CapStone Bank

July 21, 2011

Dear Shareholder:

We are very pleased to report continued positive operating results for CapStone Bank for the quarter and six months ended June 30, 2011. We ended the June quarter with $202.4 million in total assets compared to $200.1 million on June 30, 2010, an increase of $2.3 million or 1.2%. Loans outstanding for the period ended June 30, 2011 were $135.5 million versus $129.4 million for the same period a year ago, an increase of $6.1 million or 4.7%. For the same period, deposits were $135.4 million compared to $142.3 million as of June 30, 2010, a decrease of $6.9 million or 4.9%. For the first six months of 2011, total assets grew from $197.2 million to $202.4 million, an increase of $5.2 million or 2.6%. During the same comparative period, loans declined by $700,000 or 0.5% while deposits increased by $9.2 million or 7.3%.

Net income for the second quarter of 2011 was $512,082 compared to $384,021 for the same period in 2010, an increase of $128,061 or 33.3%. Net income for the first six months of 2011 was $940,187 versus $744,079 for the same six months in 2010, an increase of $196,108 or 26.4 %. For the six months ended June 30, 2011, pre-tax, pre-loan loss provision income was $1,653,187 compared to $1,573,853 for the same period in 2010, an increase of $79,334 or 5%. The earnings increase for the quarter and first six months of 2011 compared to the same period in 2010 is attributable to two primary factors; a significant increase in the net interest spread, and a reduction in the need to provide for future loan losses.

Asset quality for CapStone continues to be extremely good. At June 30, 2011, we had no loans delinquent 90 days or more and nonperforming assets as a percentage of total assets were 0.45%. These results continue to be significantly better than the average for community banks in North Carolina. In addition, our allowance for loan losses to total loans continues to be very strong at 2.38% as of quarter end compared to 1.80% at the same time last year.

While we are encouraged by the growth of net income and strong asset quality for the first six months of 2011, we are not pleased with the sluggish balance sheet growth. Although we are aggressively trying to grow the Bank, we will be cautious in protecting the quality of our balance sheet and core earnings. In our continued effort to create long-term shareholder value, we recently announced a 6 for 5 stock split effected in the form of a 20% stock dividend. This dividend is a reflection of the continued financial strength of the company as we approach our fifth year of operations. You should anticipate receiving a stock certificate for this dividend on or about July 29, 2011.

In addition to sharing our financial results, I would also like to announce some key changes in the management structure here at CapStone. Effective July 15, 2011, Steven R. Ogburn announced his resignation as President, CEO and as a Director of CapStone Bank. We are most appreciative of Steve's

significant role in starting CapStone and for his service during the past five years. We wish him much success in his future endeavors. As a result of his resignation, the Board of Directors has elected me to serve as President and CEO. I am grateful for the trust the Board has placed in me and will do everything in my power to continue our approach of positioning CapStone as a high performing, safe and sound institution with a strong focus on the creation of shareholder value. Additionally, Robert E. Branch has been promoted to Executive Vice President and will serve as Chief Banking Officer of the company. Debra L. Lee, Chief Financial Officer, has also been elected Executive Vice President. The three of us will now serve as the Executive Management Team at CapStone Bank.

We appreciate the support of our Shareholders and encourage you to support your Bank by banking with us and referring your family, friends and business associates. Please feel free to call me directly at (919) 258-6802 with any questions.

Sincerely,

Michael S. Patterson
Chairman, President and CEO

CAPSTONE BANK

Balance Sheet

(UNAUDITED)

	Actual Jun 2011	Actual Jun 2010	$ Change	% Change
Assets				
Cash and due from banks	2,505,712	2,284,912	220,800	9.7
Fed funds sold & repos	3,172,106	8,875,566	-5,703,460	-64.3
Interest bearing deposits with banks	20,447,217	26,757,753	-6,310,536	-23.6
Investment Securities - Taxable	26,460,317	21,001,440	5,458,877	26
Investment Securities - Tax-exempt	10,900,194	5,733,825	5,166,369	90.1
Loans, net of unearned income	135,536,887	129,398,597	6,138,291	4.7
Less: Allowance for loan losses	-3,222,718	-2,326,175	-896,543	-38.5
Premises and equipment, net	261,895	388,055	-126,160	-32.5
Accrued interest receivable	682,005	626,359	55,645	8.9
Other assets	5,658,696	7,359,199	-1,700,503	-23.1
Total Assets	**202,402,311**	**200,099,531**	**2,302,780**	**1.2**
Liabilities				
Non-Interest Bearing Deposits	18,843,978	21,982,052	-3,138,074	-14.3
Interest bearing demand deposits	24,027,635	20,457,977	3,569,658	17.4
Savings and Money Market Deposits	36,784,257	40,764,857	-3,980,600	-9.8
Time Deposits - Retail	28,287,396	31,030,737	-2,743,341	-8.8
Time Deposits - Wholesale	27,446,104	28,069,909	-623,805	-2.2
Total Deposits	135,389,370	142,305,532	-6,916,162	-4.9
Accrued expenses and other liabilities	1,146,025	1,709,610	-563,586	-33
FHLB Advances	35,000,000	27,000,000	8,000,000	29.6
Other Borrowings	3,030,534	2,863,468	167,067	5.8
Total Liabilities	**174,565,929**	**173,878,611**	**687,319**	**0.4**
Equity				
Common stock	10,812,000	10,812,000	0	0
Capital surplus	13,748,179	13,627,619	120,560	0.9
Retained earnings	1,534,382	301,305	1,233,077	409.2
Accumulated other comprehensive income (loss)	801,634	735,918	65,716	8.9
Net Income	940,187	744,079	196,108	26.4
Total Equity	**27,836,382**	**26,220,921**	**1,615,461**	**6.2**
Total Liabilities & Equity	**202,402,311**	**200,099,531**	**2,302,780**	**1.2**

CAPSTONE BANK

Income Statement

(UNAUDITED)

	YTD Actual Jun 2011	YTD Actual Jun 2010	$ Change	% Change
Interest Income				
Interest on Loans	3,817,976	3,687,742	130,234	3.5
Fees on Loans	103,778	88,994	14,784	16.6
Interest on federal funds sold	3,906	1,833	2,072	113
Interest on deposits with banks	227,456	225,603	1,853	0.8
Investment Securities - Taxable	418,413	495,791	-77,378	-15.6
Investment Securities - Tax-exempt	182,879	118,885	63,995	53.8
Total Interest Income	4,754,408	4,618,848	135,560	2.9
Interest Expense				
Interest bearing demand deposits	73,979	115,531	-41,552	-36
Savings and Money Market Deposits	142,651	235,007	-92,356	-39.3
Time Deposits - Retail	209,328	333,680	-124,352	-37.3
Time Deposits - Wholesale	105,046	189,434	-84,388	-44.5
Total Interest Expense on Deposits	531,004	873,652	-342,648	-39.2
FHLB Advances	296,567	279,369	17,197	6.2
Interest on other borrowings	1,843	11,324	-9,482	-83.7
Total Interest Expense	829,413	1,164,345	-334,932	-28.8
Net Interest Income	**3,924,995**	**3,454,503**	**470,492**	**13.6**
Provision for loan losses	206,000	487,000	-281,000	-57.7
Net In. Inc. After Prov. for Loan Losses	**3,718,995**	**2,967,503**	**751,492**	**25.3**
Non Interest Income				
Service charges and fees	37,306	37,233	74	0.2
Securities gains (losses), net	2,603	0	2,603	0
Mortgage loan and related fees	11,242	6,225	5,017	80.6
Other noninterest income	63,873	64,430	-557	-0.9
Total Non Interest Income	115,025	107,888	7,137	6.6
Non Interest Expense				
Salaries and employee benefits	1,499,012	1,075,912	423,100	39.3
Occupancy	208,474	199,697	8,776	4.4
Other noninterest expense	679,347	712,928	-33,581	-4.7
Total Non Interest Expense	2,386,833	1,988,538	398,296	20
Income Before Taxes	**1,447,187**	**1,086,853**	**360,334**	**33.2**
Income taxes	507,000	342,774	164,226	47.9
Net Income	**940,187**	**744,079**	**196,108**	**26.4**