

CAPITALSOUTH BANCORP AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2008 and 2007

(Unaudited)

Assets	2008	2007
Cash and cash equivalents	\$ 8,808,741	\$ 6,874,632
Federal funds sold	35,768	50,820
Cash and cash equivalents	8,844,509	6,925,452
Securities available-for-sale	63,316,823	45,085,094
Securities held-to-maturity, fair value of \$32,947,570 and \$30,579,249 at June 30, 2008 and 2007, respectively	33,124,867	31,670,664
Federal Home Loan Bank stock	3,910,600	2,238,800
Federal Reserve Bank stock	2,075,702	905,450
Loans held-for-sale	3,521,197	-
Loans	589,060,082	405,522,860
Allowance for loan losses	(16,082,392)	(4,708,777)
Net loans	572,977,690	400,814,083
Premises and equipment, net	21,323,409	11,300,642
Other real estate owned	9,915,618	506,132
Goodwill	-	1,274,668
Other intangibles, net	806,683	-
Bank-owned life insurance	4,816,454	4,643,449
Deferred tax asset, net	6,369,911	178,690
Other assets	5,191,626	5,504,045
Total assets	\$ 736,195,089	\$ 511,047,169
Liabilities and Stockholders' Equity		
Deposits:		
Interest-bearing	\$ 555,254,872	\$ 366,244,545
Noninterest-bearing	66,838,520	59,416,947
Total deposits	622,093,392	425,661,492
Federal funds purchased	25,811,040	24,496,400
Borrowed funds	29,042,306	6,000,000
Repurchase agreements	567,881	724,200
Subordinated debentures and other notes payable	24,242,628	7,733,000
Other liabilities	4,680,532	3,775,012
Total liabilities	706,437,779	468,390,104
Stockholders' equity:		
Preferred stock, \$0.01 par value. Authorized 500,000 shares; issued and outstanding none	-	-
Common stock, \$1 par value. Authorized 16,500,000 shares at June 30, 2008 and 7,500,000 at June 30, 2007; issued 4,241,640 and 3,083,130 shares at June 30, 2008 and 2007, respectively; outstanding 4,156,810 and 2,998,300 shares at June 30, 2008 and 2007, respectively	4,241,640	3,083,130
Treasury stock, at cost, 84,830 shares at June 30, 2008 and 2007	(1,255,060)	(1,255,060)
Paid-in surplus	45,865,347	26,484,698
(Accumulated deficit) retained earnings	(18,676,625)	14,993,582
Accumulated other comprehensive loss, net	(417,992)	(649,285)
Total stockholders' equity	29,757,310	42,657,065
Total liabilities and stockholders' equity	\$ 736,195,089	\$ 511,047,169

CAPITALSOUTH BANCORP AND SUBSIDIARIES
Consolidated Statements of Income
For the Three Months and Six Months Ended June 30, 2008 and 2007
(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Interest income:				
Interest and fees on loans	\$ 9,099,388	\$ 8,166,995	\$ 19,730,091	\$ 15,874,809
Interest on securities	921,464	836,361	1,829,226	1,687,569
Interest on other earning assets	110,974	72,578	213,782	193,235
Total interest income	<u>10,131,826</u>	<u>9,075,934</u>	<u>21,773,099</u>	<u>17,755,613</u>
Interest expense:				
Interest on deposits	5,054,724	4,489,096	10,681,918	8,912,288
Interest on debt	806,315	336,336	2,072,826	639,312
Total interest expense	<u>5,861,039</u>	<u>4,825,432</u>	<u>12,754,744</u>	<u>9,551,600</u>
Net interest income	4,270,787	4,250,502	9,018,355	8,204,013
Provision for loan losses	9,349,531	225,378	10,007,281	361,628
Net interest (loss) income after provision for loan losses	<u>(5,078,744)</u>	<u>4,025,124</u>	<u>(988,926)</u>	<u>7,842,385</u>
Noninterest income:				
Service charges on deposits	403,669	316,513	774,986	616,194
Investment banking income, net	1,035	38,822	3,132	201,261
Business Capital Group loan income	18,252	408,143	90,030	586,982
Bank-owned life insurance	48,333	43,518	96,666	87,036
Gain on sale of mortgage loans	168,556	-	444,712	-
(Loss) gain on sale and impairment of investment securities	(78,158)	-	200,220	-
Other noninterest income	172,358	47,378	325,890	81,366
Total noninterest income	<u>734,045</u>	<u>854,374</u>	<u>1,935,636</u>	<u>1,572,839</u>
Noninterest expense:				
Salaries and employee benefits	2,540,963	2,011,280	5,083,679	4,016,410
Occupancy and equipment expense	982,592	535,169	1,856,569	1,088,321
Professional fees	439,336	373,713	783,668	742,788
Advertising	103,835	42,004	230,779	143,940
Other real estate expense	1,252,073	999	1,354,722	32,682
Other noninterest expense	936,726	524,715	1,878,080	1,012,652
Goodwill impairment	9,362,813	-	9,362,813	-
Total noninterest expense	<u>15,618,338</u>	<u>3,487,880</u>	<u>20,550,310</u>	<u>7,036,793</u>
(Loss) income before provision for income taxes	(19,963,037)	1,391,618	(19,603,600)	2,378,431
(Benefit) provision for income taxes	(3,567,722)	494,961	(3,530,173)	775,194
Net (loss) income	<u>\$ (16,395,315)</u>	<u>\$ 896,657</u>	<u>\$ (16,073,427)</u>	<u>\$ 1,603,237</u>
Basic (loss) earnings per share	\$ (3.95)	\$ 0.30	\$ (3.87)	\$ 0.54
Basic weighted average shares outstanding	4,153,835	2,992,990	4,152,592	2,987,190
Diluted (loss) earnings per share	\$ (3.95)	\$ 0.30	\$ (3.87)	\$ 0.53
Diluted weighted average shares outstanding	4,153,835	3,010,659	4,152,592	3,013,124

CAPITALSOUTH BANCORP AND SUBSIDIARIES
Financial Highlights
(Unaudited)

	Three Months Ended			Percentage Change	Six Months Ended		
	June 30,		2007		June 30,		Percentage Change
	2008	2007			2008	2007	
Net interest income	\$ 4,270,787	\$ 4,250,502		0.5 %	\$ 9,018,355	\$ 8,204,013	9.9 %
Provision for loan losses	9,349,531	225,378		4,048.4	10,007,281	361,628	2,667.3
Noninterest income	734,045	854,374		(14.1)	1,935,636	1,572,839	23.1
Noninterest expense	15,618,338	3,487,880		347.8	20,550,310	7,036,793	192.0
Net (loss) income before provision for income tax	(19,963,037)	1,391,618		(1,534.5)	(19,603,600)	2,378,431	(924.2)
(Benefit) provision for income taxes	(3,567,722)	494,961		(820.8)	(3,530,173)	775,194	(555.4)
Net (loss) income	<u>\$ (16,395,315)</u>	<u>\$ 896,657</u>		(1,928.5)	<u>\$ (16,073,427)</u>	<u>\$ 1,603,237</u>	(1,102.6)
Net (loss) income per common share							
Basic	\$ (3.95)	\$ 0.30		(1,415.7) %	\$ (3.87)	\$ 0.54	(816.8) %
Diluted	(3.95)	0.30		(1,415.7)	(3.87)	0.53	(830.3)
Goodwill impairment charge	9,362,813	-		NM	9,362,813	-	NM
Net operating (loss) income	<u>\$ (7,032,502)</u>	<u>\$ 896,657</u>		(884.3) %	<u>\$ (6,710,614)</u>	<u>\$ 1,603,237</u>	(518.6) %
Net operating (loss) income per common share							
Basic	\$ (1.69)	\$ 0.30			\$ (1.62)	\$ 0.54	
Diluted	(1.69)	0.30			(1.62)	0.53	
Weighted average common and common equivalent shares outstanding							
Basic	4,153,835	2,992,990		38.8 %	4,152,592	2,987,190	39.0 %
Diluted	4,153,835	3,010,659		38.0	4,152,592	3,013,124	37.8
Return on average assets	(8.73) %	0.71 %			(4.25) %	0.65 %	
Return on average tangible assets	(8.85)	0.72			(4.31)	0.65	
Return on average equity	(140.96)	8.43			(68.64)	7.64	
Return on average tangible equity	(180.65)	8.69			(88.16)	7.88	
Noninterest Income							
Service charges on deposits	\$ 403,669	\$ 316,513		27.5 %	\$ 774,986	\$ 616,194	25.8 %
Investment banking income, net	1,035	38,822		(97.3)	3,132	201,261	(98.4)
Business Capital Group loan income	18,252	408,143		(95.5)	90,030	586,982	(84.7)
Bank-owned life insurance	48,333	43,518		11.1	96,666	87,036	11.1
Gain on sale of mortgage loans	168,556	-		NM	444,712	-	NM
(Loss) gain on sale and impairment of investment securities	(78,158)	-		NM	200,220	-	NM
Other	172,358	47,378		263.8	325,890	81,366	300.5
Total noninterest income	<u>\$ 734,045</u>	<u>\$ 854,374</u>		(14.1)	<u>\$ 1,935,636</u>	<u>\$ 1,572,839</u>	23.1
Noninterest Expense							
Salaries and employee benefits	\$ 2,540,963	\$ 2,011,280		26.3 %	\$ 5,083,679	\$ 4,016,410	26.6 %
Occupancy and equipment expense	982,592	535,169		83.6	1,856,569	1,088,321	70.6
Professional fees	439,336	373,713		17.6	783,668	742,788	5.5
Advertising	103,835	42,004		147.2	230,779	143,940	60.3
Other real estate expense	1,252,073	999		NM	1,354,722	32,682	4,045.2
Other noninterest expense	936,726	524,715		78.5	1,878,080	1,012,652	85.5
Goodwill impairment	9,362,813	-		NM	9,362,813	-	NM
Total noninterest expense	<u>\$ 15,618,338</u>	<u>\$ 3,487,880</u>		347.8	<u>\$ 20,550,310</u>	<u>\$ 7,036,793</u>	192.0

CAPITALSOUTH BANCORP AND SUBSIDIARIES
Financial Highlights
(Unaudited)

Period End Balances:	June 30,		Percentage Change
	2008	2007	
Total assets	\$ 736,195,089	\$ 511,047,169	44.1 %
Earning assets	695,045,039	485,473,688	43.2
Securities	96,441,690	76,755,758	25.6
Loans	589,060,082	405,522,860	45.3
Allowance for loan losses	16,082,392	4,708,777	241.5
Deposits	622,093,392	425,661,492	46.1
Borrowings	79,663,855	38,953,600	104.5
Stockholders' equity	29,757,310	42,657,065	(30.2)
Equity to assets	4.04 %	8.35 %	
Tier 1 capital to average assets	4.97 %	9.85 %	
Book value per common share	\$ 7.16	\$ 14.23	(49.7) %
Tangible book value per common share	\$ 6.96	\$ 13.80	(49.5)
Ending shares outstanding	4,156,810	2,998,300	38.6

Asset Quality Analysis
(in thousands, except percentages)
(Unaudited)

	For the Three Months Ended				
	Jun 30, 2008	Mar 31, 2008	Dec 31, 2007	Sept 30, 2007	June 30, 2007
Nonaccrual loans	\$ 34,963 (1)	\$ 28,406 (1)	\$ 13,914 (1)	\$ 6,584 (1)	\$ 1,612
Loans past due 90 days or more and still accruing	-	-	-	-	-
Troubled debt restructures	513	-	-	-	-
Other real estate owned and repossessions	9,916	6,694	3,516	1,512	535
Total nonperforming assets	45,392	35,100	17,430	8,096	2,147
Total nonperforming assets as a percentage of period-end loans and other real estate	7.79 %	5.68 %	2.79 %	1.27 %	0.53 %
Allowance for loan losses	\$ 16,082	\$ 8,787	\$ 8,876	\$ 7,211	\$ 4,709
Acquired allowance for loan losses	-	-	-	1,461	-
Provision for loan losses	9,350	658	2,130	1,025	225
Loans charged off	2,077	752	472	7	1
Loan recoveries	23	4	7	23	17
Net charge-offs	2,054	748	465	(16)	(16)
Allowance for loan losses as a percentage of period-end loans	2.73 %	1.44 %	1.43 %	1.15 %	1.16 %
Allowance for loan losses as a percentage of period-end nonperforming loans	(1) 46.00 %	30.93 %	63.79 %	109.52 %	292.12 %
Net charge-offs to average loans (annualized)	1.37 %	0.49 %	0.29 %	(0.01) %	(0.02) %
Nonaccrual loans acquired in Monticello Bank acquisition, reported at net realizable value	(1) \$ 1,242	\$ 1,321	\$ 3,121	\$ 3,585	
Other real estate owned acquired in Monticello Bank acquisition	435	870	879	1,000	
Total nonperforming assets acquired in Monticello Bank acquisition	\$ 1,677	\$ 2,191	\$ 4,000	\$ 4,585	

(1) Nonaccrual loans acquired in the Monticello Bank acquisition with a principal balance of \$4,935,000 were written down to net realizable value of \$3,585,000 in accordance with Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. Accordingly, the allowance for loan losses has no additional reserve related to these loans. These same loans had a net realizable value of \$1,242,000 at June 30, 2008. Excluding the discounted nonperforming assets, the allowance for loan losses as a percentage of period-end nonperforming loans was 47.2 % on June 30, 2008 and 82.2% on December 31, 2007.

GAAP Reconciliation and Management Explanation for Non-GAAP Financial Measures

The information set forth above contains certain financial information determined by methods other than in accordance with generally accepted accounting policies (GAAP). These non-GAAP financial measures are “net operating income to average assets,” “net operating income to average equity,” “return on average tangible equity,” “return on average tangible assets,” “net operating income to average tangible equity,” “average tangible equity to average tangible assets,” “net operating income to average tangible assets” and “tangible book value per share.” Our management uses these non-GAAP measures in its analysis of CapitalSouth’s performance.

“Net Operating income” is defined as net income less the effect of the non-cash goodwill impairment charge. “Return on average tangible equity” is defined as earnings for the period divided by average equity reduced by average goodwill and other intangible assets. “Return on average tangible assets” is defined as earnings for the period divided by average assets reduced by average goodwill and other intangible assets. Our management includes these measures because it believes that they are important when measuring CapitalSouth’s performance against entities with varying levels of goodwill and other intangibles. These measures are used by many investors as part of their analysis of the bank holding company’s performance.

“Average tangible equity to average tangible assets” is defined as average total equity reduced by recorded average intangible assets divided by average total assets reduced by recorded average intangible assets. This measure is important to many investors in the marketplace who are interested in the equity to assets ratio exclusive of the effect of changes in average intangible assets on average equity and average total assets.

“Tangible book value per share” is defined as total equity reduced by recorded intangible assets divided by total common shares outstanding. This measure is important to many investors in the marketplace who are interested in changes from period to period in book value per share exclusive of changes in intangible assets. Goodwill, an intangible asset that is recorded in a purchase business combination, has the effect of increasing total book value while not increasing the tangible book value of the Company.

These disclosures should not be viewed as a substitute for results determined in accordance with GAAP, and are not necessarily comparable to non-GAAP performance measures which may be presented by other bank holding companies. The following reconciliation table provides a more detailed analysis of these non-GAAP performance measures.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
	(in thousands, except per share amounts) (Unaudited)			
Book value of equity	\$ 29,757	\$ 42,657	\$ 29,757	\$ 42,657
Intangible assets	807	1,276	807	1,276
Book value of tangible equity	<u>\$ 28,950</u>	<u>\$ 41,381</u>	<u>\$ 28,950</u>	<u>\$ 41,381</u>
Average assets	\$ 755,168	\$ 504,062	\$ 760,968	\$ 497,629
Average intangible assets	10,315	1,276	10,429	1,276
Average tangible assets	<u>\$ 744,891</u>	<u>\$ 502,786</u>	<u>\$ 750,576</u>	<u>\$ 496,353</u>
Return on average assets	(8.73%)	0.71%	(4.25%)	0.65%
Effect of average intangible assets	(0.12%)	0.01%	(0.06%)	0.00%
Return on average tangible assets	<u>(8.85%)</u>	<u>0.72%</u>	<u>(4.31%)</u>	<u>0.65%</u>
Average equity	\$ 46,779	\$ 42,700	\$ 47,094	\$ 42,293
Average intangible assets	10,315	1,276	10,429	1,276
Average tangible equity	<u>\$ 36,464</u>	<u>\$ 41,424</u>	<u>\$ 36,665</u>	<u>\$ 41,017</u>
Return on average equity	(140.96%)	8.43%	(68.64%)	7.64%
Effect of average intangible assets	(39.87%)	0.26%	(19.52%)	0.24%
Return on average tangible equity	<u>(180.83%)</u>	<u>8.69%</u>	<u>(88.16%)</u>	<u>7.88%</u>
Net operating (loss) income	\$ (7,032)	\$ 897	\$ (6,710)	\$ 1,603
Goodwill impairment charge	9,363	-	9,363	-
Net (loss) income	<u>\$ (16,395)</u>	<u>\$ 897</u>	<u>\$ (16,073)</u>	<u>\$ 1,603</u>
Per share:				
Book value	\$ 7.16	\$ 14.23	\$ 7.16	\$ 14.23
Effect of intangible assets	0.20	0.43	0.20	0.43
Tangible book value	<u>\$ 6.96</u>	<u>\$ 13.80</u>	<u>\$ 6.96</u>	<u>\$ 13.80</u>
Net operating (loss) income	\$ (1.69)	\$ 0.30	\$ (1.62)	\$ 0.54
Goodwill impairment charge	(2.26)	-	(2.25)	-
Net (loss) income	<u>\$ (3.95)</u>	<u>\$ 0.30</u>	<u>\$ (3.87)</u>	<u>\$ 0.54</u>
Per diluted share:				
Net operating (loss) income	\$ (1.69)	\$ 0.30	\$ (1.62)	\$ 0.53
Goodwill impairment charge	(2.26)	-	(2.25)	-
Net (loss) income	<u>\$ (3.95)</u>	<u>\$ 0.30</u>	<u>\$ (3.87)</u>	<u>\$ 0.53</u>

percentages are annualized

CAPITALSOUTH BANCORP AND SUBSIDIARIES

Average Balance Sheet and Net Interest Analysis on a Fully Tax-Equivalent Basis
for the Three Months Ended June 30, 2008 and 2007

	2008			2007		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
(Dollar amounts in thousands)						
Assets						
Earning assets:						
Loans, including loans held for sale, net of unearned income	\$ 604,376	\$ 9,102	6.06 %	\$ 396,617	\$ 8,186	8.28 %
Investment securities (1)	89,610	1,025	4.60	78,618	891	4.55
Other earning assets	6,792	111	6.57	5,193	73	5.64
Total earning assets	700,778	10,238	5.88	480,428	9,150	7.64
Other assets	54,390			23,634		
Total assets	\$ 755,168			\$ 504,062		
Liabilities and shareholders' equity						
Interest-bearing liabilities:						
NOW and money market accounts	\$ 167,947	990	2.37	\$ 157,637	1,664	4.23
Savings deposits	4,373	9	0.83	3,219	3	0.37
Time deposits < \$100,000	320,903	3,436	4.31	184,737	2,415	5.24
Time deposits > \$100,000	54,480	589	4.35	26,390	333	5.06
State of Alabama time deposits	6,030	31	2.07	6,030	75	4.99
Federal funds purchased	34,700	210	2.43	6,547	92	5.64
FHLB advances	29,744	330	4.46	6,000	89	5.95
Repurchase agreements	742	3	1.63	792	3	1.52
Subordinated debentures and other long-term debt	23,671	263	4.47	7,733	152	7.88
Total interest-bearing liabilities	642,590	5,861	3.67	399,085	4,826	4.85
Net interest spread		\$ 4,377	2.21		\$ 4,324	2.79
Noninterest-bearing demand deposits	59,160			58,718		
Accrued expenses and other liabilities	6,639			3,559		
Stockholders' equity	46,495			43,100		
Unrealized gain / (loss) on securities	284			(400)		
Total liabilities and stockholders' equity	\$ 755,168			\$ 504,062		
Impact of noninterest-bearing sources and other changes in balance sheet composition			0.30			0.82
Net interest margin			2.51 %			3.61 %

(1) Excludes fair market value adjustment on investment securities available-for-sale.

CAPITALSOUTH BANCORP AND SUBSIDIARIES

Average Balance Sheet and Net Interest Analysis on a Fully Tax-Equivalent Basis
for the Six Months Ended June 30, 2008 and 2007

	2008			2007		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
(Dollar amounts in thousands)						
Assets						
Earning assets:						
Loans, including loans held for sale, net of unearned income	\$ 614,235	\$ 19,771	6.47 %	\$ 387,433	\$ 15,912	8.28 %
Investment securities (1)	87,287	2,035	4.69	79,162	1,804	4.60
Other earning assets	7,384	214	5.83	7,093	193	5.49
Total earning assets	708,906	22,020	6.25	473,688	17,909	7.62
Other assets	52,062			23,941		
Total assets	<u>\$ 760,968</u>			<u>\$ 497,629</u>		
Liabilities and shareholders' equity						
Interest-bearing liabilities:						
NOW and money market accounts	\$ 173,093	2,335	2.71	\$ 153,426	3,310	4.35
Savings deposits	4,401	18	0.82	3,289	6	0.37
Time deposits < \$100,000	303,802	6,912	4.58	185,670	4,789	5.20
Time deposits > \$100,000	58,671	1,340	4.59	26,277	658	5.05
State of Alabama time deposits	6,030	77	2.57	6,030	149	4.98
Federal funds purchased	45,570	728	3.21	5,479	152	5.59
FHLB advances	31,852	727	4.59	6,000	178	5.98
Repurchase agreements	770	6	1.57	813	7	1.74
Subordinated debentures and other long-term debt	23,587	612	5.22	7,733	303	7.90
Total interest-bearing liabilities	<u>647,776</u>	<u>12,755</u>	<u>3.96</u>	<u>394,717</u>	<u>9,552</u>	<u>4.88</u>
Net interest spread		<u>\$ 9,265</u>	2.29		<u>\$ 8,357</u>	2.74
Noninterest-bearing demand deposits	59,485			56,889		
Accrued expenses and other liabilities	6,613			3,730		
Stockholders' equity	46,760			42,733		
Unrealized gain / (loss) on securities	334			(440)		
Total liabilities and stockholders' equity	<u>\$ 760,968</u>			<u>\$ 497,629</u>		
Impact of noninterest-bearing sources and other changes in balance sheet composition			<u>0.34</u>			<u>0.82</u>
Net interest margin			<u>2.63 %</u>			<u>3.56 %</u>

(1) Excludes fair market value adjustment on investment securities available-for-sale.

Nonperforming Assets
(in thousands, except percentages)
(Unaudited)

	<u>June 30, 2008</u>	<u>March 31, 2008</u>
NONPERFORMING ASSETS		
Nonaccrual loans		
Residential acquisition and development	\$ 13,961	\$ 11,300
Residential construction	4,395	5,237
Single family residential real estate	4,918	2,951
Commercial construction	3,631	2,196
Commercial acquisition and development	3,638	1,892
Owner-occupied commercial real estate	1,197	1,836
Commercial	1,996	1,572
Non-owner occupied commercial real estate	1,097	1,402
Consumer	130	20
Total nonaccrual loans	<u>34,963</u>	<u>28,406</u>
Troubled debt restructures	513	-
Foreclosed properties and repossessions	9,916	6,694
Total nonperforming assets	<u>\$ 45,392</u>	<u>\$ 35,100</u>
as a % of loans, net, foreclosed properties and repossessions	7.79 %	5.68 %
Nonperforming assets included in loans held for sale		
Commercial	-	-
Consumer	-	-
Total nonperforming assets included in loans held for sale	<u>-</u>	<u>-</u>
Nonperforming assets included in loans and in loans held for sale	<u>\$ 45,392</u>	<u>\$ 35,100</u>
as a % of loans, net, foreclosed properties and loans held for sale	7.74 %	5.63 %
PAST DUE LOANS 90 DAYS AND OVER, AND NONACCRUAL LOANS		
Loans past due 90 days or more and still accruing	-	-
Nonaccrual loans	<u>34,963</u>	<u>28,406</u>
Total past due 90 days and over, and nonaccrual loans	<u>\$ 34,963</u>	<u>\$ 28,406</u>
as a % of loans, net	6.10 %	4.65 %

CAPITALSOUTH BANCORP AND SUBSIDIARIES

Allowance for Loan Losses
(in thousands, except percentages)
(Unaudited)

For the Three Months Ended

	Jun 30, 2008	Mar 31, 2008	Dec 31, 2007	Sept 30, 2007	June 30, 2007
ALLOWANCE FOR LOAN LOSSES					
Balance, beginning of period	8,787	8,876	7,211	4,709	4,467
Provision for loan losses	9,349	658	2,130	1,025	225
CHARGE-OFF LOANS					
Commercial, financial and agricultural	170	411	147	-	-
Commercial real estate, construction and mortgage	1,595	184	186	-	-
Total commercial	1,765	595	333	-	-
Real estate secured	277	79	133	-	1
Installment and other loans	35	77	6	7	-
Total consumer	312	156	139	7	1
Total charged-off	2,077	751	472	7	1
RECOVERIES					
Commercial, financial and agricultural	3	-	-	10	-
Commercial real estate, construction and mortgage	4	-	-	-	-
Total commercial	7	-	-	10	-
Real estate secured	-	-	-	8	12
Installment and other loans	16	4	7	5	6
Total consumer	16	4	7	13	18
Total loan recoveries	23	4	7	23	18
Net charge-offs	2,054	747	465	(16)	(17)
Allowance relating to loans acquired	-	-	-	1,461	-
Allowance for loan losses-end of period	16,082	8,787	8,876	7,211	4,709
ALLOWANCE FOR LOAN LOSSES					
as % of loans, net	2.73 %	1.44 %	1.43 %	1.15 %	1.16 %
as % of nonaccrual loans	46.00 %	30.93 %	63.79 %	109.51 %	292.12 %
as % of nonperforming assets	35.43 %	25.03 %	50.92 %	89.07 %	219.33 %
NET CHARGE-OFFS AS % OF AVERAGE LOANS, NET					
Commercial, financial and agricultural	0.11 %	0.27 %	0.09 %	- %	- %
Commercial real estate, construction and mortgage	1.06	0.12	0.12	-	-
Total commercial	1.17	0.39	0.21	-	-
Real estate secured	0.18	0.05	0.08	-	(0.01)
Installment and other loans	0.01	0.05	-	(0.01)	(0.01)
Total consumer	0.20	0.10	0.08	(0.01)	(0.02)
Total as % of average loans, net	1.37 %	0.49 %	0.29 %	(0.01) %	(0.02) %