CAPSTONE BANK

October 14, 2009

Dear Shareholder:

CapStone Bank is pleased to report positive operating results for the third quarter of 2009. Total assets at the end of the third quarter were $175.4 million compared to $141.6 million on September 30, 2008, an increase of $33.8 million or 23.8%. During the same comparable period, loans grew by $17.7 million or 16.1% and deposits grew by $20.0 million or 20.5%. On a linked-quarter basis from June 30, 2009 to September 30, 2009, total assets grew by $7.4 million, an increase of 4.4%; loans grew by $7.0 million, or 5.7%; and deposits grew by $9.6 million, or 8.9%.

Net income for the first nine months of 2009 totaled $609,900, an increase of $406,900 or 200.4% over the $203,000 in net income earned in the first nine months of 2008. For the third quarter of 2009, net income was $223,900, an increase of $143,700 or 179.4% over the $80,100 earned during the same quarter in 2008. In addition, we reported our first income tax expense ever during the third quarter of 2009 in the amount of $75,000. The increase in net income for the year and the quarter are primarily attributable to the growth of our earning assets and an increase in our net interest spread.

Loan quality remains strong. As of September 30, 2009, we had no loans over ninety days past due, no Other Real Estate Owned (OREO) and three non-accruing loans with a total balance of $288,200. Non-performing loans plus OREO were only 0.23% of total loans as of September 30, 2009. During the third quarter, we incurred our first charge offs of the year in the amount of $196,500 which represents 0.15% of current total loans. Our allowance for loan losses was $2.1 million or 1.66% of total loans on September 30, 2009, compared to $1.4 million or 1.3% on September 30, 2008.

We are very pleased with these operating results, especially in light of the continued sluggish economy both on a national and local level. Although there is evidence of some improvement in the local real estate market, we feel the overall economic recovery will be a slow and arduous process. In spite of the economic conditions, we are optimistic CapStone will continue to grow and prosper. We are optimistic because we have an excellent team of professional bankers who are committed to exceeding our clients' expectations when it comes to delivering our products and services. As a shareholder, we hope you have chosen to bank with us and are experiencing the CapStone difference! If not, we encourage you do so and hope you will persuade your friends and business associates to do the same.

Thank you for your continued support of CapStone Bank.

Sincerely,

Michael S. Patterson
Executive Chairman

Steven R. Ogburn
President and CEO

CAPSTONE BANK

Balance Sheet - Unaudited

	Actual Sep 09	Actual Sep 08	$ Change	% Change
Assets				
Cash and due from banks	2,365,366	974,915	1,390,451	142.6
Fed funds sold & repos	32,945	2,753,120	-2,720,175	-98.8
Interest bearing deposits with banks	16,213,000	0	16,213,000	0
Investment Securities - Taxable	24,795,717	27,300,662	-2,504,946	-9.2
Investment Securities - Tax-exempt	3,790,000	0	3,790,000	0
Loans, net of unearned income	128,057,609	110,315,567	17,742,041	16.1
Less: Allowance for loan losses	-2,123,494	-1,435,000	-688,494	-48
Premises and equipment, net	406,495	564,145	-157,651	-27.9
Accrued interest receivable	637,546	587,556	49,990	8.5
Other assets	1,223,458	563,704	659,755	117
Total Assets	**175,398,641**	**141,624,670**	**33,773,971**	**23.8**
Liabilities				
Non-Interest Bearing Deposits	10,534,855	5,985,007	4,549,848	76
Interest bearing demand deposits	19,846,644	11,203,374	8,643,271	77.1
Savings and Money Market Deposits	29,856,202	21,352,209	8,503,993	39.8
Time Deposits - Retail	33,956,796	25,831,685	8,125,111	31.5
Time Deposits - Wholesale	23,201,281	33,035,980	-9,834,699	-29.8
Total Deposits	117,395,778	97,408,254	19,987,524	20.5
Accrued expenses and other liabilities	1,818,270	536,519	1,281,751	238.9
FHLB Advances	23,000,000	16,000,000	7,000,000	43.8
Other Borrowings	8,146,342	4,001,880	4,144,461	103.6
Total Liabilities	150,360,390	117,946,653	32,413,737	27.5
Equity				
Common stock	10,812,000	10,812,000	0	0
Capital surplus	13,540,403	13,218,585	321,818	2.4
Retained earnings	-623,525	-910,941	287,416	31.6
Accumulated other comprehensive income (loss)	699,481	355,340	344,141	96.8
Net Income	609,893	203,033	406,860	200.4
Total Equity	25,038,252	23,678,017	1,360,235	5.7
Total Liabilities & Equity	**175,398,641**	**141,624,670**	**33,773,971**	**23.8**

CAPSTONE BANK

Income Statement - Unaudited

	YTD Actual Sep 09	YTD Actual Sep 08	$ Change	% Change
Interest Income				
Interest on Loans	4,994,024	4,642,029	351,996	7.6
Fees on Loans	81,353	70,209	11,145	15.9
Interest on federal funds sold	1,774	28,705	-26,931	-93.8
Interest on deposits with banks	279,857	7,678	272,179	3544.7
Investment Securities - Taxable	951,994	932,473	19,521	2.1
Investment Securities - Tax-exempt	67,964	0	67,964	0
Total Interest Income	6,376,966	5,681,093	695,873	12.2
Interest Expense				
Interest bearing demand deposits	192,047	93,624	98,424	105.1
Savings and Money Market Deposits	263,865	416,054	-152,189	-36.6
Time Deposits - Retail	711,766	857,840	-146,073	-17
Time Deposits - Wholesale	472,525	574,050	-101,524	-17.7
FHLB Advances	456,752	430,656	26,095	6.1
Interest on other borrowings	23,280	105,522	-82,242	-77.9
Total Interest Expense	2,120,235	2,477,744	-357,510	-14.4
Net Interest Income	**4,256,732**	**3,203,349**	**1,053,383**	**32.9**
Provision for loan losses	545,000	737,232	-192,232	-26.1
Net Int. Inc. After Prov. for Loan Losses	**3,711,732**	**2,466,117**	**1,245,615**	**50.5**
Non Interest Income				
Service charges and fees	44,320	53,515	-9,195	-17.2
Securities gains (losses), net	0	13,537	-13,537	-100
Mortgage loan and related fees	11,475	11,040	434	3.9
Other noninterest income	20,426	20,295	131	0.6
Total Non Interest Income	76,221	98,388	-22,166	-22.5
Non Interest Expense				
Salaries and employee benefits	1,878,792	1,396,569	482,223	34.5
Occupancy	271,773	222,909	48,864	21.9
Other noninterest expense	952,494	741,993	210,501	28.4
Total Non Interest Expense	3,103,060	2,361,472	741,588	31.4
Income Before Taxes	**684,893**	**203,033**	**481,860**	**237.3**
Income taxes	75,000	0	75,000	0
Net Income	**609,893**	**203,033**	**406,860**	**200.4**