

PUBLIC DISCLOSURE

June 14, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Capital Bank
Certificate Number 34452**

**333 Fayetteville Street
Raleigh, North Carolina 27619**

**Federal Deposit Insurance Corporation
10 Tenth Street, N. E., Suite 800
Atlanta, Georgia 30309-3849**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

LENDING, INVESTMENT, AND SERVICE TEST TABLE:

The following table indicates the performance level of the institution with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	Capital Bank		
	PERFORMANCE TESTS		
	Lending Test	Investment Test	Service Test
Outstanding			
High Satisfactory	X	X	
Low Satisfactory			X
Needs to Improve			
Substantial Noncompliance			

by the Small Business Administration (SBA) and the United States Department of Agriculture (USDA). The bank originates home mortgage loans to first-time homebuyers and/or low- and moderate-income families through the North Carolina Housing Finance Agency (NCHFA), Fannie Mae, and the USDA. In addition, the bank originates small farm loans through the USDA's Farm Service Agency. Table 3 details loans originated under these programs since the last examination. These loans total almost 10 percent of the CRA loans reviewed at this examination.

Table 3 – Capital Bank Flexible Loan Programs		
Loan Program	2/23/2004 to 6/14/2007	
	#	\$(000)
SBA Small Business Loans	29	\$11,597
USDA Business & Industrial Loans	3	\$1,318
FSA Small Farm Loans	5	\$1,318
NCHFA Home Mortgage Loans	80	\$9,205
USDA Home Mortgage Loans	22	\$2,438
Fannie Mae First-Time Homebuyer Loans	4	\$602
Totals	143	\$26,478

In addition to the loan programs noted above, the bank offers home mortgage loans guaranteed by the Veterans Administration (VA) and the Federal Housing Administration (FHA). These loans are not originated by the bank, but they are brokered by the bank to various investors. Since the last examination, the bank has brokered 58 VA and FHA loans totaling \$8,040,293.

INVESTMENT TEST

The bank has a significant level of community development investments and grants. The bank's CRA qualified investments of \$6.2 million represent 2.6 percent of total bank investments and 0.41 percent of total bank assets. A significant increase in CRA qualified investments since the previous evaluation is noted.

The bank has invested \$500,000 and \$1,650,000 in two mezzanine funds that invest in Small Business Investment Companies (SBICs). Both funds were established to provide mezzanine financing to small- and medium-sized businesses throughout North Carolina. Of the \$2.15 million, \$1.8 million has been invested since the previous examination. In addition, the bank purchased a FNMA mortgage loan pool for \$1,544,216 since the last examination that is backed by mortgage loans to low- and moderate-income individuals in the bank's assessment areas. The bank also invested \$750,000 in a community investment mutual fund since the last examination. This fund is dedicated to community development primarily throughout the southeastern United States, including the bank's assessment area of North Carolina.

The bank has also participated with the Senior Housing Crime Prevention Foundation in support of a Seniors Crimestopper Program at a retirement home facility in Asheville. Through the purchase of preferred stock in the amount of \$1,000,000 in the Senior Crime Prevention Foundation Investment Corporation, secured by a government security, the yield on the

investment assists in funding the Crimestoppers Program.

The bank has established Capital Bank Charitable Foundation, Inc. to provide financial contributions to non-profit organizations in the bank's assessment areas. A majority of contributions made each year is directed to organizations whose purpose is consistent with CRA. In the past 3 years (2004 through 2006), Capital Bank Charitable Foundation, Inc. has made \$468,000 in grants to non-profit organizations, and there is a budget of \$168,000 for 2007, of which almost \$55,000 was contributed in the first quarter. In addition, the bank acquired 1st State Foundation Fund with the acquisition of 1st State Bank and renamed it Capital Bank Foundation. CRA contributions in 2006 and the first quarter of 2007 from this foundation amounted to approximately \$170,000 and \$33,000, respectively. The donations from both foundations provide much-needed financial assistance to organizations that have the primary purpose of economic development, community revitalization, affordable housing, financial education, scholarships for low- and moderate-income students, training for entry into the workforce, and basic human services to low- and moderate-income individuals, including food banks, homeless shelters, medical services, domestic violence victims, and helping at-risk youths. Examples of some of the CRA qualified organizations to which the foundations have made donations are below:

- Affordable Housing Coalition in Asheville
- Alamance County Economic Development Foundation
- Boys & Girls Clubs
- Burlington Public Housing Authority
- Elon Homes for Children
- Habitat for Humanity
- Meals on Wheels
- North Carolina Council on Economic Education
- Women's Resource Mission, Inc.

In addition, the bank, through its various branches, had approximately \$100,000 in qualified CRA donations to organizations located within the bank's assessment areas since the previous examination. Recipients of the bank's donations include Habitat for Humanity, United Way, Camp Challenge, Boys and Girls Club, and food banks and shelters

SERVICE TEST

Accessibility of Delivery Systems

Capital Bank's delivery systems are reasonably accessible to all portions of its assessment areas. The bank operates 26 branch offices: eight in Wake County; seven in Alamance County; three in both Buncombe and Lee Counties; two in Chatham County; and one each in Catawba, Granville, and Guilford Counties. Three of the bank's branches are located in moderate-income census tracts, eight in upper-income census tracts, and the remainder in middle-income tracts. Table 15 in Appendix E details the bank's geographic distribution of branches. The table shows that accessibility to low- and moderate-income geographies is limited in the Raleigh assessment area. There are no branches located in either low- or moderate-income geographies of the Raleigh