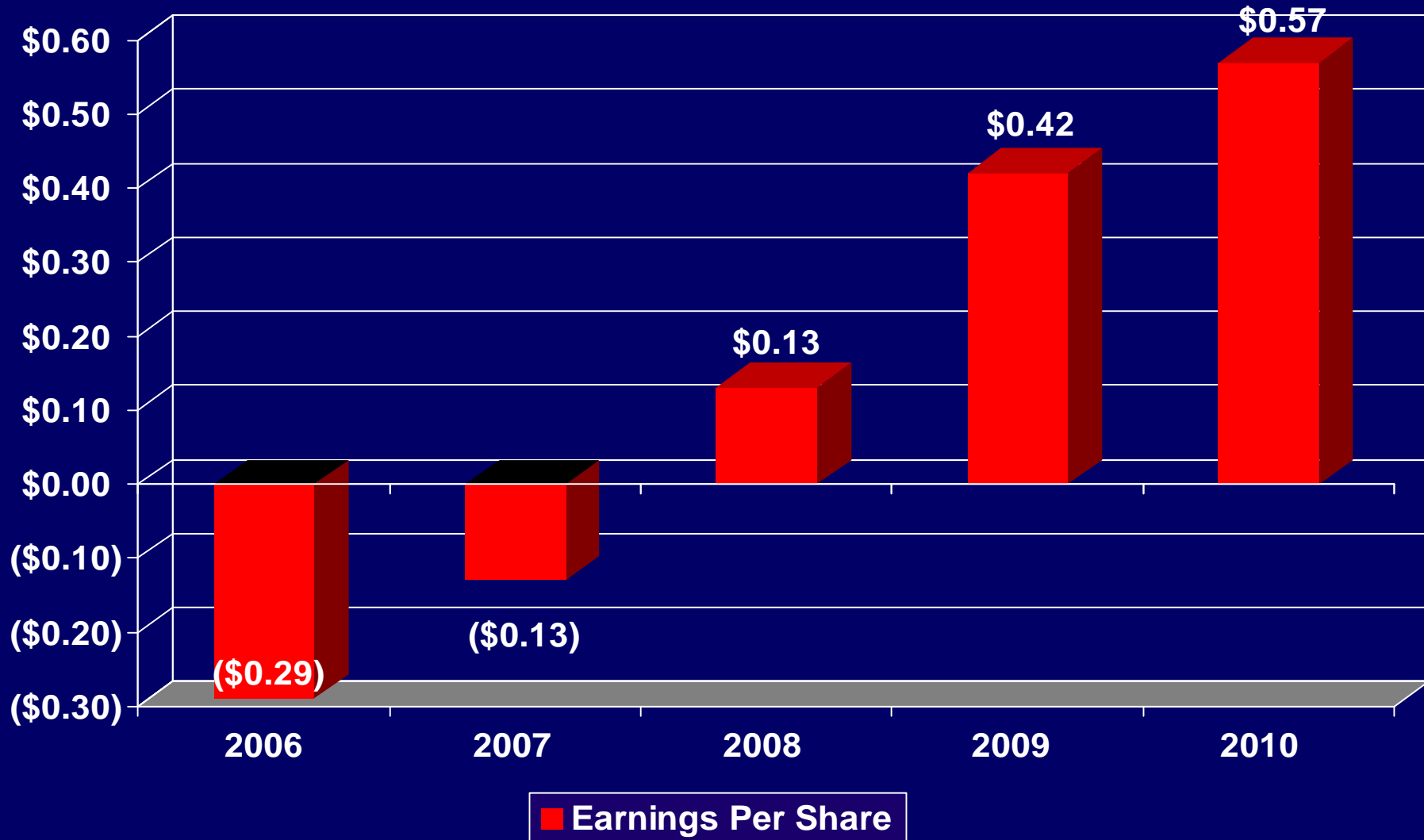
# Annual Earnings



# Book Value Per Share



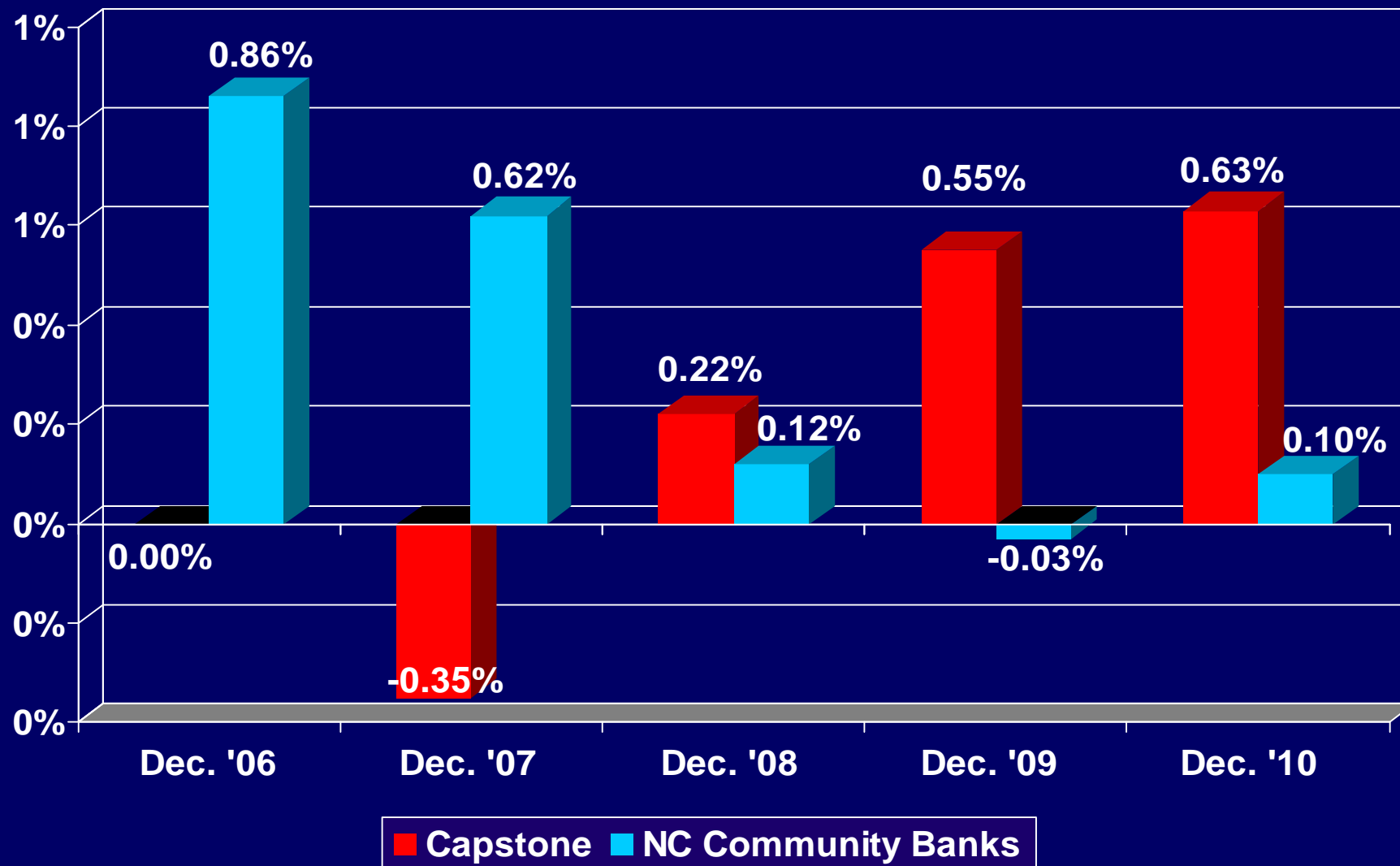
# Earnings Per Share



# 2010 Financial Summary

<i>(in \$000's)</i>	2009	2010	Change (\$000's)	Change (%)
Assets	184,974	197,246	12,272	6.6%
Loans	131,315	136,227	4,912	3.7%
Deposits	121,525	126,153	4,628	3.8%
GAAP Earnings	925	1,233	308	33.3%

# ROA\* vs. NC Peers\*\*

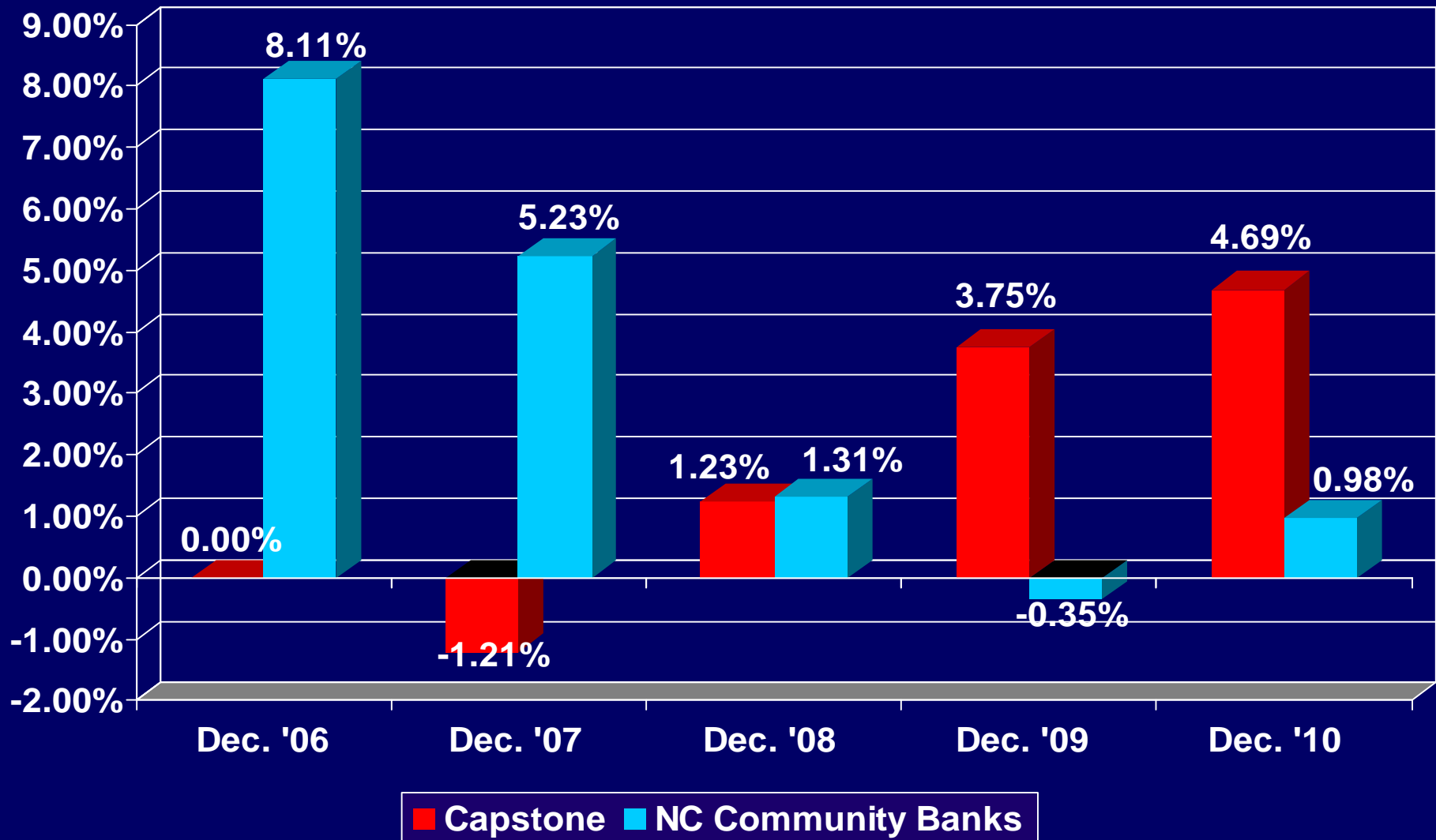


\*ROA = return on average assets

\*\*Median for banks under \$5 billion in assets headquartered in North Carolina

Source: SNL Financial

# ROE\* vs. NC Peers\*\*

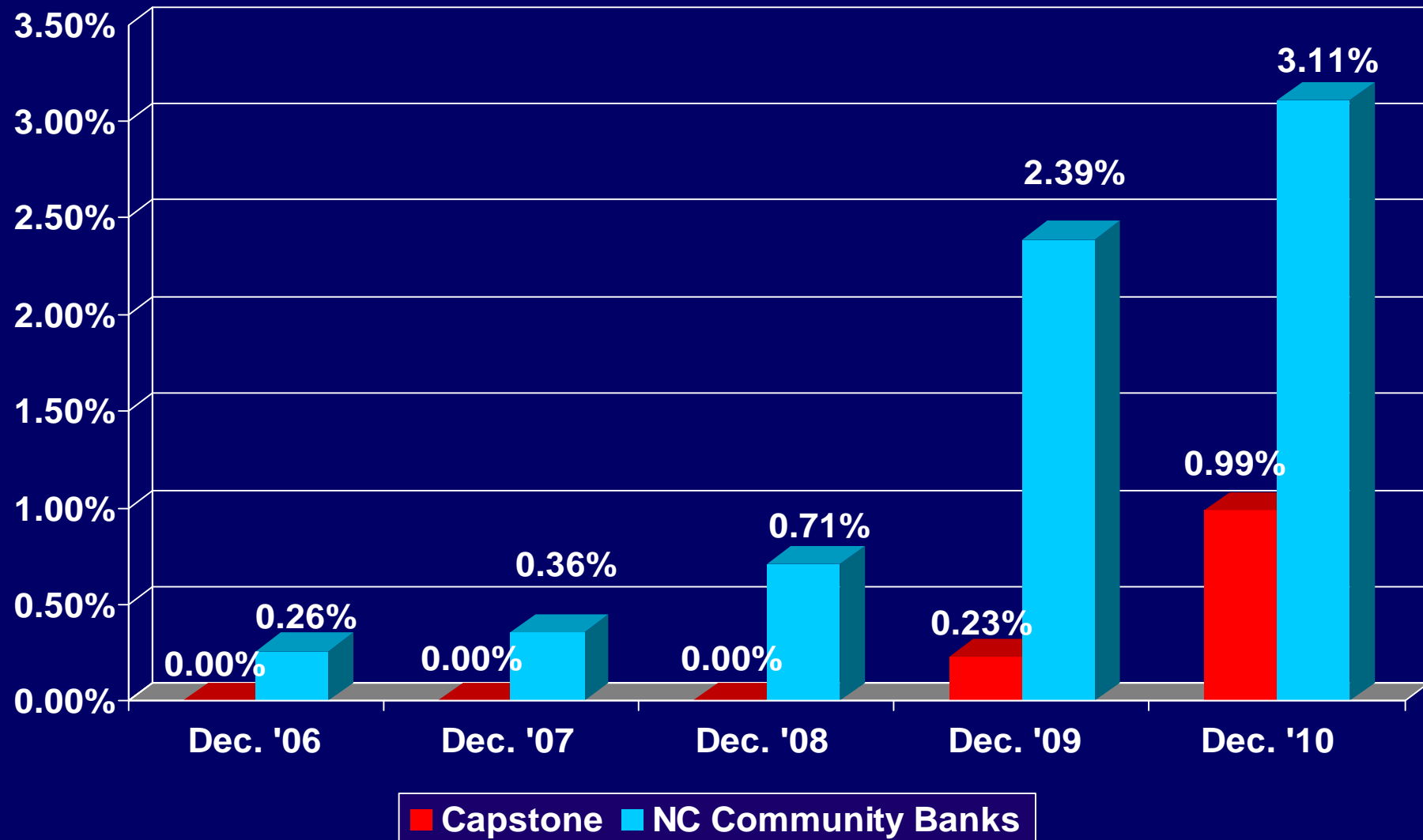


\*ROE = return on average equity

\*\*Median for banks under \$5 billion in assets headquartered in North Carolina

Source: SNL Financial

# Asset Quality\* vs. NC Peers\*\*



\*NPA / assets - includes loans 90 days or more past due, non-accrual loans, and OREO

\*\*Median for banks under \$5 billion in assets headquartered in North Carolina

Source: SNL Financial

# Texas Ratio

- Texas Ratio is used to gauge bank solvency
- Ratio of non-performing assets to tangible common equity and reserves
- Shows a bank's ability to absorb losses on non-performing assets

	12/31/10	Rank*
Tangible common equity	13.4%	13
NPA's / assets	0.99%	13
Reserves / loans	2.22%	34
Reserves / NPA's	1.55%	4
Texas Ratio	6.62%	13

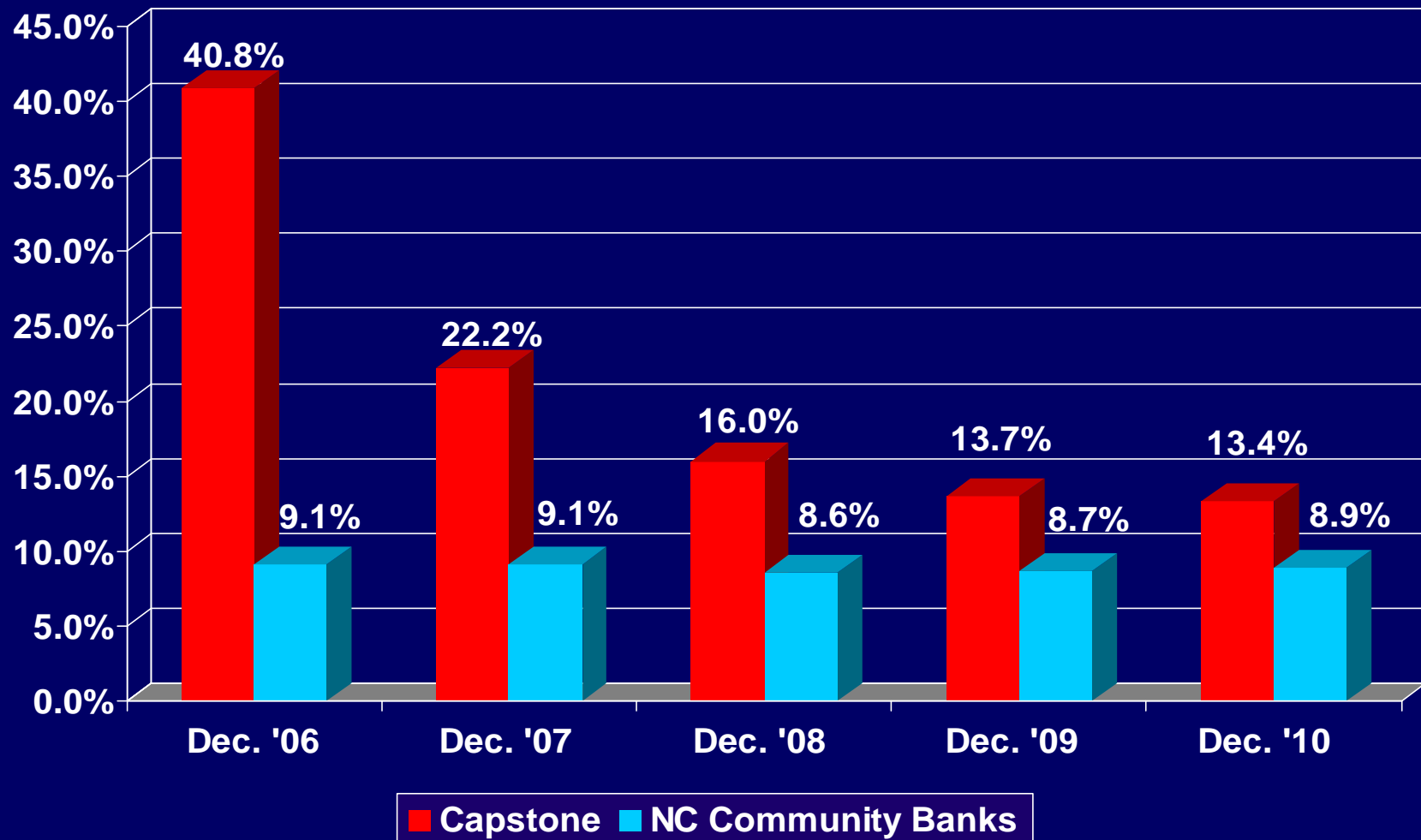
$$\frac{\text{Non - Performing Assets}^{**}}{\text{Tang. Comm. Equity} + \text{Reserves}} = \frac{1,952}{26,472 + 3,023} = 6.62\%$$

\*Compared to banks under \$5 billion in assets headquartered in North Carolina

\*\*Assets 90 days+ past due, non-accrual assets and OREO

Source: SNL Financial

# Tangible Common Equity vs. NC Peers\*



- We have leveraged capital in a timely manner
- Very strong capital position

\* Median for banks under \$5 billion in assets headquartered in North Carolina  
Source: SNL Financial LC

# 2010 Selected Peer Comparison

<i>(in \$000's)</i>	Average for Selected Peers*	CapStone
Asset growth	3,548	12,272
Net income	(324)	1,233
Equity / assets	10.0%	13.4%
NPA's** / assets	2.70%	0.99%
Reserves / loans	1.74%	2.22%

\*Commercial banks headquartered in North Carolina started in 2006 excluding Park Sterling Corporation

\*\*NPA's includes loans 90 days or more past due, non-accrual loans, and OREO

Source: SNL Financial

# Stock Performance

(Since August 1, 2006)

	<u>Beginning Price</u>	<u>Year-End Price</u>	<u>% Increase</u>	<u>Trading Volume</u>
2006	\$11.00	\$11.00	0%	0
2007	\$11.00	\$13.50	23%	35,000
2008	\$13.50	\$13.75	2%	29,500
2009	\$13.75	\$13.75	0%	0
2010	\$13.75	\$9.00	-35%	10,485
2011	\$9.00	\$8.00	-11%	3,000

# Stock Performance

## Wake Co. Community Banks

	Price on August 1, 2006	Price on April 8, 2011	Price Change*	Price / Tangible Book Value April 8, 2011
<b>Capital (CBKN)</b>	\$16.39	\$3.80	-77%	134%
<b>Crescent (CRFN)</b>	\$11.98	\$4.10	-66%	72%
<b>North State (NSBC)</b>	\$11.00	\$4.00	-64%	79%
<b>Wake Forest (WAKE)</b>	\$21.75	\$7.50	-66%	42%
<b>CapStone**</b>	\$11.00	\$8.00	-27%	65%

\*Price change from August 1, 2006 to April 8, 2011

\*\*CapStone is not publicly traded

Source: SNL Financial, LC

# 2011 Focus Areas

- **Quality Asset Growth**
- **Core Deposit Growth**
  - **High Yield Checking**
  - **Free Business Checking**
  - **Remote Business Checking**
- **Exemplary Customer Service**
- **Net Income Growth**
- **Shareholder Value**

CapStone Bank is proud to have a  
**“5 Star Rating”**  
from *Bauer Financial, Inc.*

