CapStone Bank

April 15, 2008

Dear Shareholder:

The first quarter of 2008 brought continued positive operating results for CapStone. Total assets at the end of the quarter were $120.1 million versus $62.7 million at the end of the first quarter 2007, an increase of 91.7%. Net income for the first quarter of 2008 was a positive $43.3 thousand compared to a loss of $296.5 thousand for the same period in 2007, an improvement of $339.8 thousand. Loans grew from $45.3 million on March 31, 2007 to $95.2 million on March 31, 2008, an increase of $49.9 million (110.3%). During the same comparative periods, deposits grew from $35.9 million to $73.4 million, an increase of $37.4 million (104.2%).

In comparing the first quarter of 2008 to the fourth quarter of 2007, we show significant asset growth and continued profitability. Assets increased by $16.3 million (15.7%), with loans growing $11.4 million (13.7%) and investment securities increasing by $4.7 million (24.3%). Deposits increased by $9.8 million (15.5%) during the same period. Net income for the period was $43.2 thousand compared to $146.1 thousand reported for the prior quarter. This reduction in net income was primarily the result of an increase of $47.1 thousand in personnel expense, a reduction in net interest income of $34.4 thousand and an increase in the loan loss provision of $28 thousand. The increase in personnel expense was threefold; the addition of two new staff members, annual salary increases, and, the impact of payroll taxes. Net interest income was down due to the 200 basis point decline in the federal funds rate which occurred during the first quarter of this year. As an asset sensitive bank, our assets re-price faster than our liabilities. Thus, we could not reduce our interest expense as fast as our interest income declined during the quarter. The increase in the loan loss provision was a result of growth in the loan portfolio.

Even though we anticipate a sluggish economy for the remainder of 2008, we are cautiously optimistic about the outlook for CapStone. We continue to see good growth in loans and deposits. We have excellent asset quality, with no non-performing loans or loans past due thirty days or more at the end of the quarter. We are also a well-capitalized bank, with $23.3 million in equity capital on March 31, 2008, giving us a very strong capital to assets ratio of 19.3%. Our greatest challenge during the coming quarters will be to maintain our asset quality and improve our net interest spread. As the Federal Reserve Bank has cut the federal funds rate by 300 basis points since August of 2007, it has negatively impacted our net interest spread which is the largest source of income for CapStone. This 300 point reduction in the federal funds rate is the largest twenty-six week decline since 1985. We have a high priority on implementing strategies to improve our net interest spread.

During the quarter, 9,500 shares of our stock traded, all at a price of $13.50. This is the same price for which it traded at the end of 2007.

We appreciate the support of our shareholders and encourage your attendance at our annual meeting. The meeting will be held on May 21, 2008 at North Ridge Country Club, 6612 Falls of Neuse Road, Raleigh, NC, at 10:00 a.m., as indicated in the enclosed proxy materials. In the meantime, if we can be of any assistance to you, please call upon us.

Sincerely,

Michael S. Patterson
Executive Chairman

Steven R. Ogburn
President and CEO

CAPSTONE BANK

Balance Sheet - Unaudited

	Actual Mar 08	Actual Mar 07	Change $	Change %
Assets				
Cash and due from banks	658,168	566,429	91,740	16.2
Fed funds sold & repos	93,848	5,878,000	-5,784,152	-98.4
Investment Securities - Taxable	24,054,001	10,557,748	13,496,253	127.8
Loans, net of unearned income	95,167,315	45,261,066	49,906,249	110.3
Less: Allowance for loan losses	-1,190,000	-566,000	-624,000	-110
Premises and equipment, net	534,014	574,509	-40,495	-7
Accrued interest receivable	505,577	324,526	181,051	55.8
Other assets	321,400	71,747	249,652	348
Total Assets	**120,144,323**	**62,668,024**	**57,476,299**	**91.7**
Liabilities				
Non-Interest Bearing Deposits	5,644,993	2,764,034	2,880,959	104.2
Interest bearing demand deposits	5,267,740	2,074,449	3,193,291	153.9
Savings and Money Market Deposits	20,541,493	20,427,216	114,277	0.6
Time Deposits - Retail	33,053,900	8,370,966	24,682,934	294.9
Time Deposits - Wholesale	8,868,000	2,294,000	6,574,000	286.6
Total Deposits	73,376,128	35,930,666	37,445,462	104.2
Accrued expenses and other liabilities	662,369	220,060	442,309	201
FHLB Advances	18,000,000	2,000,000	16,000,000	800
Other Borrowings	4,858,945	1,932,400	2,926,545	151.4
Total Liabilities	96,897,442	40,083,125	56,814,317	141.7
Equity				
Common stock	10,812,000	10,800,000	12,000	0.1
Capital surplus	13,045,926	12,693,990	351,936	2.8
Retained earnings	-910,941	-636,819	-274,122	-43
Accumulated other comprehensive income (loss)	256,587	24,203	232,384	960.2
Net Income	43,309	-296,474	339,783	114.6
Total Equity	23,246,881	22,584,899	661,982	2.9
Total Liabilities & Equity	**120,144,323**	**62,668,024**	**57,476,299**	**91.7**

CapStone Bank

Income Statement - Unaudited

	YTD Actual Mar 08	YTD Actual Mar 07	$ Change	% Change
Interest Income				
Interest on Loans	1,469,639	730,466	739,173	101.2
Fees on Loans	14,726	6,041	8,685	143.8
Interest on federal funds sold	905	105,832	-104,927	-99.1
Investment Securities - Taxable	282,801	132,593	150,208	113.3
Total Interest Income	1,768,071	974,932	793,139	81.4
Interest Expense				
Interest bearing demand deposits	6,729	7,233	-504	-7
Savings and Money Market Deposits	152,434	218,558	-66,124	-30.3
Time Deposits - Retail	319,637	92,225	227,412	246.6
Time Deposits - Wholesale	94,780	4,251	90,529	2129.6
FHLB Advances	140,363	5,172	135,191	2613.8
Interest on other borrowings	60,182	20,748	39,434	190.1
Total Interest Expense	774,126	348,188	425,938	122.3
Net Interest Income	**993,945**	**626,743**	**367,202**	**58.6**
Provision for loan losses	143,000	210,000	-67,000	-31.9
Net Int. Inc. After Prov. for Loan Losses	**850,945**	**416,743**	**434,202**	**104.2**
Non Interest Income				
Service charges and fees	4,286	1,896	2,390	126
Securities gains (losses), net	13,537	0	13,537	0
Mortgage loan and related fees	6,928	-350	7,278	2079.5
Other noninterest income	10,507	361	10,146	2812.4
Total Non Interest Income	35,258	1,907	33,351	1748.8
Non Interest Expense				
Salaries and employee benefits	540,707	494,341	46,366	9.4
Occupancy	66,117	57,116	9,001	15.8
Other noninterest expense	236,070	163,668	72,402	44.2
Total Non Interest Expense	842,894	715,124	127,770	17.9
Income Before Taxes	**43,309**	**296,474**	**339,783**	**114.6**
Net Income	**43,309**	**296,474**	**339,783**	**114.6**

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