



CAPITAL BANK
C O R P O R A T I O N

SERVICE WORTH TALKING ABOUT

2007 Annual Report





DEAR FELLOW SHAREHOLDERS,

We are proud to call North Carolina home! North Carolina remains economically one of the strongest states in the United States. Raleigh, our state's capital and home to our headquarters, remains near the top of any list of places to live, work and operate a business. While we are not immune from the larger effects of the national economy, we remain confident that our region will continue to be one of the most desirable places to do business.

In last year's shareholder letter, we anticipated that 2007 would be a very challenging operating environment for community banks. We outlined that margin compression would be our biggest challenge. Unfortunately, we were right. The net interest margin declined to 3.53% in 2007 from 3.94% in 2006. As the prime rate fell 100 basis points during the year, market rates for short term retail deposits remained elevated due to liquidity concerns in the wholesale credit markets. As a result, our profits declined.

In 2007, we focused our attention on the following priorities:

- Sustained core deposit growth
- Continued incremental loan growth
- Continued asset quality improvement
- Proactive management of our capital base
- Extraordinary customer service

For the first half of the year, we saw success in our core deposit initiatives, growing noninterest checking, interest checking and money market accounts, while holding the line on certificates of deposit. However, during the late summer, market conditions changed as the housing market weakened, causing larger national banks to move aggressively into the retail deposit markets. In the second half of 2007 Capital Bank, along with the rest of the community banking market, experienced intense competition for deposits, thereby offsetting the gains made in the first half of the year.

While core deposit growth remained flat, our commercial loan portfolio grew \$89.2 million, or 11.3%, on a twelve-month average basis. Overall, total loans grew 8.6%, as we experienced pay downs on equity lines of credit in the retail sector.

Asset quality, as always, is one of our top priorities, and in 2007, we continued to focus on improving the quality of our assets. In the latter part of 2007, we wrote down certain of our non-performing assets and increased the reserve. At the year's end, our non-performing assets were 0.50% of total assets.

Capital Bank remains well capitalized by all measures, with total equity of \$164.3 million at year end. Equity, as a percent of total assets at the end of 2007 was 10.8%. Our customer service scores continue to be exemplary, which is directly attributable to the extraordinary associates at Capital Bank.

To summarize 2007 at Capital Bank, multiple factors contributed to the decline in profitability such as: the net interest margin, increase in the provision for loan losses, a slight decline in noninterest income and an increase in noninterest expenses. The increase in noninterest expenses was primarily a result of a number of efforts to improve future efficiency.

Looking forward in 2008, we believe this will be one of the most difficult operating environments to be experienced by banks in decades. We believe asset quality and capital will be the hallmark measures of success in 2008.

That said, we will continue to push forward in the core deposit arena, but expect slower growth in the loan portfolio. Although we believe we are in some of the best markets in the United States, we will remain cautious in our lending practices and expect lighter demand for loans through the end of the year.

Although margins will likely remain compressed throughout the year and expense control is at the top of our minds, we plan to continue to invest prudently in our franchise. We anticipate opening three new offices in the Raleigh/Triangle region and one smaller office in the Asheville region.

The associates and the board of directors at Capital Bank are confident we are on the right course. We continue to gain market share and grow in highly desirable communities. We are investing in technology and talent, remain innovative and are passionate about our clients and our shareholders. Thank you for your trust and support. Your ongoing commitment will enable us to continue building a premier community bank.



O.A. Keller III
Chairman of the Board



B. Grant Yarber
President and Chief Executive Officer

ABOUT CAPITAL BANK

For ten years, Capital Bank has been proud to serve the communities surrounding the Triangle and throughout the state of North Carolina. We are passionate about the people we serve and are continually utilizing our creativity and vast financial expertise to bring the best products and services to our dedicated customers. After seeing the success of Smart Checking in 2006, we raised the bar in 2007 and increased the interest rate from 4.01% to 5.01% to further reward our customers.

We know we need to focus not just on our current customers, but those in the community who are our future customers. Innovative new products are part of that focus as evidenced by the launch of Tuned-In Checking in early 2008. This fresh approach to checking is designed for high school and college students and young professionals. It offers free iTunes credits to customers instead of paying interest to the account. Financial literacy for this generation is extremely important, and we recognized this need and supported it by debuting an extensive online education center on our Web site. The center features click-and-learn videos and glossaries of key terms to ensure our customers are educated about their money management.

Although we value the good relationships formed by personal contact with our customers, we understand they might need to take care of business quickly. In order to stay ahead of the most cutting-edge banking technology available, Capital Bank has integrated mobile banking into our repertoire of services. Utilizing this free service for our Internet banking customers, they can securely log on to view current account balances, most recent transactions and transfer funds between accounts from a cell phone with Internet access. Capital Bank also employs remote deposit capture, which gives our customers the ability to electronically submit check deposits without stepping foot into the bank.

As a strong community bank, it's important for us to support the areas we serve. Our team is involved in a multitude of philanthropic efforts both personally and professionally, and it gives us great satisfaction to invest time and dedication into those organizations that are vital to our communities.

“Capital Bank has made my business banking experience seamless! They never hesitate to provide me with the help I need to make my business thrive.”

—Randy L. Faircloth
Randy L. Faircloth Builders, Inc.



Photo Credit: Elon University

INVESTING IN OUR COMMUNITIES

BLUE SKIES, RED EARTH

In May 2007, Capital Bank again partnered with the North Carolina Symphony, this time to put on a statewide production of “Blue Skies, Red Earth,” an event representing North Carolina’s musical history and culture. The event was originally staged in the fall of 2006 as a concert series in Raleigh, but with Capital Bank’s sponsorship, became a traveling tour bringing the indigenous music of North Carolina to people all across the western regions of the state. The tour visited the communities of Asheville, Murphy, Cullowhee, Morganton and Rutherfordton.

COATS FOR THE CHILDREN

For the third consecutive year, the bank teamed with WRAL-TV and the Salvation Army of Wake County as a sponsor of the Coats for the Children campaign, bringing in 5,500 coats and \$59,700 in monetary donations. Donations of both types were collected in Capital Bank’s branches from November to January. Triangle residents were encouraged to stop into any of Capital Bank’s branches to donate a coat, make a monetary contribution or ask about the Smart Checking program to have a coat donated in their name.

CAPITAL AWARDS

For the first time, Capital Bank partnered with the North Carolina Theatre as the presenting sponsor of the inaugural Capital Awards. These awards recognized students from 14 area high school drama departments for excellence in theatre production. The overwhelming popularity and success of this program with the students, teachers and parents made it clear that it would be a recurring event, and Capital Bank is partnering with the North Carolina Theatre again in 2008 to sponsor the event.

REACHING OUT TO THE COMMUNITY

Capital Bank believes in giving back to the communities that have given so much to us. Organizations we support, both in the form of donations and our time, include the Pretty in Pink Foundation, the North Carolina Council on Economic Education, Artsposure, the Raleigh Arts Festival, United Way, the Boys and Girls Clubs and the Burlington Housing Authority, to name just a few.

“I am extremely grateful to Capital Bank for creating the financial groundwork of my family’s business and personal needs. Their dedication to the banking relationship seems to have no boundaries, with support for my business, and college needs, as well as investment choices. The attention to detail is very much appreciated!”

–Margaret Kuhn
Animal Hospital East



FINANCIAL HIGHLIGHTS

As of and for the years ended December 31	2007	2006	2005	2004	2003
Earnings Summary (thousands)					
Operating revenues*	\$ 53,020	\$ 55,515	\$ 36,006	\$ 33,039	\$ 34,444
Net income	7,858	12,338	6,699	5,311	994
Per Share (dollars)					
Net income—basic	0.69	1.06	0.99	0.79	0.15
Net income—diluted	0.68	1.06	0.97	0.77	0.15
Dividends	0.32	0.24	0.24	0.21	0.20
Book value	14.71	14.19	12.18	11.76	11.15
Ending Balances (thousands)					
Total assets	1,517,603	1,422,384	960,906	882,294	857,734
Loans, net of unearned income	1,095,107	1,008,052	668,982	654,867	625,945
Deposits	1,098,698	1,055,209	698,480	654,976	629,619
Shareholders' equity	164,300	161,681	83,492	77,738	72,923
Performance Ratios					
Return on average assets	.54%	.91%	.74%	.60%	.11%
Return on average equity	4.78%	7.64%	8.32%	7.04%	1.34%

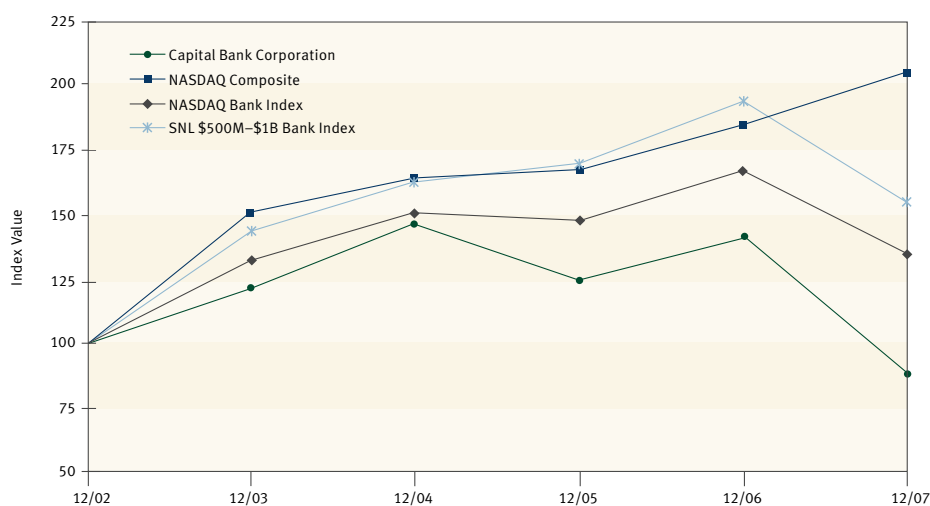
* Net interest income plus noninterest income

The financial information in this report should be reviewed in conjunction with Capital Bank Corporation's Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission. The comparability of financial data between 2006 and 2005 has been significantly impacted by the acquisition of 1st State Bancorp in January 2006.

Comparison of Cumulative Total Return

The following graph compares the cumulative total shareholder return on the Company's common stock since the last trading day of 2002 with the cumulative return for the same period of: (i) the SNL Securities Bank Index for banks with \$500 million to \$1 billion in assets; (ii) the NASDAQ Composite Index; and (iii) the NASDAQ Bank Index, which is a broad-based capitalization-weighted index of domestic and foreign common stocks of banks that are traded on NASDAQ. The Company's common stock began trading on the NASDAQ SmallCap Market on December 18, 1997. As of April 1, 2002, the Company's common stock has been trading on the NASDAQ Global Select Market. The Company had \$1.5 billion in assets as of December 31, 2007, and thus has concluded that comparison to the SNL Securities Bank Index is no longer meaningful. As a result, and in accordance with SEC rules, the Company has included comparison to the SNL Securities Bank Index this year, but will no longer include such index after this year. The graph assumes an investment of \$100 on the last trading day of 2002 in the Company's common stock and in each index and that all dividends, if any, were reinvested.

Total Return Performance



Index	12/02	12/03	12/04	12/05	12/06	12/07
Capital Bank Corporation	100.00	121.56	145.83	123.83	141.25	88.43
NASDAQ Composite	100.00	150.64	164.35	167.78	185.12	204.80
NASDAQ Bank Index	100.00	132.59	150.40	147.42	167.54	134.67
SNL \$500M-\$1B Bank Index	100.00	144.20	163.40	170.40	193.80	155.30

CONSOLIDATED BALANCE SHEETS

For the years ended December 31 (in thousands, except share data)	2007	2006
Assets		
Cash and due from banks:		
Interest earning	\$ 7,815	\$ 12,348
Noninterest earning	32,347	33,054
Federal funds sold and short-term investments	10	8,480
Investment securities—available for sale, at fair value	249,094	228,214
Investment securities—held to maturity, at amortized cost	10,022	10,833
Loans—net of unearned income and deferred fees	1,095,107	1,008,052
Less allowance for loan losses	(13,571)	(13,347)
Net loans	1,081,536	994,705
Premises and equipment, net	23,863	23,125
Bank-owned life insurance	21,589	20,662
Goodwill and deposit premium, net	63,345	64,543
Deferred income tax	5,829	6,150
Accrued interest receivable and other assets	22,153	19,820
Total assets	\$ 1,517,603	\$ 1,422,384
Liabilities		
Deposits:		
Demand, noninterest bearing	\$ 114,780	\$ 120,945
Savings and interest-bearing checking	151,698	144,741
Money market deposit accounts	229,560	221,502
Time deposits less than \$100,000	370,416	350,483
Time deposits \$100,000 and greater	232,244	217,538
Total deposits	1,098,698	1,055,209
Repurchase agreements and federal funds purchased	45,295	34,238
Borrowings	163,347	125,924
Subordinated debentures	30,930	30,930
Other liabilities	15,033	14,402
Total liabilities	1,353,303	1,260,703
Commitments and contingencies	—	—
Shareholders' equity:		
Common stock, no par value; 20,000,000 authorized, 11,169,777 and 11,393,990 issued and outstanding as of December 31, 2007 and 2006, respectively	136,154	139,484
Accumulated other comprehensive income (loss)	161	(1,557)
Retained earnings	27,985	23,754
Total shareholders' equity	164,300	161,681
Total liabilities and shareholders' equity	\$ 1,517,603	\$ 1,422,384

Please see the complete set of consolidated financial statements and accompanying notes in Capital Bank Corporation's Annual Report on Form 10-K for the year ended December 31, 2007.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31 (in thousands, except per share data)	2007	2006	2005
Interest income:			
Loans and loan fees	\$ 82,066	\$ 76,180	\$ 43,047
Investment securities	11,419	9,174	7,005
Federal funds and other interest income	1,052	1,598	698
Total interest income	94,537	86,952	50,750
Interest expense:			
Deposits	40,993	31,620	16,021
Borrowings and repurchase agreements	9,430	9,150	5,455
Total interest expense	50,423	40,770	21,476
Net interest income	44,114	46,182	29,274
Provision (credit) for loan losses	3,606	531	(396)
Net interest income after provision for loan losses	40,508	45,651	29,670
Noninterest income:			
Service charges and other fees	3,267	3,337	2,559
Mortgage fees and revenues	2,547	2,550	2,190
Brokerage fees	601	537	216
Interchange income and ATM fees	985	732	439
Net (loss) gain on sale of securities	(49)	188	7
Bank-owned life insurance	841	832	661
Gain on early extinguishment of debt	–	276	–
Other	714	881	660
Total noninterest income	8,906	9,333	6,732
Noninterest expense:			
Salaries and employee benefits	19,674	18,466	13,912
Occupancy	4,897	3,748	2,607
Furniture and equipment	2,859	2,342	1,468
Data processing and telecommunications	1,637	1,774	1,855
Advertising	1,442	1,342	1,058
Office expenses	1,389	1,617	1,049
Professional fees	1,289	1,043	844
Business development and travel	1,217	1,219	704
Amortization of deposit premiums	1,198	1,370	212
Miscellaneous loan handling costs	743	649	544
Directors fees	424	1,264	1,138
Insurance	435	316	208
Other	1,228	1,225	840
Total noninterest expense	38,432	36,375	26,439
Net income before tax expense	10,982	18,609	9,963
Income tax expense	3,124	6,271	3,264
Net income	\$ 7,858	\$ 12,338	\$ 6,699
Earnings per share–basic	\$ 0.69	\$ 1.06	\$.99
Earnings per share–diluted	\$ 0.68	\$ 1.06	\$.97

Please see the complete set of consolidated financial statements and accompanying notes in Capital Bank Corporation's Annual Report on Form 10-K for the year ended December 31, 2007.

CAPITAL BANK BOARD OF DIRECTORS

O. A. Keller III

Chairman of the Board
Capital Bank Corporation
Managing Member
Keller Group, LLC

B. Grant Yarber

President and Chief Executive Officer
Capital Bank Corporation

Charles F. Atkins

President
Cam-L Corporation

James A. Barnwell Jr.

President
Huffman Oil Company, Inc.

L. I. Cohen

Chief Executive Officer
Lee Iron & Metal Company, Inc.

John F. Grimes III

Partner
Budd Tire Company

Robert L. Jones

Chairman
Davidson & Jones Hotel Corporation

Oscar A. Keller Jr.

President and Chief Executive Officer
Parkview Retirement Home, Inc.

Ernest A. Koury Jr.

Vice President
Carolina Hosiery Mills, Inc.

James G. McClure Jr.

President
Green & McClure Furniture Company

James D. Moser Jr.

Certified Public Accountant
Gilliam, Coble & Moser, LLP

George R. Perkins III

President
Frontier Spinning Mills, Inc.

Don W. Perry

President
Lee Brick & Tile Company

Carl H. Ricker Jr.

Owner and President
Azalea Development Management Company

Richard H. Shirley

President
Dick Shirley Chevrolet, Inc.

J. Rex Thomas

Chairman and CEO
Grubb & Ellis | Thomas Linderman Graham

Samuel J. Wornom III

President and Chief Executive Officer
Nouveau Investments, Inc.

CAPITAL BANK LEADERSHIP

SENIOR MANAGEMENT



Back row (left to right): **Roger Plott**, Senior Vice President Commercial Services and Marketing Executive; **Robert Malburg**, Senior Vice President and Operations Executive; **Chris McCoy**, Senior Vice President and Compliance/Reporting Executive; **Michael Moore**, Executive Vice President and Chief Financial Officer; **David Morgan**, Executive Vice President and Chief Banking Officer; *Middle row (left to right):* **Mark Redmond**, Executive Vice President and Chief Credit Officer; **B. Grant Yarber**, President and Chief Executive Officer; *Front row (left to right):* **Jennifer Benefield**, Senior Vice President and Support Services Executive; **Teresa White**, Senior Vice President and Director of Human Resources



Photo Credit: The Wake Forest Birthplace Museum

“Banking with Capital Bank is like working with a trusted friend. They provide me with innovative solutions to my banking needs and always deliver service at the most impeccable level.”

– Michael Scharf
East Coast Builders, Inc.

LOCATIONS

Asheville

Main Office
1310 Hendersonville Rd.
Asheville, NC 28803
828.277.5001

11 N. Market St.
Asheville, NC 28801
828.277.4550

918 Merrimon Ave.
Asheville, NC 28804
828.250.8700

462 New Leicester Hwy.
Asheville, NC 28806
828.771.0202

Burlington

Main Office and
Operations Center
445 S. Main St.
Burlington, NC 27215
336.506.1606

3466 S. Church St.
Burlington, NC 27215
336.222.6745

2294 N. Church St.
Burlington, NC 27217
336.227.5568

503 Huffman Mill Rd.
Burlington, NC 27215
336.222.6780

Cary

1201 Kildaire Farm Rd.
Cary, NC 27511
919.469.3779

Graham

227 S. Main St.
Graham, NC 27253
336.226.1198

1203 S. Main St.
Graham, NC 27253
336.437.1506

Greensboro

1702 Battleground Ave.
Greensboro, NC 27408
336.544.5440

Hickory

225 4th St. NW
Hickory, NC 28601
828.326.7222

Mebane

102 E. Washington St.
Mebane, NC 27302
919.563.5931

Morrisville

9632 Chapel Hill Rd.
Morrisville, NC 27560
919.319.1049

Oxford

200 Williamsboro St.
Oxford, NC 27565
919.693.9000

Pittsboro

37 Hillsboro St.*
Pittsboro, NC 27312
919.545.5533

Raleigh

Main Office and
Corporate Headquarters
333 Fayetteville St.
Raleigh, NC 27601
919.645.0868

4901 Glenwood Ave.
Raleigh, NC 27612
919.645.6449

4400 Falls of Neuse Rd.
Raleigh, NC 27609
919.878.3100

8816 Six Forks Rd.
Suite 101
Raleigh, NC 27615
919.861.2050

2127 Clark Ave.
Raleigh, NC 27605
919.828.7100

Sanford

Main Office
130 N. Steele St.*
Sanford, NC 27330
919.775.4000

2800 Williams St.
Sanford, NC 27332
919.775.2800

2222 Jefferson Davis Hwy.
Sanford, NC 27332
919.775.2800

Siler City

300 E. Raleigh St.
Siler City, NC 27344
919.742.4186

Wake Forest

12217 Capital Blvd.
Wake Forest, NC 27587
919.453.5041

Zebulon

1260 N. Arendell Ave.
Zebulon, NC 27597
919.269.3040

* ATM not available

STOCK MARKET INFORMATION

Shares of Capital Bank Corporation common stock are traded on the NASDAQ Global Select Market under the symbol "CBKN."

TRANSFER AGENT

Registrar and Transfer Company
10 Commerce Dr.
Cranford, NJ 07016
800.368.5948
www.rtco.com

DIVIDEND REINVESTMENT PLAN

Capital Bank Corporation offers a Dividend Reinvestment and Stock Purchase Plan. For information, please contact Dividend Reinvestment Service at Registrar and Transfer Company at the above address.

FINANCIAL INFORMATION

To obtain financial information or additional copies of the Company's Annual Report or Form 10-K, please contact:

Michael Moore
Executive Vice President and Chief Financial Officer
Capital Bank Corporation
P.O. Box 18949
Raleigh, NC 27619-8949
919.645.6372



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