CapitalSource Bank

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# Sandler O'Neill + Partners, LP

# West Coast Financial Services Conference

**Tad Lowrey**

**CapitalSource Bank – President and CEO**

**March 2, 2010**

# Forward Looking Statements

**This presentation contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including certain plans, expectations, strategies, goals, and projections and including statements about growing our business and our assets, increased loan production levels and focus areas, expanding loan product lines, our margins, managing our portfolio, market conditions, earnings, loan yields, our expectations regarding future credit performance, charge-offs and provisions for loan losses; growing our business, assets, branch network and deposits; our portfolio's credit trends, expected losses, costs and provisions and their impact on our financial results; our delinquent, impaired and non-accrual loans and troubled debt restructurings as well as our charge offs, reserves and delinquencies; and our balance sheet and profitability; all which are subject to numerous assumptions, risks, and uncertainties. All statements contained in this presentation that are not clearly historical in nature are forward-looking, and the words "anticipate," "assume," "intend," "believe," "expect," "estimate," "plan," “position,” “project,” "will,“ “should,” “seek,” “continue,” “outlook,” "look forward," and similar expressions are generally intended to identify forward-looking statements. All forward-looking statements (including statements regarding preliminary and future financial and operating results and future transactions and their results) involve risks, uncertainties and contingencies, many of which are beyond our control which may cause actual results, performance, or achievements to differ materially from anticipated results, performance or achievements. Actual results could differ materially from those contained or implied by such statements for a variety of factors, including without limitation: changes in economic or market conditions or investment or lending opportunities; continued or worsening recession in the overall economy and disruptions in credit and other markets; movements in interest rates and lending spreads; continued or worsening credit losses, charge offs, reserves and delinquencies; our ability to successfully and cost effectively operate our business; our ability to successfully grow our deposits and commercial loan assets or deploy capital in favorable lending transactions; competitive and other market pressures on product pricing and services; success and timing of other business strategies; the nature, extent, and timing of governmental actions and reforms; changes in tax laws or regulations affecting our business; and other factors described in CapitalSource's 2009 Annual Report on Form 10-K and documents subsequently filed by CapitalSource with the Securities and Exchange Commission. All forward-looking statements included in this presentation are based on information available at the time of the presentation. We are under no obligation to (and expressly disclaim any such obligation to) update or alter our forward-looking statements, whether as a result of new information, future events or otherwise except as required by applicable law.**

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# Overview of CapitalSource Bank

- De novo California Industrial Bank formed in July 2008
- 22 retail branches
- Very strong liquidity and high capital levels
- A separate reporting segment of CapitalSource Inc.

| Select Data | |
|---|---|
| **Assets** | $5.7 billion |
| **Commercial loans** | $3.6 billion |
| **Cash / Investments** | $2.0 billion |
| **Deposits** | $4.5 billion |
| **Total Capital** | $868.3 million |
| **Average Deposits Per Branch** | ~$205 million |
| **Customers** | ~52,000 |

Data as of December 31, 2009

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## Branches

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# Key Messages

- → Continued margin expansion expected as low yielding assets are re-deployed
- → Pretax, pre-provision earnings are growing
- → Credit losses have been concentrated in a few large credits acquired from the Parent Company
- → Well capitalized and positioned for strong growth
- → Projected $250-$350 million of quarterly new loan production in 2010
- → Adding loan product diversification and re-focusing origination efforts on loan types with lower loss volatility

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# Highlights of 4Q'09

- ✓ **Pretax, pre-provision earnings of $50 million**
- ✓ **Higher net finance margin**
  - **Up 72 bps from prior quarter to 4.66%**
- ✓ **Cost of funds declined**
  - **1.67% for the quarter, down 34 bps from prior quarter and 182 bps from a year ago**
- ✓ **New loan commitments of $299 million of which $213 million funded at closing**
- ✓ **Average all-in yield of 7.87% for new loans funded in the quarter**
- ✓ **Charge-offs of $24 million on 5 loans**
- ✓ **Allowance for loan losses increased to $153 million**
  - **5.0% of core loans[1]**
  - **89% of non-accruals**
- ✓ **Strong capital position**
  - **Total Risk-Based Capital Ratio of 17.47%**
  - **Tier 1 Leverage Ratio of 12.80%**

CapitalSource Bank data as of December 31, 2009

[1] "Core loans" exclude the "A" Participation Interest

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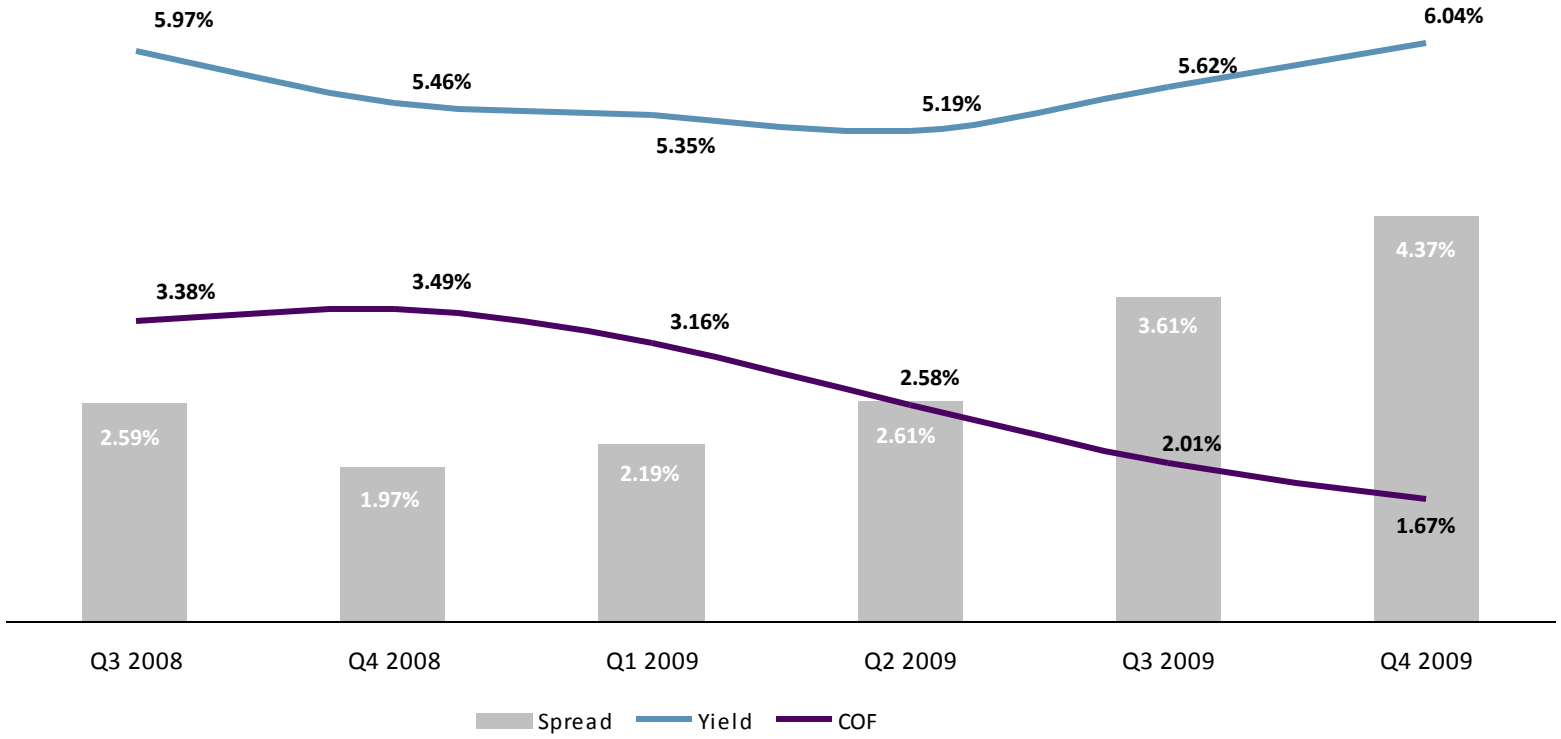
# Margin Expansion

- Margins have widened primarily due to declining cost of deposits and re-deployment of excess liquidity
- Continued margin expansion expected, though not as dramatic as 2009




CapitalSource Bank data as of December 31, 2009

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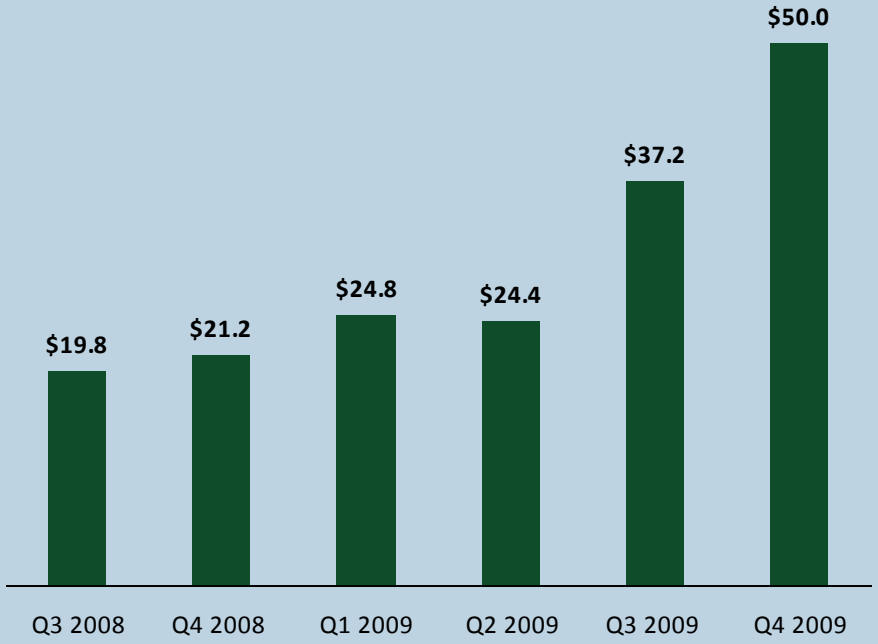
# Growing Pretax, Pre-Provision Earnings




**Pretax, pre-provision earnings increasing due to:**

- Re-deployment of excess liquidity
- Active deposit portfolio management
- Loan growth

**The core operating model has now been built**

CapitalSource Bank data as of December 31, 2009

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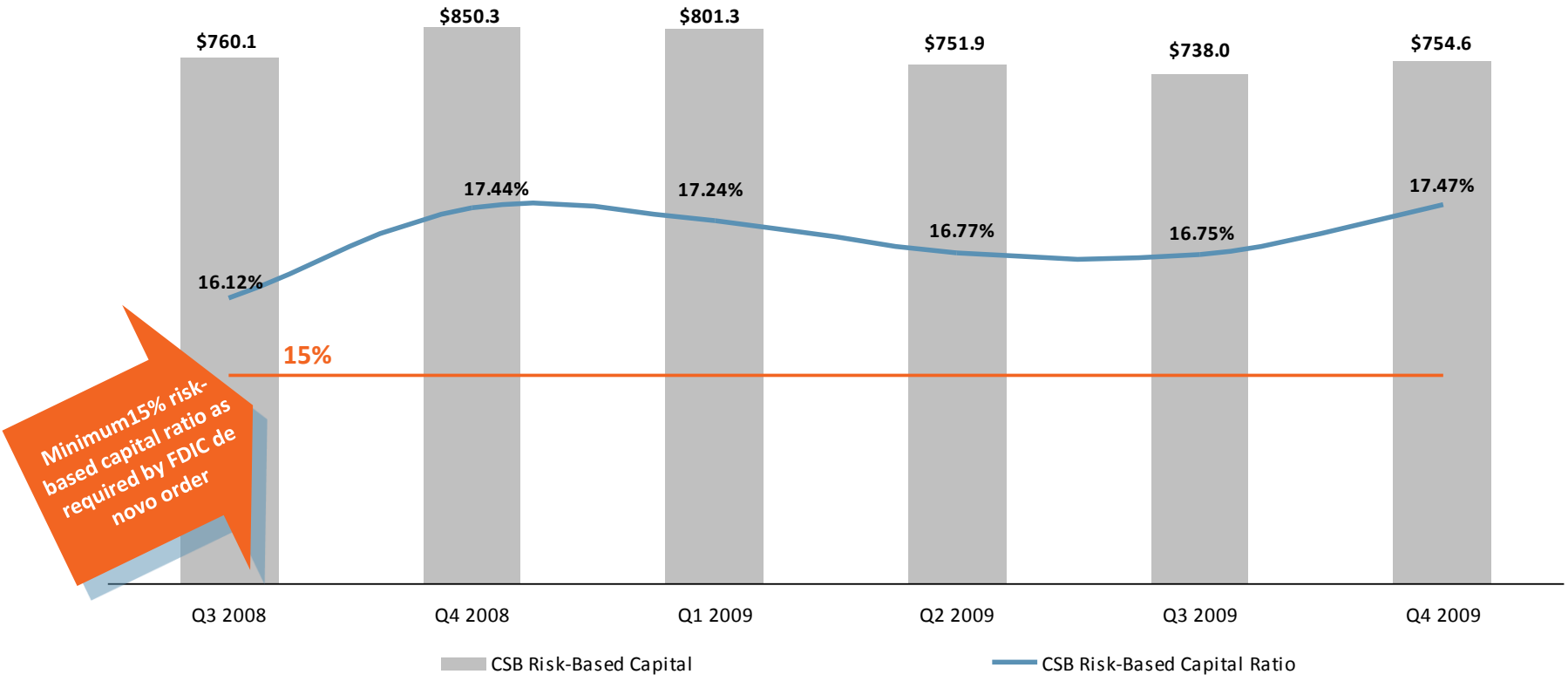
# High Capital Levels




**Capital and projected earnings are sufficient to support strong balance sheet growth and to absorb short-term credit shocks**

CapitalSource Bank data as of December 31, 2009

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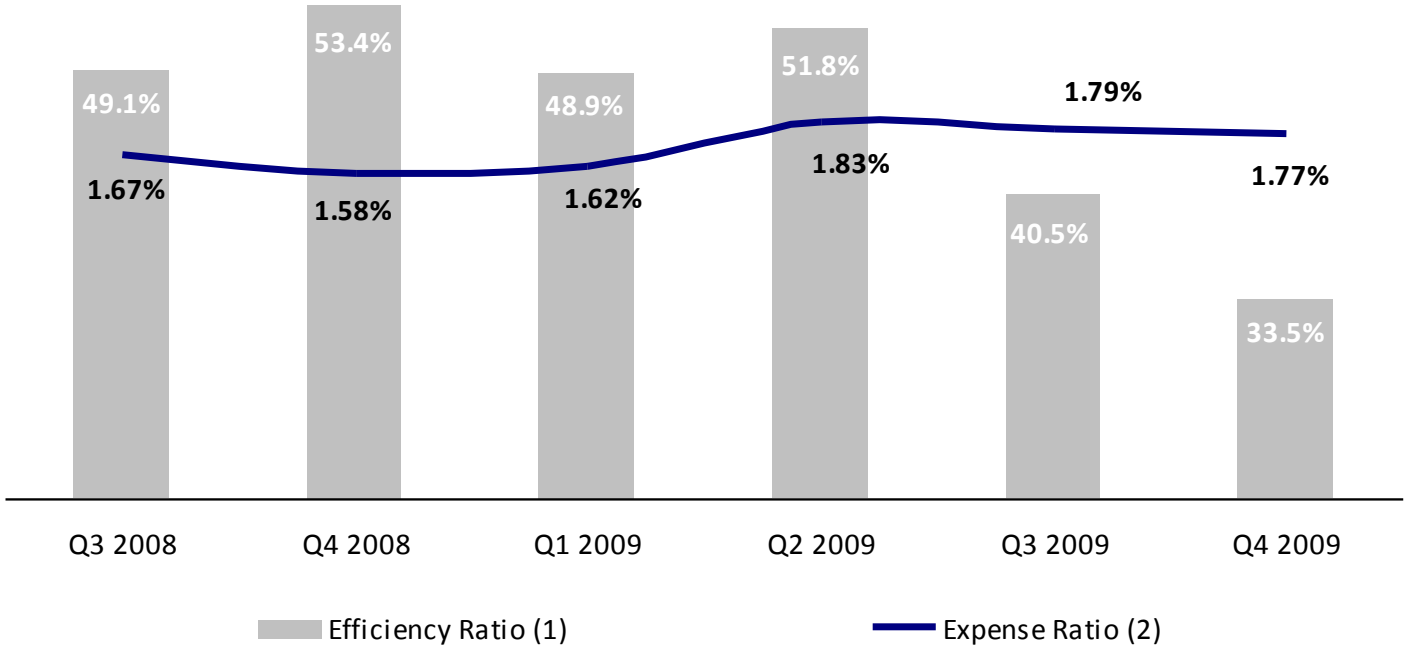
# Efficient Operating Model




- **Cost structure largely fixed with cost of loan production (sourced from the Parent Company) as the primary variable expense**
- **Existing infrastructure has the capacity to support more than 50% growth in assets without an increase in fixed costs**

CapitalSource Bank data as of December 31, 2009

(1) Efficiency Ratio is equal to Operating Expense divided by Total Revenue (before Loan Loss Provision)

(2) Expense Ratio is equal to Operating Expense divided by Average Total Assets

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# Focused Asset Strategy

**Fundamental asset strategy remains the same as previously employed by CapitalSource**

- ✓ **Provide financing for small and mid-sized businesses for growth, acquisitions, recapitalizations or working capital**
- ✓ **Maintain a bias toward specialized industries such as healthcare, security, technology and lender finance**
- ✓ **Focus on senior secured, floating rate loans with 3-5 year terms**
- ✓ **Utilize in-house, in-depth and disciplined underwriting process**
- ✓ **Diversify loan mix in 2010 with addition of equipment finance, multifamily and SBA product lines**

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# Credit Quality Outlook

- Initially purchased $2.2 billion of loans from Parent Company – no allowance for loan losses at inception
- Reserve build during 2009 due to identified credit costs in acquired portfolio and general reserves for new loan production
- 2009 charge-offs largely concentrated (70% of total) in 4 construction and land loans
- Charge-offs and reserve levels likely to remain elevated in 2010, before returning to normalized levels in 2011

CapitalSource Bank data as of December 31, 2009

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# Key Take-A-Ways

- Margins and pre-provision earnings should continue to grow
- Reserves were built during 2009 to address credit issues concentrated in the legacy loans purchased from the Parent Company
- Though credit charges are expected to remain elevated throughout 2010, high capital levels and strong pre-provision earnings will provide stability
- Focused asset strategy includes new product lines
- CapitalSource Bank is poised for projected $250 - $350 million quarterly new loan production in 2010

CapitalSource Bank data as of December 31, 2009

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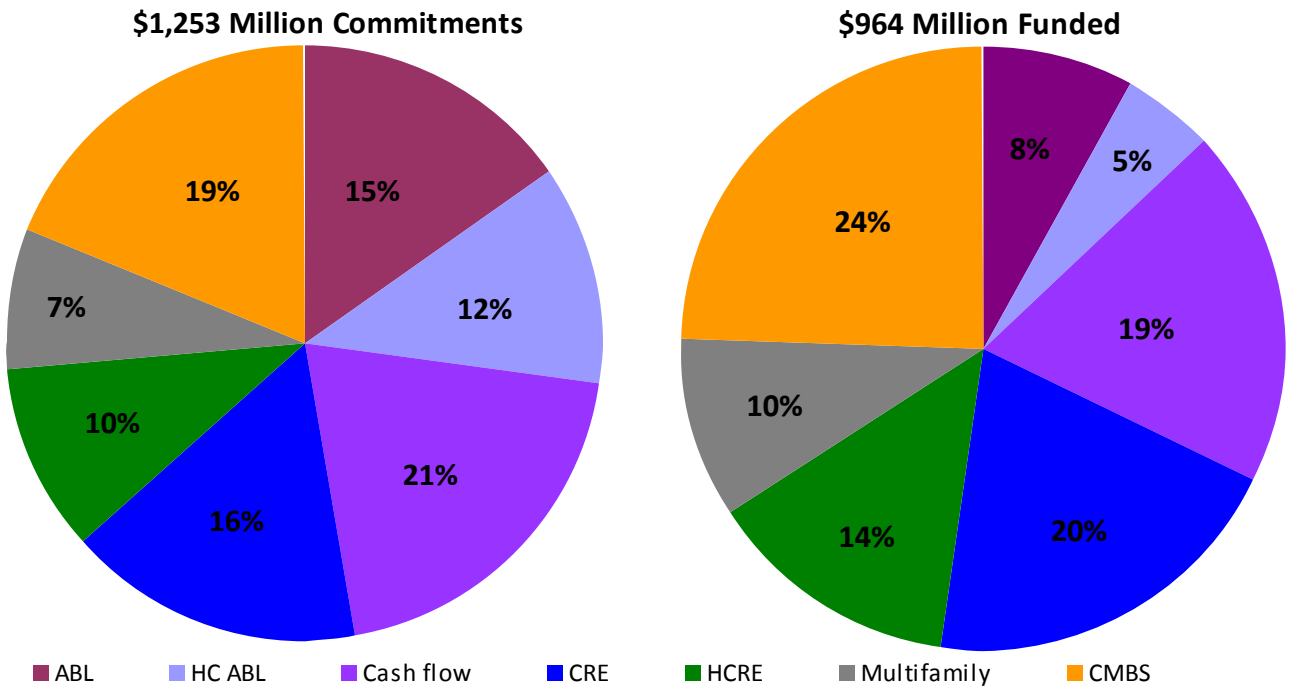
# Questions and Answers

# Loan and CMBS Production - 2009




- Diversified mix of commercial loans
- No land or construction loans were originated in CapitalSource Bank
- Commercial real estate focused on stabilized cash flowing properties

CapitalSource Bank data as of December 31, 2009

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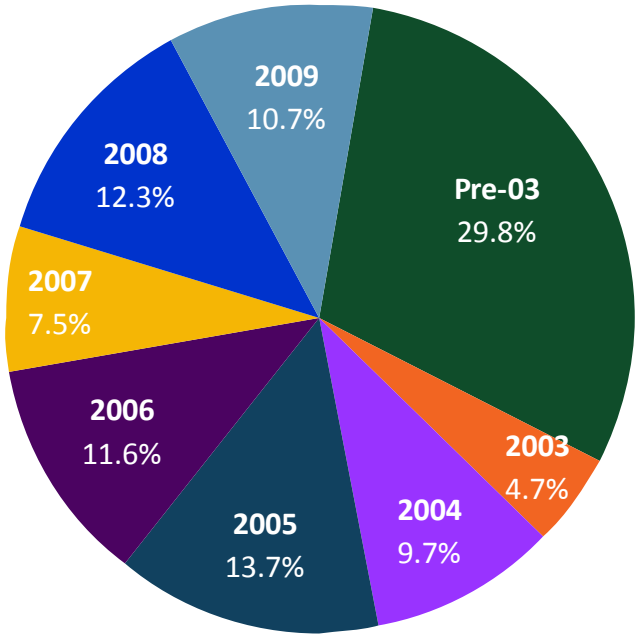
# Loyal Depositors in a Rich Deposit Market

**Tenure**
(Customer Since)[1]




- 60% of depositors have been customers of CapitalSource Bank since 2005 or before
- California has 12% of U.S. retail deposits, the highest of any state
- Existing branch network has significant capacity for growth ($8.5B in May 2007), with minimal impact on current staffing levels
- Average deposit balance of $48,000 per account and $87,000 per household

CapitalSource Bank data as of December 31, 2009
(1) Includes customer history acquired from Fremont Investment & Loan

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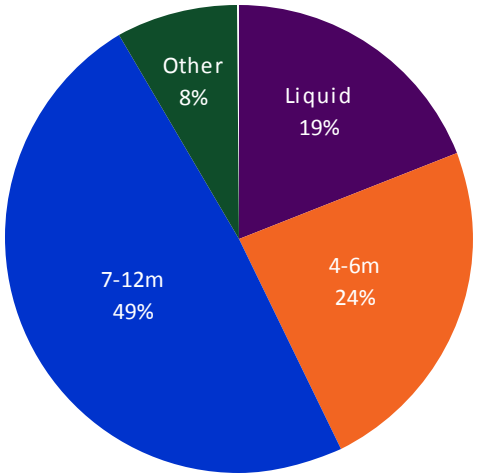
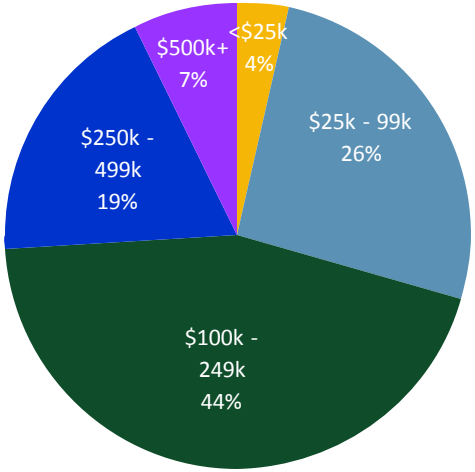
# Deposit Products / Depositor Profiles

## Term




| | Deposits 12/31/09 | |
|---|---|---|
| | Amounts | WAIR (%) |
| **Liquid** | **$857** | **1.06** |
| **Term deposits:** | | |
| **3** | **28** | **0.75** |
| **4-6** | **1,061** | **1.24** |
| **7-12** | **2,191** | **1.81** |
| **12+** | **347** | **2.25** |
| | **3,627** | **1.68** |
| **Total Retail** | **$4,484** | **1.56** |

## Balance
## (by Household)




- **CDs are 81% of retail deposits. Liquid accounts (savings & MMDA) are 19%**
- **We estimate at least 95% of accounts are fully insured under current FDIC deposit insurance coverage**
- **Average remaining duration of the CD portfolio increased from 3.6 months at start of 2009 to 5.6 months at the end of the year**

CapitalSource Bank data as of December 31, 2009

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