CAPSTONE BANK

January 21, 2009

Dear Shareholder:

When we wrote our shareholder letter on January 23, 2008, we said 2008 "would be a challenging year for financial institutions due to the current slowdown in overall economic growth and the declining interest rate environment". We just did not know how challenging it was going to be! The national economy is experiencing its worst recession in over forty years and the federal funds rate has dropped by 500 basis points from 5.25% to 0.25%. Economic activity in Wake County has also slowed, with increases in unemployment rates and a significant decline in the sale of residential real estate.

However, even during these difficult times, Capstone Bank was able to achieve very positive growth and improved operating results during 2008. At year end December 31, 2008, total assets were $152.3 million versus $103.9 million at year end December 31, 2007, an increase of $48.4 million, or 46.7%. During the same period, loans increased by $31.5 million, or 37.6%, and deposits grew by $33.4 million, or 52.6%. Net income for the year ended December 31, 2008 was $287,400 versus a loss of $274,100 for the same period in 2007, an improvement of $561,500.

Net income for the quarter ended December 31, 2008 was $84,400 compared to $146,100 for the same quarter in 2007, a decrease of $61,700, or 42.2%. The decline in net income for the quarter was primarily the result of increasing the provision for loan losses by $225,000 over the same quarter in 2007.

Our loan quality as of December 31, 2008 continues to be very good with no loans thirty days or more past due and no non-performing or non-accruing loans. However, given the Bank's growth along with continued economic uncertainties, we increased our allowance for loan losses by $728,000 during 2008. We ended the year with an allowance of $1.78 million, or 1.54% of outstanding loans, compared to an allowance of $1.05 million, or 1.25% of outstanding loans at year end 2007.

CapStone's Tier 1 leverage ratio and its risk-based capital ratios continue to be significantly above regulatory standards for well-capitalized banks. As a result of these strong capital levels, good loan quality and positive earnings momentum, we chose not to apply for capital funds made available to banks by the U.S. Treasury through the Troubled Asset Relief Program (TARP). Management and the Board believe we are sufficiently capitalized and accepting TARP funds would be potentially dilutive to our shareholders and could lead to additional regulatory burdens.

As we look to 2009, we believe it will be another very difficult year for the economy, both on a national and local level. It will also be a challenging year for CapStone Bank given narrow interest margins and the sluggishness of the local economy. However, we will continue to execute on our business plan by making high quality loans, growing our core deposits and offering superior service to our clients. If we execute well, we will continue to build value for our shareholders over the long term.

Thank you for your continued support of CapStone Bank. We hope you will join us for our Annual Shareholders' Meeting which will be held at 10:00 a.m. on March 18, 2009 at North Ridge Country Club, 6612 Falls of Neuse Road, Raleigh, NC.

Sincerely,

Michael S. Patterson
Executive Chairman

Steven R. Ogburn
President and CEO

CAPSTONE BANK

Balance Sheet

(unaudited)

	Actual Dec 08	Actual Dec 07	$ Change	% Change
Assets				
Cash and due from banks	1,901,410	533,184	1,368,225	256.6
Fed funds sold & repos	78,644	46,426	32,217	69.4
Interest bearing deposits with banks	4,388,000	0	4,388,000	0
Investment Securities - Taxable	29,894,232	19,352,080	10,542,152	54.5
Investment Securities - Tax-exempt	535,000	0	535,000	0
Loans, net of unearned income	115,214,446	83,727,312	31,487,134	37.6
Less: Allowance for loan losses	-1,775,000	-1,047,000	-728,000	-69.5
Premises and equipment, net	529,767	540,934	-11,167	-2.1
Accrued interest receivable	652,670	562,299	90,372	16.1
Other assets	917,938	139,578	778,361	557.7
Total Assets	**152,337,107**	**103,854,813**	**48,482,294**	**46.7**
Liabilities				
Non-Interest Bearing Deposits	6,944,484	5,879,946	1,064,538	18.1
Interest bearing demand deposits	15,535,939	3,310,013	12,225,927	369.4
Savings and Money Market Deposits	19,667,306	23,838,847	-4,171,542	-17.5
Time Deposits - Retail	27,497,638	24,458,062	3,039,576	12.4
Time Deposits - Wholesale	27,318,334	6,059,000	21,259,334	350.9
Total Deposits	96,963,701	63,545,868	33,417,832	52.6
Accrued expenses and other liabilities	1,208,747	852,571	356,176	41.8
FHLB Advances	22,000,000	9,000,000	13,000,000	144.4
Other Borrowings	7,902,511	7,436,370	466,140	6.3
Total Liabilities	128,074,959	80,834,810	47,240,149	58.4
Equity				
Common stock	10,812,000	10,812,000	0	0
Capital surplus	13,304,814	12,960,585	344,229	2.7
Retained earnings	-910,941	-636,819	-274,122	-43
Accumulated other comprehensive income (loss)	768,859	158,359	610,500	385.5
Net Income	287,416	-274,122	561,538	204.8
Total Equity	24,262,148	23,020,003	1,242,145	5.4
Total Liabilities & Equity	**152,337,107**	**103,854,813**	**48,482,294**	**46.7**

CAPSTONE BANK

Income Statement

(unaudited)

	YTD Actual Dec 08	YTD Actual Dec 07	$ Change	% Change
Interest Income				
Interest on Loans	6,321,289	4,767,025	1,554,265	32.6
Fees on Loans	99,992	59,240	40,752	68.8
Interest on federal funds sold	29,970	250,021	-220,051	-88
Interest on deposits with banks	23,421	0	23,421	0
Investment Securities - Taxable	1,307,631	771,048	536,584	69.6
Investment Securities - Tax-exempt	74	0	74	0
Total Interest Income	7,782,378	5,847,334	1,935,044	33.1
Interest Expense				
Interest bearing demand deposits	185,520	39,004	146,516	375.6
Savings and Money Market Deposits	530,790	1,006,320	-475,531	-47.3
Time Deposits - Retail	1,096,625	825,001	271,624	32.9
Time Deposits - Wholesale	825,892	272,756	553,136	202.8
FHLB Advances	581,098	146,605	434,493	296.4
Interest on other borrowings	121,846	135,100	-13,253	-9.8
Total Interest Expense	3,341,770	2,424,786	916,984	37.8
Net Interest Income	**4,440,608**	**3,422,548**	**1,018,060**	**29.7**
Provision for loan losses	1,077,232	691,000	386,232	55.9
Net Int. Inc. After Prov. for Loan Losses	**3,363,376**	**2,731,548**	**631,828**	**23.1**
Non Interest Income				
Service charges and fees	82,327	9,129	73,199	801.9
Securities gains (losses), net	103,296	0	103,296	0
Mortgage loan and related fees	11,040	8,468	2,572	30.4
Other noninterest income	39,005	25,781	13,224	51.3
Total Non Interest Income	235,669	43,378	192,291	443.3
Non Interest Expense				
Salaries and employee benefits	1,986,899	2,030,709	-43,810	-2.2
Occupancy	312,542	244,945	67,597	27.6
Other noninterest expense	1,012,188	773,393	238,795	30.9
Total Non Interest Expense	3,311,629	3,049,047	262,582	8.6
Income Before Taxes	**287,416**	**-274,122**	**561,538**	**204.8**
Net Income	**287,416**	**-274,122**	**561,538**	**204.8**