

CAPSTONE Quarterly

A news publication for the clients and shareholders of CapStone Bank

Community Outreach

CapStone continues to reach out to serve our local community. Recently,



Accounting Specialist Katie Gaston relaxes in the canteen after donating blood at Raleigh's Red Cross Chapter.

our employees were encouraged to help our neighbors and possibly save a life by donating blood at the local American Red Cross. More than four million people give

blood through the American Red Cross, making it the largest supplier of blood and blood products in the United States.

Thoughts On Customer Service

*"Do what you do
so well that
they will want to
see it again
and bring their
friends."*

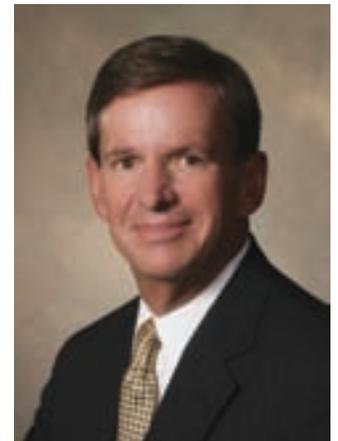
– Walt Disney

I am pleased to report that CapStone Bank continues to grow and prosper, and I believe that it is mainly due to the fact that we have stayed true to our mission of providing an outstanding banking experience -- delivered by trained, experienced professionals who truly care about the success of our customers. Another factor in our success is that we are extremely fortunate to be blessed with savvy customers, loyal shareholders, active and involved Directors, and a truly committed staff.

However, we also understand that for a bank to effectively serve its customers, it must be built on a strong foundation, and we take great pride in our financial strength. Our capital ratio was more than 13% of assets and year-to-date earnings were almost \$1 million at December 31, 2009. Our total assets at year-end 2009 were \$185.0 million, an increase of 21.4% over 2008. During the same period, loans and deposits increased by 13.9% and 25.3%, respectively, over the previous year.

This strength has enabled us to attract significant new relationships that, quite honestly, were not being properly served by competitor banks in our market. We have seen firsthand a number of instances when these banks, focused on their internal problems instead of providing the level of service the public demands, turned away their own good customers. Many of those businesses and individuals have found their way to us, and we are grateful for the opportunity to serve them.

We are in a highly competitive business, and we know that, as customers, you have options. CapStone's directors and employees strongly believe that serving credit-worthy businesses, professionals, and individuals in our community is not only our privilege, it is also our responsibility. We look forward to continuing to serve you and earn the chance to expand our relationship with you personally or with your business. If you would like to discuss your current financial needs or ways that we can better serve you, please contact me directly at (919) 256-6801 or at sogburn@capstonebank.com.



Steven R. Ogburn
President and CEO

Steven R. Ogburn
President and CEO



Meet Our Branch Staff

When you visit our branch, you are met with the smiling faces of CapStone team members who are eager to serve you, and we would like to take this opportunity to introduce them.

Mia Haislip began her career with CapStone in 2008 as a Customer Service Representative (CSR), being promoted to Branch Manager after only one year. Prior to joining CapStone, she served as a Financial Service Representative at First Citizens Bank.

As Branch Manager, Mia hired Nicole Treadwell to join the team as CSR. Nicole also came to CapStone from First Citizens Bank where she served as Teller Supervisor. Prior to that, she also was employed by Bank of America in Raleigh and Richmond.



Left to Right: Mia Haislip, Branch Manager; Nicole Treadwell, CSR; Michelle George, CSR

Our Branch Team was recently completed with the addition of Michelle George who also serves as CSR. Michelle came to Capstone from Two River Community Bank in New Jersey where she served as a Teller Supervisor for several years. Prior to that, she was employed by Fidelity Bank in Raleigh.

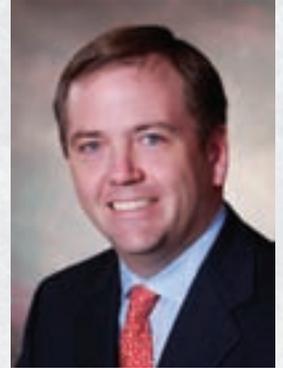
We are confident that you will see our Branch

team's commitment to customer service reflected in every interaction. Should you ever have any questions about your account(s) please come by the Bank, or call (919) 256-6800. Mia, Nicole, or Michelle will be happy to help you.

Cary Loan Production Office OPEN for Business!

CapStone Bank has expanded its reach into Cary with the opening of our new Loan Production Office located at 1140 Kildaire Farm Road. We are proud to introduce you to our Cary team:

Jonathan Taylor (JT), Senior Vice President and City Executive, has been a fixture in the financial services industry for more than 11 years, most recently serving as managing partner for Everest Group, LLC, a Cary-based



Jonathan "JT" Taylor
Senior Vice President
and City Executive

real estate investment company. Prior to that, he served as Raleigh City Executive and Cary City Executive for Crescent State Bank.

Paula Burns, Loan Assistant, who joined the CapStone Team in February, also has a great deal of banking experience. She previously served as a Senior Loan Administration Specialist at Crescent State Bank and was also formerly employed by BB&T in Cary and with State Bank of Raleigh.

Stop by our new office, or give JT a call at (919) 256-6836.



Time to Refinance your Mortgage?

Now is a great time to take advantage of historically low mortgage rates as they may not remain this low for long.

Mortgage applications and new home sales are beginning to climb once again, and the market is starting to show signs of revitalization.

Most borrowers anticipate experiencing a rising-rate environment over the next few periods, and this has fueled the current increase in refinance and purchase demand. It may be some time before the market gains enough momentum to decisively state that the downturn has been reversed. However, part of the temporary boost in the market is due to the first-time homebuyer's tax credit, which is a temporary measure that will expire on April 30, 2010.

This measure provides a tax credit of up to \$8,000 for qualified first-time homebuyers purchasing a principal residence. It also authorizes a tax credit of up to \$6,500 for qualified repeat homebuyers.

Refinancing into a lower fixed rate is worth looking into! With little or no money upfront, you may be able to lower your monthly payments or lock into a lower rate and save more money over the term of the loan.

At Capstone, we are able to review your specific situation and provide you with refinance options to determine if this may be beneficial to you. And, of course, we are here to help finance the purchase of a new home as well.

Contact Mia Haislip at (919) 256-6827 or Andy Scott at (919) 256-6829 if you are interested in learning more about this great opportunity.

Bank Failure Scams

The FDIC recently received several reports of false emails that appear to be sent from the agency advising the recipient that his or her bank has failed in an attempt to gain personal account information. The FDIC said



these unsolicited emails to consumers are fraudulent and advised recipients not to follow any links included in the email.

“The subject line of the email reads, ‘Check your Bank Deposit Insurance Coverage,’ and tells recipients that, ‘You have received this message because you are a holder of a FDIC-insured bank account. Recently FDIC has officially named the bank you have opened your account with as a failed bank, thus, taking control of its assets.’”

The email includes a link to the “official” FDIC website and asks readers to follow the steps to check their FDIC coverage. (This is where the hacker captures personal account information.)

Consumers may visit the FDIC’s official website, www.fdic.gov, to learn more about which banks have failed. At CapStone we encourage you to take extreme care with whom you share your bank account information.

Receive CapStone Quarterly via Email



As CapStone continually looks for more ways to “go green” and conserve resources, we encourage you to elect to receive the *CapStone Quarterly* newsletter via email. Simply notify us at service@capstonebank.com and you will begin receiving *CapStone Quarterly* via email beginning with our next issue.

“Rexy’s Racers” Walk to Defeat ALS

CapStone Bank is proud to once again participate in the *Triangle Walk to Defeat ALS*, in support of our Chief Financial Officer, Rex Williams, who was diagnosed with Amyotrophic Lateral Sclerosis (ALS) or Lou Gehrig’s disease in early 2009. We invite everyone to join us on Saturday, April 10, 2010, at the Credit Suisse Campus in Morrisville for a family friendly day of fun, food and music – all for a great cause!

Last year, Rex’s CapStone family – including our customers, shareholders, employees and business partners –



raised over \$22,000 to support the many services provided through our local Jim “Catfish” Hunter Chapter of the ALS Association. This year, as we team up

with Rex’s family and friends, we hope to raise even more!

If you are unable to attend that day, but would like to support our efforts, please visit www.catfishchapter.org and make a donation to “Rexy’s Racers”. If you prefer to donate by check, simply make your check payable to “ALS Association” and mail it to CapStone Bank, PO Box 19047, Raleigh, NC 27619.



Members of the 2009 Walk to Defeat ALS Team pose with awards they won.
L to R: Steve Ogburn, Rex Williams, Greyson Williams and Susan Tannery.

Protect Your Business From Cyber Criminals

A growing threat of fraudulent wire transfers from local businesses to overseas locations has raised numerous online banking concerns – even here in the Raleigh area. Successful cyber attacks resulting in fraudulent wire transfers with average losses of \$100,000 to \$200,000 per victim, frequently trace back to malware infections on the local business' computer. These incidents primarily target small-to-medium-sized businesses and may involve amounts as small as \$10,000 or much more.



The majority of these attacks require the attacker to compromise the target computer, install a keylogger, retrieve the keylogger's information, and force the target user to answer banking security questions. Small-to-medium-sized businesses are targeted because they lack the complex security of a large corporation but maintain larger cash balances than most individuals.



The following recommendations are cyber security best practices that help reduce the risks associated with online banking. Nothing can eliminate all of the risks; however, an informed and vigilant user is a key defense.

User Recommendations:

- Immediately report any suspicious activity in your accounts. There is a limited recovery window, and a rapid response may prevent additional losses.
- Install a security software suite that includes antivirus, anti-spyware, and malware and adware detection from a reputable vendor. Keep the software up to date through an automatic update feature, and configure it to perform recurring, automated complete system scans on a routine basis.
- Make sure the banking site you are using starts with "https://" instead of "http://". The "s" indicates a secure transaction, using a different method of communication than standard Internet traffic.
- Never use a link to reach your financial institution; emails and search engine links should not be trusted. Type the bank's website address into the Internet browser's address bar every time.
- Know what your financial institution's website looks like and what questions are asked to verify your identity. A vigilant user can sometimes spot these attacks by noticing slight modifications to the bank's standard page: extra security questions, poor grammar, misspellings, a fuzzy or older logo, or a change to the location of each feature.
- Be suspicious of emails and text messages purporting to be from your institution or a government agency. CapStone Bank will not contact you via email to request verification of information.
- Do not allow your computer or web browser to save your login names or passwords. Use strong passwords; at least 10 characters combining upper case and lower case letters, numbers, and symbols.
- Properly log out of all financial institution web sites and close the browser window. Simply closing the active window may not be enough.

If your account is compromised, immediately stop using any computers that may be involved, and contact your financial institution to request their help in preventing further loss and to aid in the possible recovery of any money.

Annual Meeting Of Shareholders

April 21, 2010, at 10:00 a.m. • North Ridge Country Club
6612 Falls of Neuse Road, Raleigh, NC 27615

CAPSTONE BANK

Business Solutions. Personal Experiences.

4505 Falls of Neuse Road Suite 100
Raleigh, NC 27609 • (919) 256-6800
www.capstonebank.com



Member FDIC