CapStone Bank

January 25, 2010

Dear Shareholder:

The year 2009 will be remembered as a year of continued stress for the financial services industry and the overall economy. When we wrote our shareholder letter in January of last year we stated, "2009 will be another very difficult year for the economy, both on a national and local level" and, unfortunately, we were correct in our prediction. However, in spite of an extremely poor economic year, CapStone is able to report very positive financial results for both the quarter and year ended December 31, 2009.

Total assets at year end December 31, 2009, were $185.0 million versus $152.3 million at year end 2008, an increase of $32.6 million or 21.4%. During the same period, loans increased by $16.0 million or 13.9% while deposits grew by $24.6 million or 25.3%. Net income for the year ended December 31, 2009 was $924,800 versus $287,400 for the preceding year, an increase of $637,400 or 221.8%. The growth in net income was primarily the result of net interest income increasing by $1.5 million in 2009 over the previous year. This increase is a result of our earning asset growth and expanding our net interest spread to an average of 3.33% in 2009 from an average of 2.88% in 2008. It should also be noted that we incurred income tax expense of $168,000 during 2009, while there was none in 2008.

Net income for the quarter ended December 31, 2009, was $314,900 versus $84,400 for the same period in 2008, an increase of $230,600 or 273%. The quarterly income growth was also primarily the result of improvement in net interest income.

Asset quality for CapStone continues to be very good. At year end 2009, we had 0.27% of total loans delinquent 30 days or more, 0.24% in non-accrual loans, and only 0.06% of assets in other real estate owned. The total dollar amount of loans charged off in 2009 was $229,700 or 0.19% of average loans. All of these percentages are significantly better than the average for banks in North Carolina. However, due to the state of the economy and the stress it has placed on our loan portfolio, we increased our allowance for loan losses during the year by $662,300, or 37%, to $2.4 million, or 1.86% of total loans, at year end 2009. The allowance for loan losses was $1.8 million, or 1.54% of total loans, at year end 2008.

As we look to 2010, we feel it will be another difficult year for our local economy due to continued high unemployment, a soft real estate market, and low consumer confidence. On a positive note, we do feel the economy is bottoming out and, hopefully, we will see improvement later this year. We are confident CapStone is well positioned to deal with the economic issues we face due to our exceptionally strong balance sheet and earnings momentum.

During the first quarter of 2010, we will expand our market presence by opening a loan production office in Cary. Jonathan Taylor, who will serve as Senior Vice President and City Executive, is well known in that market, previously serving as City Executive for another bank in Cary. Once that office reaches established goals for loan growth and profitability, our plan is to convert it to a full-service banking facility.

We sincerely appreciate your support of CapStone Bank and encourage you to attend our Annual Shareholders' Meeting, which will be held at 10:00 a.m. on April 21, 2010, at North Ridge Country Club, 6612 Falls of Neuse Road in Raleigh.

Sincerely,

Michael S. Patterson
Executive Chairman

Steven R. Ogburn
President and CEO

CAPSTONE BANK

Balance Sheet

(Unaudited)

	Actual Dec 09	Actual Dec 08	$ Change	% Change
Assets				
Cash and due from banks	2,627,625	1,901,410	726,215	38.2
Fed funds sold & repos	37,673	78,644	-40,971	-52.1
Interest bearing deposits with banks	20,167,832	4,388,000	15,779,832	359.6
Investment Securities - Taxable	22,113,134	29,894,232	-7,781,099	-26
Investment Securities - Tax-exempt	5,125,000	535,000	4,590,000	857.9
Loans, net of unearned income	131,315,189	115,214,446	16,100,744	14
Less: Allowance for loan losses	-2,437,317	-1,775,000	-662,317	-37.3
Premises and equipment, net	391,801	529,767	-137,966	-26
Accrued interest receivable	653,737	652,670	1,067	0.2
Other assets	4,979,628	917,938	4,061,689	442.5
Total Assets	**184,974,301**	**152,337,107**	**32,637,195**	**21.4**
Liabilities				
Non-Interest Bearing Deposits	10,306,066	6,944,484	3,361,583	48.4
Interest bearing demand deposits	19,955,686	15,535,939	4,419,747	28.4
Savings and Money Market Deposits	31,847,252	19,667,306	12,179,946	61.9
Time Deposits - Retail	31,693,397	27,497,638	4,195,759	15.3
Time Deposits - Wholesale	27,722,791	27,318,334	404,457	1.5
Total Deposits	121,525,193	96,963,701	24,561,492	25.3
Accrued expenses and other liabilities	1,676,264	1,208,747	467,517	38.7
FHLB Advances	22,000,000	22,000,000	0	0
Other Borrowings	14,494,069	7,902,511	6,591,559	83.4
Total Liabilities	159,695,526	128,074,959	31,620,568	24.7
Equity				
Common stock	10,812,000	10,812,000	0	0
Capital surplus	13,570,949	13,304,814	266,135	2
Retained earnings	-623,525	-910,941	287,416	31.6
Accumulated other comprehensive income (loss)	594,521	768,859	-174,338	-22.7
Net Income	924,830	287,416	637,414	221.8
Total Equity	25,278,775	24,262,148	1,016,627	4.2
Total Liabilities & Equity	**184,974,301**	**152,337,107**	**32,637,195**	**21.4**

CAPSTONE BANK

Income Statement

(Unaudited)

	YTD Actual Dec 09	YTD Actual Dec 08	$ Change	% Change
Interest Income				
Interest on Loans	6,849,853	6,321,289	528,563	8.4
Fees on Loans	118,180	99,992	18,188	18.2
Interest on federal funds sold	3,120	29,970	-26,850	-89.6
Interest on deposits with banks	396,051	23,421	372,631	1591
Investment Securities - Taxable	1,224,703	1,307,631	-82,929	-6.3
Investment Securities - Tax-exempt	120,568	74	120,494	162150.5
Total Interest Income	8,712,475	7,782,378	930,097	12
Interest Expense				
Interest bearing demand deposits	259,365	185,520	73,845	39.8
Savings and Money Market Deposits	380,139	530,790	-150,651	-28.4
Time Deposits - Retail	915,257	1,096,625	-181,368	-16.5
Time Deposits - Wholesale	582,332	825,892	-243,560	-29.5
FHLB Advances	617,127	581,098	36,029	6.2
Interest on other borrowings	30,232	121,846	-91,614	-75.2
Total Interest Expense	2,784,451	3,341,770	-557,319	-16.7
Net Interest Income	**5,928,024**	**4,440,608**	**1,487,416**	**33.5**
Provision for loan losses	892,000	1,077,232	-185,232	-17.2
Net Int. Inc. After Prov. for Loan Losses	**5,036,024**	**3,363,376**	**1,672,648**	**49.7**
Non Interest Income				
Service charges and fees	68,419	82,327	-13,908	-16.9
Securities gains (losses), net	0	103,296	-103,296	-100
Mortgage loan and related fees	15,756	11,040	4,715	42.7
Other noninterest income	40,302	39,005	1,297	3.3
Total Non Interest Income	124,477	235,669	-111,192	-47.2
Non Interest Expense				
Salaries and employee benefits	2,383,783	1,986,899	396,885	20
Occupancy	367,660	312,542	55,118	17.6
Other noninterest expense	1,316,228	1,012,188	304,040	30
Total Non Interest Expense	4,067,672	3,311,629	756,043	22.8
Income Before Taxes	**1,092,830**	**287,416**	**805,414**	**280.2**
Income taxes	168,000	0	168,000	0
Net Income	**924,830**	**287,416**	**637,414**	**221.8**