CAPSTONE BANK

July 17, 2008

Dear Shareholder:

We are pleased to report the operating results for CapStone Bank for the quarter ending June 30, 2008. Total assets at the end of the quarter were $132.9 million compared to $80.6 million at the same last year, an increase of 64.9%. Net income for the six months ending June 30, 2008 was $122,906 compared to a loss of $479,403 for the same period in 2007, an improvement of $602,309. Loans at June 30, 2008 grew to $106.1 million, an increase of 63%, over the $65.1 million reported at June 30, 2007. Deposits grew to $89.4 million from $54.2 million, an increase of $35.2 million or 64.9% during the same comparative period. Net income for the second quarter was $79,597 compared to a loss of $182,929 for the same period in 2007, an improvement of $262,526.

In comparing the second quarter of 2008 to the first quarter of 2008, we experienced good growth in assets, deposits and profitability. Assets increased by $12.9 million (10.8%), loans grew by $10.9 million (11.5%) and deposits increased by $16.0 million (21.8%). Net income grew to $79,597 from $43,309, an increase of $36,287 (83.8%). The improvement in net income was primarily a result of net interest income increasing by $114,156 during the second quarter.

As we look to the remainder of 2008, we remain concerned about the continued sluggish residential real estate market and the potential negative impact it may have on the overall growth of our local economy. We are a very well capitalized bank and our plan is to continue to grow our bank in a safe and profitable manner. We will balance our desire for growth with our desire to make only high quality loans, while maintaining a strong capital position. As a locally owned and managed bank, we will continue to focus on our local market and maintaining our commitment to providing a banking experience which consistently exceeds our clients' expectations.

During the second quarter of 2008, six thousand shares of our stock were traded with the last trade at a price of $14.00 per share. This was an increase from the $13.50 a share for the last trade in the prior quarter. You may view recent trading activity by visiting our website at www.capstonebank.com. If you are interested in purchasing additional shares when available or in selling your stock, please contact Susan Tannery, Corporate Secretary at (919) 256-6803. Additionally, if you prefer to receive these shareholder updates via e-mail, please provide your address to her at stannery@capstonebank.com.

Thank you for your continued support of CapStone Bank. We encourage you to use the services of your bank and to refer others to do the same.

Sincerely,

Michael S. Patterson
Executive Chairman

Steven R. Ogburn
President and CEO

CAPSTONE BANK

Balance Sheet

	Actual Jun 08	Actual Jun 07	$ Change
Assets			
Cash and due from banks	1,541,219	1,032,087	509,132
Fed funds sold & repos	2,619,976	979,096	1,640,880
Investment Securities - Taxable	22,597,961	13,186,982	9,410,979
Loans, net of unearned income	106,066,718	65,081,646	40,985,072
Less: Allowance for loan losses	-1,523,000	-814,000	-709,000
Premises and equipment, net	538,649	558,490	-19,841
Accrued interest receivable	540,193	451,223	88,970
Other assets	556,777	150,867	405,910
Total Assets	**132,938,493**	**80,626,391**	**52,312,102**
Liabilities			
Non-Interest Bearing Deposits	5,991,584	5,129,897	861,687
Interest bearing demand deposits	8,889,606	2,541,990	6,347,616
Savings and Money Market Deposits	20,726,196	20,144,019	582,177
Time Deposits - Retail	26,103,500	17,995,033	8,108,467
Time Deposits - Wholesale	27,650,980	8,370,666	19,280,314
Total Deposits	89,361,866	54,181,605	35,180,261
Accrued expenses and other liabilities	564,956	357,515	357,440
FHLB Advances	17,000,000	2,000,000	15,000,000
Other Borrowings	3,060,924	1,723,050	1,337,874
Total Liabilities	109,987,746	58,262,170	51,875,576
Equity			
Common stock	10,812,000	10,800,000	12,000
Capital surplus	13,132,356	12,780,153	352,203
Retained earnings	-910,941	-636,819	-274,122
Accumulated other comprehensive income (loss)	-205,573	-99,709	-105,865
Net Income	122,906	-479,403	602,309
Total Equity	22,950,747	22,364,222	586,525
Total Liabilities & Equity	**132,938,493**	**80,626,391**	**52,312,102**

CAPSTONE BANK

Income Statement - Unaudited

	YTD Actual Jun 08	YTD Actual Jun 07	$ Change	% Change
Interest Income				
Interest on Loans	3,025,675	1,824,287	1,201,387	65.9
Fees on Loans	40,265	22,855	17,410	76.2
Interest on federal funds sold	4,843	168,325	-163,482	-97.1
Investment Securities - Taxable	605,519	288,570	316,950	109.8
Total Interest Income	3,676,302	2,304,036	1,372,266	59.6
Interest Expense				
Interest bearing demand deposits	24,045	16,744	7,301	43.6
Savings and Money Market Deposits	270,056	452,625	-182,569	-40.3
Time Deposits - Retail	608,724	261,535	347,189	132.8
Time Deposits - Wholesale	306,732	78,621	228,111	290.1
FHLB Advances	275,096	29,741	245,355	825
Interest on other borrowings	89,602	40,327	49,275	122.2
Total Interest Expense	1,574,255	879,593	694,662	79
Net Interest Income	**2,102,047**	**1,424,443**	**677,604**	**47.6**
Provision for loan losses	476,000	458,000	18,000	3.9
Net Int. Inc. After Prov. for Loan Losses	**1,626,047**	**966,443**	**659,604**	**68.3**
Non Interest Income				
Service charges and fees	15,937	3,267	12,670	387.8
Securities gains (losses), net	13,537	0	13,537	0
Mortgage loan and related fees	7,866	1,590	6,276	394.7
Other noninterest income	15,162	14,892	270	1.8
Total Non Interest Income	52,502	19,749	32,753	165.8
Non Interest Expense				
Salaries and employee benefits	926,083	1,000,764	-74,681	-7.5
Occupancy	135,258	116,440	18,818	16.2
Other noninterest expense	494,302	348,391	145,911	41.9
Total Non Interest Expense	1,555,643	1,465,595	90,048	6.1
Income Before Taxes	**122,906**	**-479,403**	**602,309**	**125.6**
Net Income	**122,906**	**-479,403**	**602,309**	**125.6**