

CapitalSource, Inc.



THE 15TH ANNUAL

Financial Services Conference

Guides for the journey.*

US bancorp
Piper Jaffray.

The logo for CapitalSource, featuring the company name in a light green, sans-serif font centered within a dark blue, horizontally-oriented oval shape. The background of the entire slide is a grayscale, low-angle photograph of several tall skyscrapers with grid-like window patterns.

CapitalSource

**INVESTOR
PRESENTATION
October 2003**

Forward Looking Statements

Certain information included in this presentation and other statements or materials published or to be published by the Company are not historical facts but are forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new and existing products, expectations for market segment and growth, and similar matters. In connection with the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary remarks regarding important factors which, among others, could cause the Company’s actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company’s forward-looking statements. The risks and uncertainties that may affect the operations, performance, development, results of the Company’s business, and the other matters referred to above include, but are not limited to: (i) changes in the business environment in which the Company operates, including inflation and interest rates; (ii) changes in taxes, governmental laws, and regulations; (iii) competitive product and pricing activity; (iv) difficulties of managing growth profitably; and (v) the loss of one or more members of the Company’s management team.

Introduction

Who We Are

- National specialized commercial finance provider
- Small and mid-sized business clients in three focused areas:
 - Corporate Finance
 - HealthCare Finance
 - Structured Finance
- \$2.0BB of loans to 283 clients as of September 30, 2003
 - Well-diversified by loan size and type, customer and geography

CapitalSource's corporate objective is to be the lender of choice for small and medium-sized businesses that require customized and sophisticated debt financing

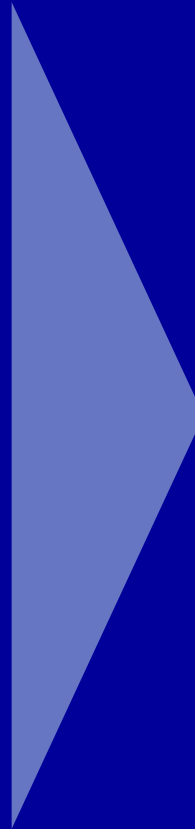
Experienced, Motivated Management

- Founded in 2000 by John Delaney and Jason Fish with committed equity capital of \$511MM from Farallon Capital, Madison Dearborn, others
- Management has done this before: HealthCare Financial Partners (HCF)
 - History of no losses at HCF
 - IPO in November 1996 for \$12.50 per share
 - Sold to Heller in July 1999 for \$34.94 per share (\$485 MM / 21.5x LTM EPS)
 - IRR to IPO investors of 46%

CapitalSource employees own 16% of the Company post-IPO

Investment Highlights

- Large Yet Underserved Market
- Tailored Model
- Strategic Sector Focus
- Strong Credit Culture
 - “Credit First” Approach
- Conservative Balance Sheet Leverage
- Experienced, Motivated Team

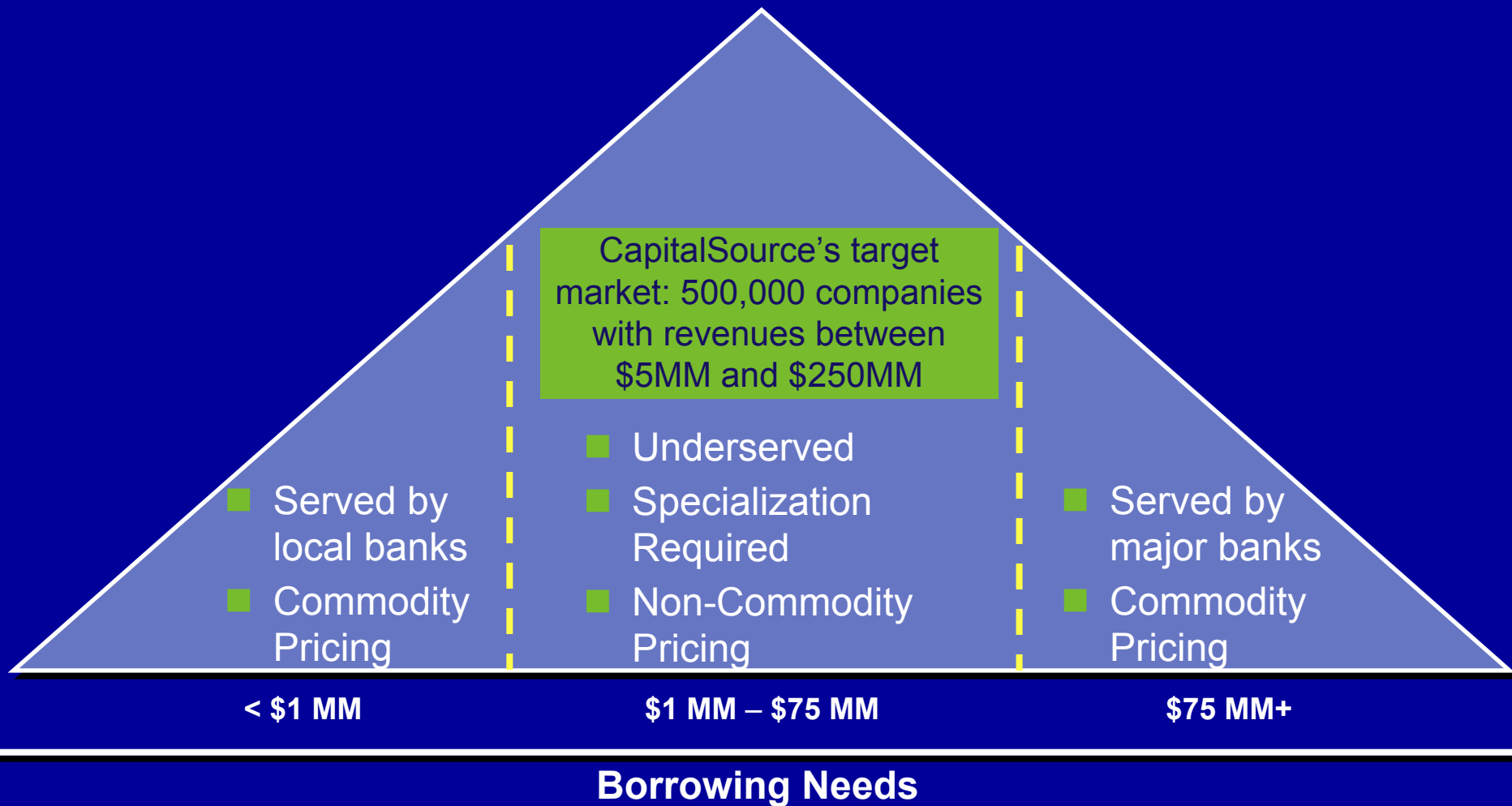


Superior Growth and Returns

- Strong Risk-Adjusted Yields
- Scalable Platform
- Earnings Growth not Dependent on Volume Growth

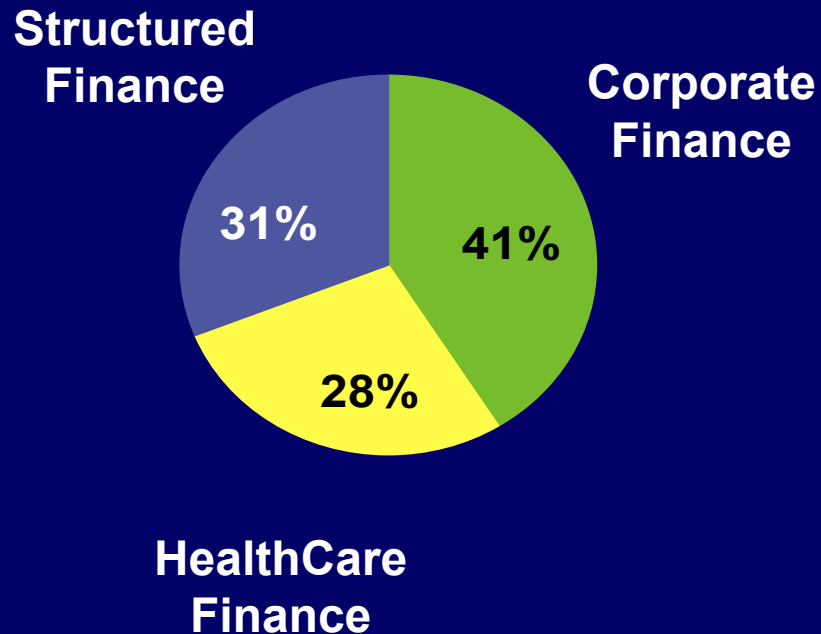
Overview of Business

Large, Underserved Market

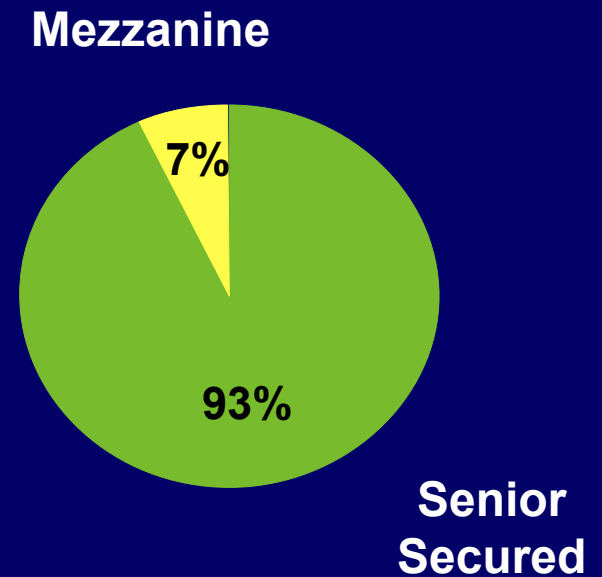


Three Focus Areas Address Attractive Niches

\$2.0BB Loan Portfolio



Product Mix: Mostly Secured



Corporate Finance – \$820 MM / 41% of Portfolio

CapitalSource

Managing Director – Joe Kenary

Customers

- 125 Private Equity Firms with <\$1BB AUM
- Sponsor company industries: business services, consumer products and services, value-added manufacturing, retail, media, others

Borrower Characteristics

- Strong historical and prospective cash flows
- Experienced management teams
- Leadership in market niches

Products

- Senior secured cash flow loans / asset-based revolvers
- Mezzanine and Term B loans; limited equity

Underwriting Standards

- Senior secured cash flow: 40%-60% advance rates; Senior Debt/EBITDA of 2.0x - 2.5x
- Asset-based revolver advance rates: 80%-90% of receivables; 30%-70% of inventory

HealthCare Finance – \$558 MM / 28% of Portfolio

CapitalSource

Managing Director – Dean Graham

Customers

- Skilled nursing providers
- Acute care hospitals
- Mental health providers
- Home healthcare providers
- Pharmaceutical outsourcing organizations

Market Opportunity

- 1/6 of U.S. economy
- Underserved small/mid-sized borrowers
- Experience at HCF

Products

- Senior term loans (first mortgages on facility)
- Asset-based loans secured by clients' accounts receivables

Specialized Credit Skills

- Intense collateral review supported by in-house reimbursement and clinical expertise
- Proprietary loan management capabilities

Structured Finance – \$610 MM / 31% of Portfolio

CapitalSource

Managing Director – Mike Szwajkowski

Customers

- Specialty lenders: mortgage companies, consumer and commercial lenders, resort finance lenders
- Real estate developers / investors

Market Opportunity

- Underserved smaller providers
- Need for highly customized solutions

Products

- Lender finance: pledged receivables (loan portfolios)
- Real Estate: short-dated mortgages

Specialized Credit Skills

- Finance company: review of collateral portfolio
- Real estate: strong cash flow properties with strong sponsorship

Shared Business Attributes

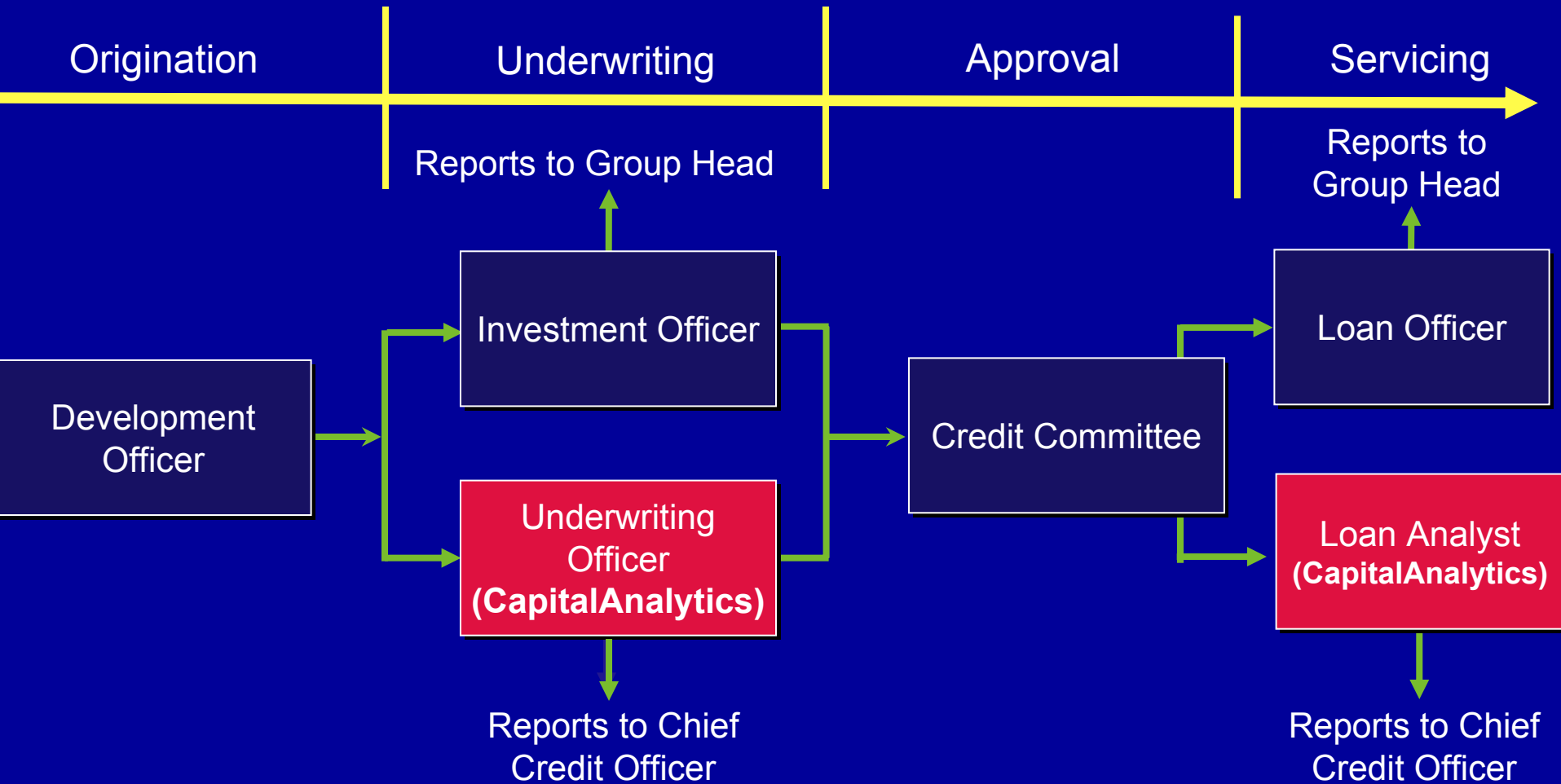
Value-added lending products

Market leadership positions

Sustainable competitive advantages

Common operating model

Tailored Operating Model



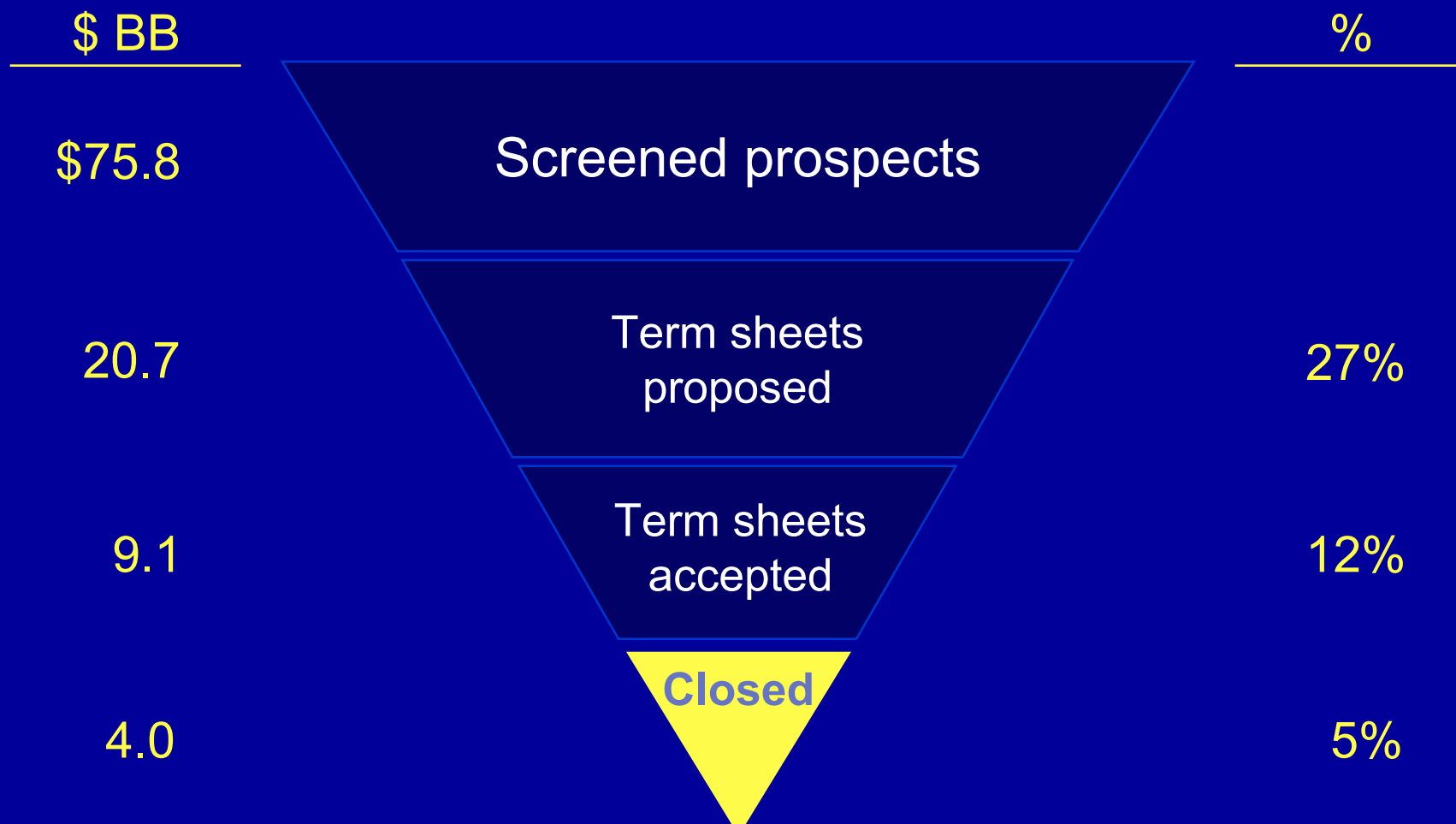
Specially designed to minimize losses and optimize execution

“Credit First” Approach

- Zero loss tolerance
- More (and better) resources in the process
- 50+ experienced underwriters at **CapitalAnalytics**
 - Independent underwriting, forensic accounting and field examination function
 - Business unit focused; sector specific methodologies
- Numerous checks and balances
- Best-in-class information systems
- Unanimous approval of Credit Committee required for every loan
 - Committee composed of CEO, President, CCO & Chief Legal Officer
 - Same team has approved **all loans made to date**

Result: No Credit Losses Since Inception

Processes Promote Selectivity



Experienced, Professional Management Team

Manager	Title	Years Experience
John Delaney	Chief Executive Officer	12
Jason Fish	President	22
Bryan Corsini	Chief Credit Officer	20
Tom Fink	Chief Financial Officer	14
Steve Museles	Chief Legal Officer	14
Joe Kenary	Group Head, Corporate Finance	12
Dean Graham	Group Head, HealthCare Finance	11
Mike Szwajkowski	Group Head, Structured Finance	12
Don Cole	Chief Information Officer	5
Chris Woods	Chief Technology Officer	30
Steve Silver	Chief Marketing Officer	19

Approximately 40% of CapitalSource's 269 employees have advanced degrees or designations

Financials

Superior Financial Model

CapitalSource Attributes

- Strong risk-adjusted yields
- Efficient, scalable cost structure
- Stable and low cost funding
- Low financial leverage
- Recurring revenues
 - No gain on sale accounting
- Stable loan origination targets
- Strong credit quality

PRODUCES

Attainable, High-Growth Earnings and Profitability

Outstanding Profitability

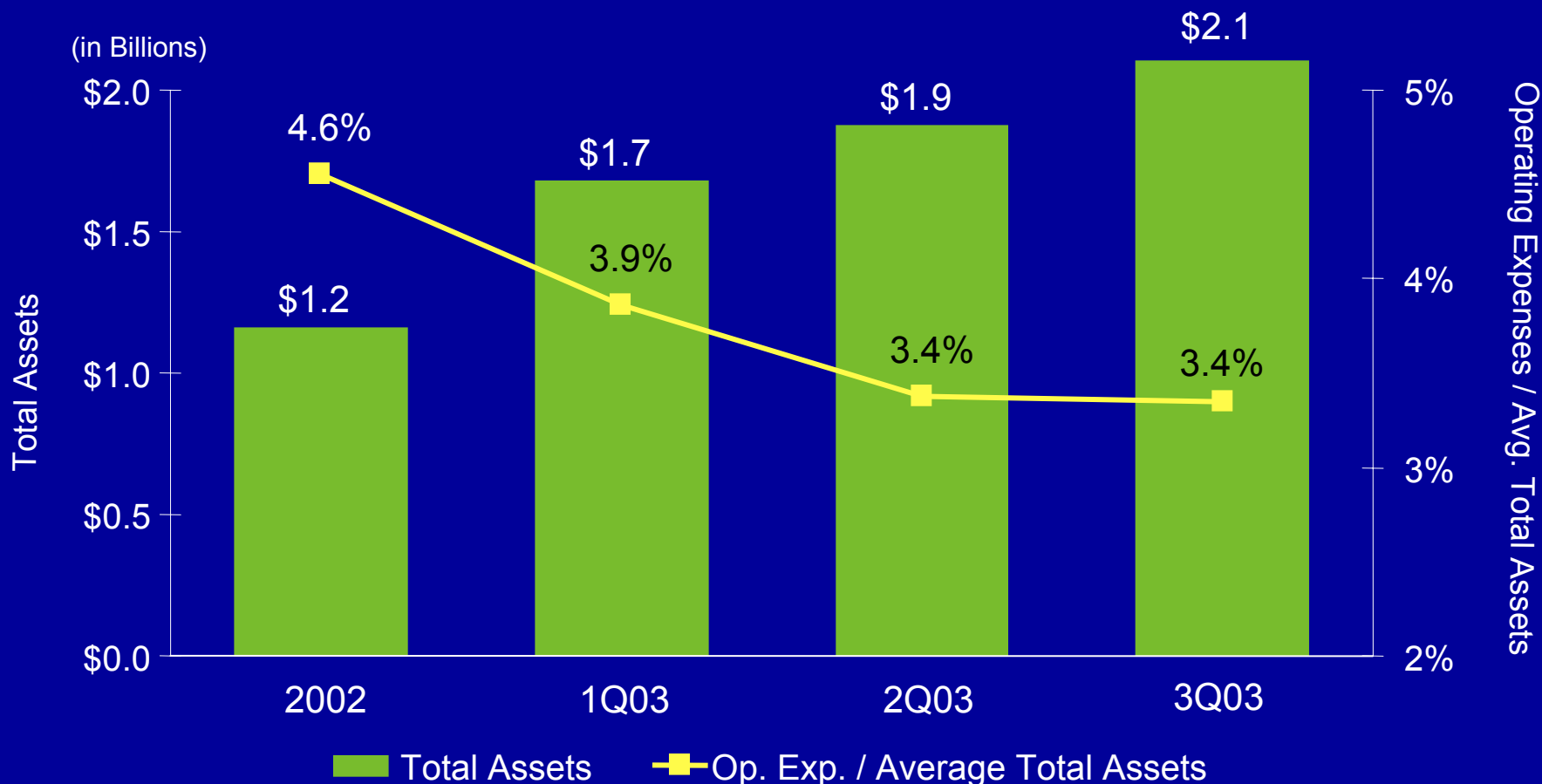
Annualized based on YTD Q3 '03 and \$1.7 BB Average Total Assets⁽¹⁾

	<u>\$MM</u>	<u>% of Avg. Total Assets</u>
Interest and Fee Income	\$209	12%
Interest Expense	(37)	(2%)
Provision	(11)	(1%)
Operating Expenses	(61)	(3%)
Other Income	<u>13</u>	<u>1%</u>
Pre-Tax Net Income	\$113	6%
Pro Forma After-Tax Net Income	\$70	4%

CapitalSource enjoys an annualized ROAA of 4.0%

Improving Operating Efficiencies

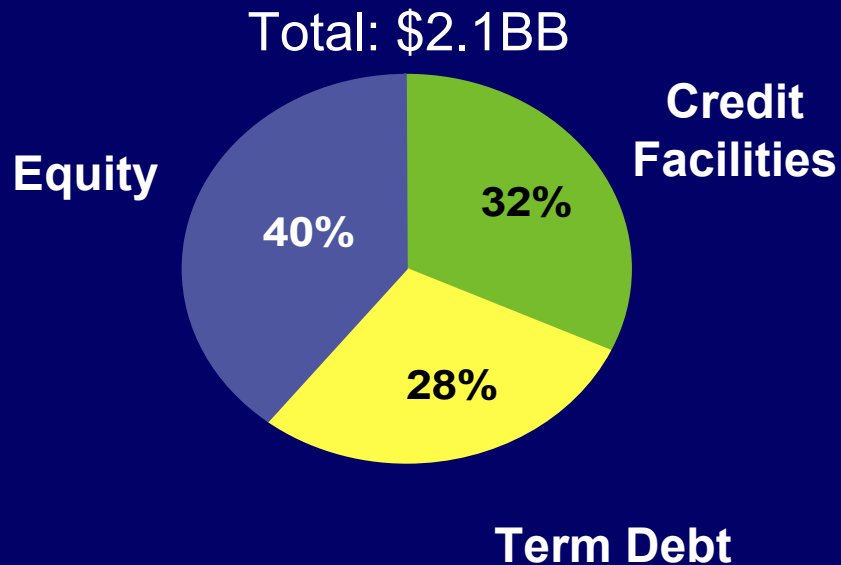
- Technology platform established and required headcount increases limited



Infrastructure for future growth already in place

Diverse Funding and Low Leverage

Diverse Funding Sources



Low Leverage: Debt / Equity: 1.5x

Strong Financial Characteristics

- YTD '03 Cost of Funds: 3.26%
- \$867MM raised in three oversubscribed securitizations to date
- All financings accounted for on balance sheet
- No gain on sale recognized

Performance and Credit Quality Ratios

	YEAR ENDED 12/31		
	2001	2002	YTD Q3 '03
Credit Quality and Leverage Ratios:			
60+ Days Delinquencies as % of Loans	0.00%	0.00%	0.24%
Net Charge-offs as % of Avg. Loans	0.00	0.00	0.00
Allowance for Loan Losses as % of Loans	0.00	0.62	0.76
Debt / Equity	0.96x	1.41x	1.53x
Performance Ratios:			
Pro Forma After-Tax Return on Avg. Assets ⁽¹⁾	2.00%	3.50%	4.03%
Pro Forma After-Tax Return on Avg. Equity ⁽¹⁾	3.01	7.58	11.78
Net Interest Margin after Provision	10.64 ⁽²⁾	9.55	9.23
Operating Exp. / Avg. Total Assets	7.41	4.55	3.49

Note: After-Tax Net Income calculated on basis of 38% pro forma tax rate.

(1) Average assets and equity calculated on a daily basis.

(2) 2001 NIM does not include a provision.

Income Statement

(\$ in millions except per share amounts)

	2002	YTD Q3 '02	YTD Q3 '03	Y-O-Y GROWTH
Interest and Fee Income	\$91.1	\$60.8	\$156.6	158%
Interest Expense	<u>14.4</u>	<u>9.3</u>	<u>27.4</u>	195
Net Interest and Fee Income	76.7	51.5	129.2	151
Provision for Loan Losses	6.7	0.0	8.5	NM
Operating Expenses	33.6	21.7	45.5	110
Other Income	<u>5.2</u>	<u>3.8</u>	<u>9.5</u>	150
Pre-Tax Net Income	\$41.6	33.6	84.7	152%
Pro Forma After-Tax Net Income	\$25.8		\$52.5	
Pro Forma Diluted EPS	\$0.26		\$0.51	

Conclusion

Investment Highlights

- Large Yet Underserved Market
- Tailored Model
- Strategic Sector Focus
- Strong Credit Culture
 - “Credit First” Approach
- Conservative Balance Sheet Leverage
- Experienced, Motivated Team



Superior Growth and Returns

- Strong Risk-Adjusted Yields
- Scalable Platform
- Earnings Growth not Dependent on Volume Growth



CapitalSource