

CRESCENT FINANCIAL CORPORATION  
**2007** ANNUAL REPORT



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# CRESCENT FINANCIAL CORPORATION AND SUBSIDIARIES

## SELECTED FINANCIAL DATA

At or for the Year  
Ended December 31,

### Summary of Consolidated Operations

	2007	2006	2005
Interest and fee income	\$ 54,872,076	\$ 36,706,436	\$ 22,826,593
Interest expense	28,217,235	17,256,860	8,872,228
Net interest income	26,654,841	19,449,576	13,954,365
Provision for loan losses	1,684,219	990,786	806,796
Net interest income after provision	24,970,622	18,458,790	13,147,569
Non-interest income	2,620,858	2,611,892	2,417,212
Non-interest expense	17,822,524	13,386,548	10,761,508
Income before income taxes	9,768,956	7,684,134	4,803,273
Income taxes	3,520,200	2,780,600	1,658,900
Net income	\$ 6,248,756	\$ 4,903,534	\$ 3,144,373

### Balance Sheet Information

Total assets	\$835,540,056	\$697,909,220	\$410,788,175
Investments	90,758,467	84,722,892	55,550,261
Loans, net of allowance for loan losses	667,643,228	542,873,548	323,970,640
Deposits	605,431,313	541,881,680	322,080,788
Short-term borrowings	13,755,000	24,451,000	14,964,153
Long-term debt	121,248,000	45,248,000	30,248,000
Stockholders' equity	91,658,812	83,033,978	41,457,214

### Per Share Data <sup>(1)</sup>

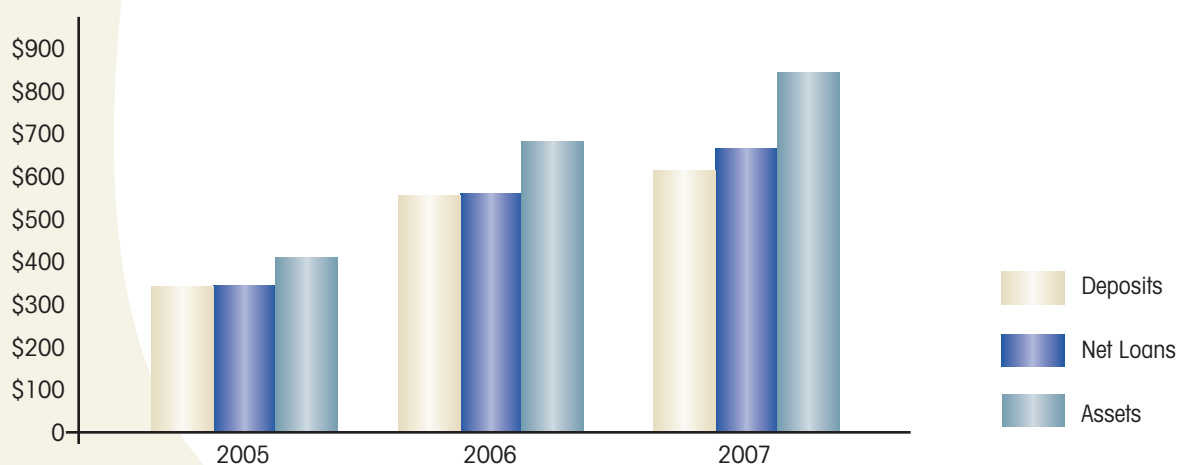
Basic net income	\$ 0.68	\$ 0.67	\$ 0.58
Weighted average basic shares outstanding	9,211,779	7,281,016	5,402,390
Diluted net income	\$ 0.65	\$ 0.64	\$ 0.55
Weighted average diluted shares outstanding	9,635,694	7,614,807	5,682,447
Book value	\$ 9.75	\$ 9.13	\$ 6.52

### Selected Other Data

Return on average assets	0.80%	0.93%	0.84%
Return on average equity	7.15%	8.72%	10.34%
Average equity to average assets	11.24%	10.64%	8.08%
Net interest margin	3.72%	3.95%	3.94%
Nonperforming assets to total assets <sup>(2)</sup>	0.36%	0.03%	0.01%
Nonperforming loans total loans <sup>(2)</sup>	0.40%	0.02%	0.01%
Allowance for loan losses to total loans	1.22%	1.26%	1.33%

<sup>(1)</sup> All per share data has been restated to reflect the 11-for-10 stock split paid in 2007 and the 10% stock dividend paid in 2006.

<sup>(2)</sup> Nonperforming loans and assets include loans past due 90 days or more and still accruing, if applicable.





**Michael G. Carlton**  
President and Chief Executive Officer

# LETTER TO SHAREHOLDERS

## Dear Shareholders, Customers, and Friends:

While 2007 presented many challenges for the financial services industry, the management and Board of Directors of Crescent Financial Corporation, and its subsidiary, Crescent State Bank, take pride in the many accomplishments that were achieved during the year. We are pleased to present in this 2007 Annual Report, another year of double digit asset growth, continued investment in the infrastructure, broadened and improved products and services while at the same time announcing record earnings. None of this could be possible without our greatest asset- our employees, who have made all of this possible. Your Company is fortunate to have a group of dedicated, experienced and talented staff committed to enhancing shareholder value and providing each of our customers great quality service.

Net income for 2007 was \$6,248,756, which reflected an increase of 27 percent over net income of \$4,903,534 for the prior year. While the percent growth is impressive, the increased growth in earnings per share was not comparable due to the issuance of 2,675,000 additional shares of stock in conjunction with the acquisition of Port City Capital Bank in August 2006. Diluted earnings per share for 2007 were \$.65

compared to split-adjusted diluted earnings per share of \$.64 for the prior year.

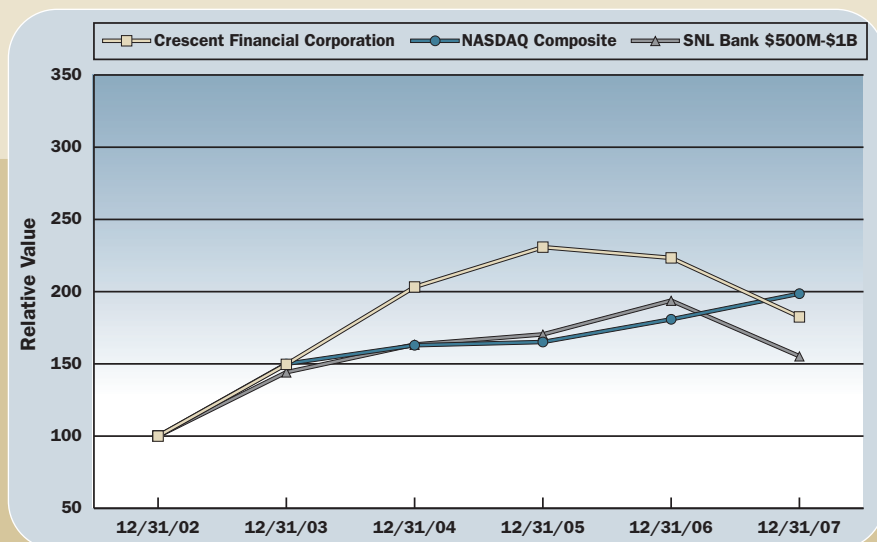
As a true community bank, we believe that we add value to small-and-medium size businesses. We believe in partnerships where our banking professionals bring knowledge and expertise to the entire business relationship. By distinguishing ourselves from our competition, the balance sheet growth has continued to expand quite rapidly. At the end of 2007, assets totaled \$836 million, an increase of \$138 million, or 20 percent above the \$698 million reported at December 31, 2006. Net loans increased \$125 million, or 23 percent, from \$543 million to \$668 million. Sound underwriting guidelines since the bank's inception have allowed the company to maintain outstanding credit quality. While we have seen a small increase in non-performing loans, our net charge offs for the year were only .06 percent of average loans outstanding, well below our peer group average. The deposit growth continues to reflect the Bank's widespread appeal throughout each of the communities we serve. Total deposits increased 12 percent to \$605 million.

C R E S C E N T   S T A T E   B A N K

## CRESCENT FINANCIAL CORPORATION

### Price Performance

December 31, 2002 -  
December 31, 2007





Many of the challenges that the larger banks faced during 2007 and into 2008 have had a ripple effect on community bank stocks. Fortunately for Crescent, we operate in some of the best markets within the Southeast, have a very clean credit portfolio relative to our peers and have no exposure to the sub prime sector within the lending or investment securities portfolios. While we work each day to make the company more valuable than the day before, we do not have the ability to influence the market conditions for community bank stocks. In May 2007, the Board of Directors announced an 11-for-10 stock split effected in the form of a 10 percent stock distribution. This marks the eighth year in which stock distributions have been announced. While there are no guarantees for future stock distributions, we appreciate the trust our shareholders place in us to provide a positive return on their investment.

The 2006 acquisition of Port City Capital Bank in Wilmington provided a foothold in one of the state's most attractive markets. During 2007, the team of employees was successful in implementing the conversion process to merge Port City into Crescent State Bank. The merger afforded the unique opportunity to select the best products and services from each company so that all of the customers would have the most advanced banking products available.

Sincerely,

Michael G. Carlton  
President and Chief Executive Officer

During the year we continued our commitment to further expand our banking franchise. In the fourth quarter, we opened an office in Knightdale, another high growth community. While this office has only been established for a short period, the successes to date indicate that the community has embraced our banking philosophy. Additionally, we relocated our Garner office to a nearby location that offered much greater visibility. The new full service branch has a much improved appearance, accessibility, and more importantly, conveys a renewed commitment to the community.

The economic environment for the financial services industry will no doubt be strained during 2008. Your Board of Directors, management and staff are prepared to meet the challenges that come with each new year and will endeavor to convert these challenges into opportunities. We remain committed to further expansion of the franchise and anticipate the opening of a new branch office in Wilmington and Raleigh during the year. Whether you're a client, employee or shareholder, there has never been a better time to be part of the Crescent team.

We would like to take this opportunity to thank you for the trust you have placed in us by investing in Crescent Financial Corporation and our principal objective is to build outstanding value for our shareholders. On behalf of the entire team of employees and Board of Directors, we thank you for your continued support and loyalty.

Bruce I. Howell  
Chairman of the Board



# A SIMPLE PHILOSOPHY

## CRESCENT STATE BANK MANAGEMENT TEAM



Left to Right- W. Keith Betts, Market President; Bruce W. Elder, Chief Financial Officer; Michael G. Carlton, President and Chief Executive Officer; Ray D. Vaughn, Chief Operating Officer; Thomas E. Holder Jr., Senior Credit Officer

It all started with a simple philosophy. A community bank dedicated to providing the financial services of a larger bank with the hands-on, personalized service that only a local bank can provide. Crescent State Bank has never strayed from this philosophy.

Founded and headquartered in Cary, NC, we pride ourselves on being able to provide fast, local decision-making and quality customer service to each of our customers. Our bankers are hand-picked members of the community with strong banking backgrounds. Through their expertise we are able to help our customers make sound financial decisions.

At Crescent State Bank there is no 1-800 customer service phone number. When you call an office you are greeted by an employee who is willing to assist you with whatever your need may be. As other banks are pushing their customers to automated phone systems, automated tellers, and online services, we are encouraging our customers to stop by for a cup of coffee, a sweet cookie or a salty snack. Sure, we have the high-tech delivery just like the other financial institutions, but we still enjoy seeing the smiling faces of our customers as they stop by the office.

The bottom line is this; At Crescent State Bank we believe that our bank cannot continue to grow and expand without the support of our customers in each of the communities we serve. By building solid, relationship-driven partnerships with our customers we are confident we will establish the unique value of a community bank and experience continued success in the years to come.



# HISTORY OF CRESCENT STATE BANK

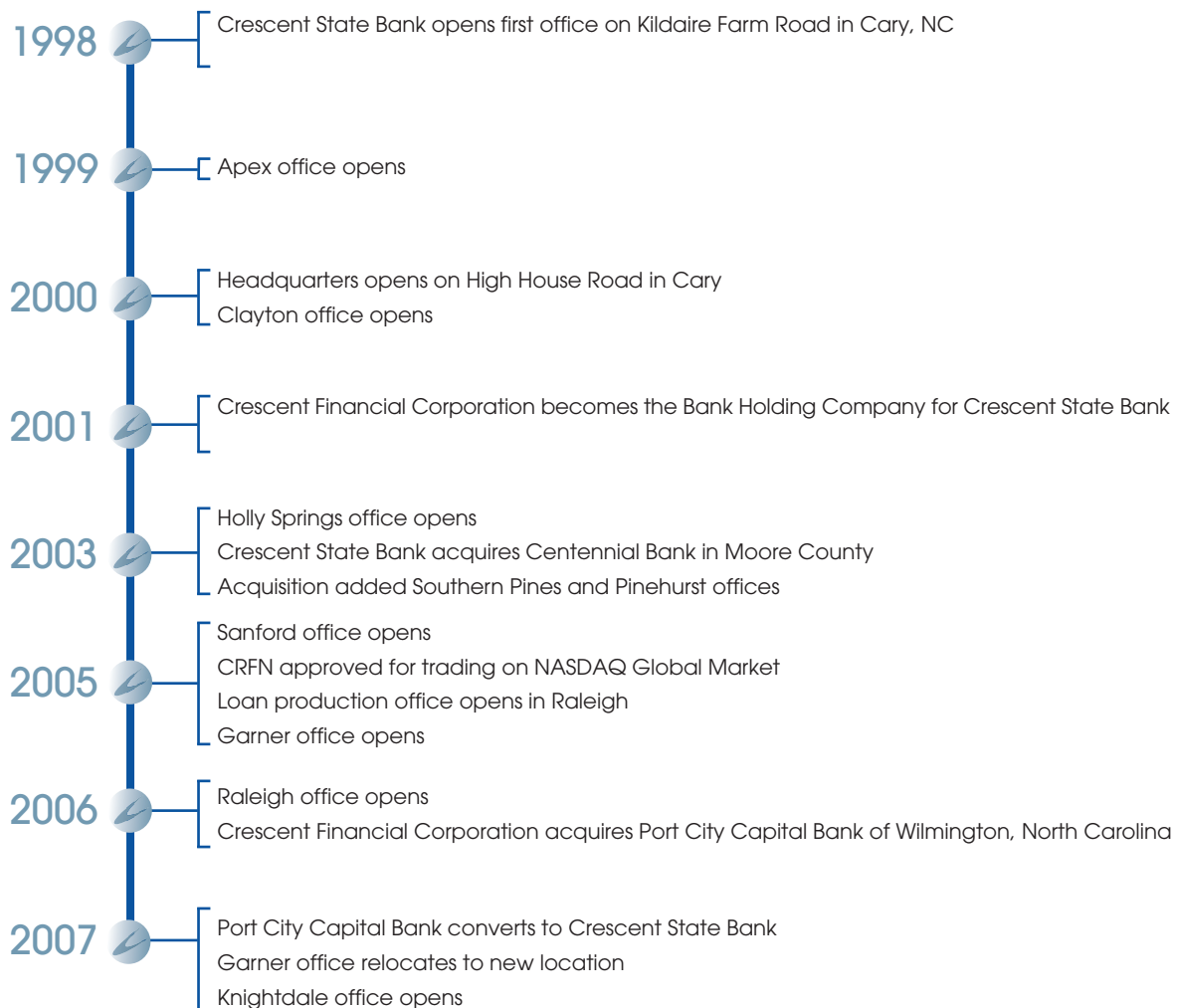
## History

Crescent State Bank opened its doors for business in December of 1998. Since that opening nearly ten years ago, your company has grown to \$835.5 million in assets, 12 offices throughout Central and Eastern North Carolina and more than 130 employees.

As we approach ten years of community banking in North Carolina, we look forward to continued expansion and sound profitable growth.



December 13th, 2007 Crescent State Bank introduced its 12th office to the Knightdale Community.



# BOARD OF DIRECTORS

## CRESCENT FINANCIAL CORPORATION BOARD OF DIRECTORS

**Bruce I. Howell**

Chairman  
President Emeritus, Wake Technical Community College

**Brent D. Barringer**

Attorney and Partner, Barringer Law Firm, LLP

**Michael G. Carlton**

President and CEO, Crescent Financial Corporation

**James A. Lucas, Jr. CPA**

Partner, James A. Lucas and Company, LLP

**Kenneth A. Lucas**

President and CEO, Tarheel Companies of North Carolina, Inc.

**Sheila Hale Ogle**

Owner and CEO, Media Research Planning & Placement, Inc.

**Francis R. Quis, Jr.**

Owner and President, Quis Machinery, Inc.

**Jon S. Ruffy**

Owner and President, Ruffy Custom Built Homes, Inc.

**Stephen K. Zaytoun**

President, Zaytoun & Associates, Inc.

**Jon T. Vincent**

President, JTV Business Consultant and Management

**William H. Cameron**

Principal, Cameron Company

**Charles A. Paul III**

Managing Partner, Harbor Island Partners, LLC



**Left to Right Back Row** - Jon Vincent, Bill Cameron, Ken Lucas  
**Left to Right Middle Row** - Mike Carlton, Frank Quis, Bruce Howell, Brent Barringer, Chad Paul  
**Left to Right Front Row** - Steve Zaytoun, Sheila Ogle, Jim Lucas, Jon Ruffy





# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Stockholders and Board of Directors  
Crescent Financial Corporation  
Cary, North Carolina**

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Crescent Financial Corporation and Subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2007 (not presented herein); and in our report dated March 10, 2008, we expressed an unqualified opinion on those consolidated financial statements. The accompanying condensed consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the information set forth in the condensed consolidated financial statements in relation to the consolidated financial statements from which it has been derived.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of December 31, 2007 and 2006, and the related condensed consolidated statements of operations for each of the years in the three-year period ended December 31, 2007, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

*Dixon Hughes PLLC*

Raleigh, North Carolina  
March 10, 2008

# CONDENSED CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2007 AND 2006

	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 12,047,600	\$ 14,295,053
Interest-earning deposits with banks	211,804	763,057
Federal funds sold	97,000	92,000
Investment securities available for sale	90,758,467	84,722,892
<b>LOANS</b>	675,916,228	549,818,548
Allowance for loan losses	<u>(8,273,000)</u>	<u>(6,945,000)</u>
NET LOANS	667,643,228	542,873,548
Accrued interest receivable	3,761,600	3,045,840
Federal Home Loan Bank stock, at cost	6,790,700	3,582,800
Premises and equipment	8,094,521	5,907,664
Investment in life insurance	9,122,697	5,683,493
Goodwill	30,233,049	30,225,549
Other assets	<u>6,779,390</u>	<u>6,717,324</u>
TOTAL ASSETS	<u>\$835,540,056</u>	<u>\$697,909,220</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Demand	\$ 69,367,630	\$ 70,420,392
Savings	110,516,217	78,379,431
Money market and NOW	80,316,251	97,343,128
Time	<u>345,231,215</u>	<u>295,738,729</u>
TOTAL DEPOSITS	605,431,313	541,881,680
Short-term borrowings	13,755,000	24,451,000
Long-term debt	121,248,000	45,248,000
Accrued expenses and other liabilities	<u>3,446,931</u>	<u>3,294,562</u>
TOTAL LIABILITIES	<u>743,881,244</u>	<u>614,875,242</u>
<b>Stockholders' Equity</b>		
Common stock, \$1 par value, 20,000,000		
shares authorized; 9,404,579 shares and 8,265,136		
shares issued and outstanding at December 31, 2007		
and 2006, respectively	9,404,579	8,265,136
Additional paid-in capital	73,596,427	62,659,201
Retained earnings	8,619,617	12,610,588
Accumulated other comprehensive income (loss)	<u>38,189</u>	<u>(500,947)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>91,658,812</u>	<u>83,033,978</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><b>\$835,540,056</b></u>	<u><b>\$697,909,220</b></u>



# CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>INTEREST AND FEE INCOME</b>			
Loans	\$ 50,022,082	\$ 33,093,487	\$ 20,456,115
Investment securities available for sale	4,453,955	3,302,639	2,323,232
Interest-earning deposits with banks	38,161	23,837	15,298
Federal funds sold	<u>357,878</u>	<u>286,473</u>	<u>31,948</u>
 TOTAL INTEREST AND FEE INCOME	 <u>54,872,076</u>	 <u>36,706,436</u>	 <u>22,826,593</u>
<b>INTEREST EXPENSE</b>			
Money market, NOW and savings deposits	6,860,622	4,216,641	1,401,267
Time deposits	16,568,529	9,989,995	5,483,116
Short-term borrowings	830,302	843,995	474,665
Long-term debt	<u>3,957,782</u>	<u>2,206,229</u>	<u>1,513,180</u>
 TOTAL INTEREST EXPENSE	 <u>28,217,235</u>	 <u>17,256,860</u>	 <u>8,872,228</u>
 NET INTEREST INCOME	 <u>26,654,841</u>	 <u>19,449,576</u>	 <u>13,954,365</u>
 <b>PROVISION FOR LOAN LOSSES</b>	 1,684,219	 990,786	 806,796
 NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	 <u>24,970,622</u>	 <u>18,458,790</u>	 <u>13,147,569</u>
<b>NON-INTEREST INCOME</b>			
Mortgage origination revenue	512,152	642,188	755,300
Fees on deposit accounts	1,360,301	1,287,476	1,044,771
Earnings on life insurance	379,927	228,573	226,156
Gain (loss) on sale of securities	-	-	(16,422)
Gain (loss) on sale or disposal of assets	(65,685)	2,782	(13,000)
Other	<u>434,163</u>	<u>450,873</u>	<u>420,407</u>
 TOTAL NON-INTEREST INCOME	 <u>2,620,858</u>	 <u>2,611,892</u>	 <u>2,417,212</u>
<b>NON-INTEREST EXPENSE</b>			
Salaries and employee benefits	9,875,748	7,307,183	5,904,586
Occupancy and equipment	2,295,675	2,018,079	1,728,366
Data processing	1,055,640	833,923	647,685
Other	<u>4,595,461</u>	<u>3,227,363</u>	<u>2,480,871</u>
 TOTAL NON-INTEREST EXPENSE	 <u>17,822,524</u>	 <u>13,386,548</u>	 <u>10,761,508</u>
 INCOME BEFORE INCOME TAXES	 9,768,956	 7,684,134	 4,803,273
 <b>INCOME TAXES</b>	 <u>3,520,200</u>	 <u>2,780,600</u>	 <u>1,658,900</u>
 NET INCOME	 <u>\$ 6,248,756</u>	 <u>\$ 4,903,534</u>	 <u>\$ 3,144,373</u>
<b>NET INCOME PER COMMON SHARE</b>			
Basic	<u>\$ 0.68</u>	<u>\$ 0.67</u>	<u>\$ 0.58</u>
Diluted	<u>\$ 0.65</u>	<u>\$ 0.64</u>	<u>\$ 0.55</u>
 <b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>			
Basic	<u>9,211,779</u>	<u>7,281,016</u>	<u>5,402,390</u>
Diluted	<u>9,635,694</u>	<u>7,614,807</u>	<u>5,682,447</u>



# OFFICE LOCATIONS AND PHONE NUMBERS

## **Cary Preston Corporate Office & Main Branch**

1005 High House Road  
Cary, NC 27513  
Phone (919) 460-7770

## **Cary Kildaire Farm Office**

1155 Kildaire Farm Road  
Cary, NC 27511  
Phone (919) 467-7400

## **Apex Office**

303 South Salem Street  
Apex, NC 27502  
Phone (919) 303-7500

## **Clayton Office**

315 East Main Street  
Clayton, NC 27520  
Phone (919) 550-2050

## **Garner Office**

945 Vandora Springs Road  
Garner, NC 27529  
Phone (919) 662-7330

## **Holly Springs Office**

700 Holly Springs Road  
Holly Springs, NC 27540  
Phone (919) 552-7677

## **Knightdale Office**

7120 Knightdale Blvd  
Knightdale, NC 27545  
Phone (919) 266-1536

## **Pinehurst Office**

211 Central Park Avenue  
Pinehurst, NC 28374  
Phone (910) 295-9993

## **Raleigh Falls Office**

6408 Falls of Neuse Road  
Raleigh, NC 27615  
Phone (919) 876-4260

## **Raleigh Commercial Lending Office**

4601 Six Forks Road  
Raleigh, NC 27609  
Phone (919) 783-5240

## **Sanford Office**

870 Spring Lane  
Sanford, NC 27330  
Phone (919) 708-7055

## **Southern Pines Office**

185 Morganton Road  
Southern Pines, NC 28387  
Phone (910) 693-3336

## **Wilmington Main Office**

1508 Military Cutoff Road, Suite 100  
Wilmington, NC 28403  
Phone (910) 344-2265

## **Wilmington Independence Office**

2506 Independence Blvd  
Wilmington, NC 28412  
Phone (910) 794-3077

## CRESCENT STATE BANK CITY AND AREA EXECUTIVES



(left to right) Ken Meyer, Holly Springs; Doug Gay, Sanford; Bill Greene, Clayton; Michael Ray, Knightdale; John Franck, Wilmington; Frank Shell, Cary; Rick Merrill, Raleigh; Mike Stellar, Apex; Jim Byrd, Sandhills.



# OUR FINANCIAL SERVICES

## Personal Services

- Online Banking
- Online Bill Pay
- Checking
  - Freedom
  - Club
  - Plus
  - Platinum
  - Gold
- Savings
  - Jr. Statement Savings
  - Personal Savings
  - Crescent Money Maker
  - Certificate of Deposit
  - IRA's
- Mortgages
- Home Equity Lines and Loans
- Personal Loans
- Crescent Line Overdraft
- Credit Cards
- Auto/RV/Boat Loans
- Investing
- Insurance
- Telephone Banking

## CRESCENT STATE BANK LENDING AND DEPOSIT STAFF



## Business Services

- Online Services
  - Cash Management
  - Online Banking
  - Bill Payment
- Business Checking
  - Community
  - Business
  - Small Business
  - Business Interest
  - IOLTA Now
- Escrow and Trust
- Commercial Sweep
- Business Savings
  - Business Money Maker
  - Business Statement Savings
  - Community Statement Savings
- Commercial Loans and Credit Lines
- Commercial Real Estate Loans
- Retirement
- 401k Services
- Deposit Courier Service
- Next Day Cash
- Merchant Services
- Positive Pay
- Automated Clearing House
- Telephone Banking
- Express Deposit

**Row 1 l-r** – Alex Macklin, Lesa Lindsay, Tracy Collier, Bridget Falco, Michael Ray, Sally Neuman, Sarah Martin, Elizabeth Cantino, Paula Bouchard, Betty Crump. **Row 2 l-r** – Rick Hunt, David Thompson, Mike Stellar, Frank Shell, Justin Holladay, Bill Greene, Lewyn Hayes, Jeff Eddins, Julie Clark, Susan Campbell, Glenda Flynn, Lucy Beam. **Row 3 l-r** – John Franck, Ken Meyer, Ken Ashby, Dan Cameron, Lee Riggsbee, Mark Newman, Larry Holt, Matt King, Rick Merrill, Doug Gay, Megan Shannahan.



# REGULATORY AND SECURITIES COUNSEL

## **Gaeta & Eveson, P.A.**

8305 Falls of the Neuse Road, Suite 203  
Raleigh, NC 27615

## **Stock Transfer Agent**

### **First Citizens Bank Shareholder Services-FCC61**

4300 Six Forks Road  
Raleigh, NC 27609  
Phone (877) 685-0576

## **Independent Auditors**

### **Dixon Hughes PLLC**

2501 Blue Ridge Road, Suite 500  
Raleigh, NC 27607

## **Form 10k**

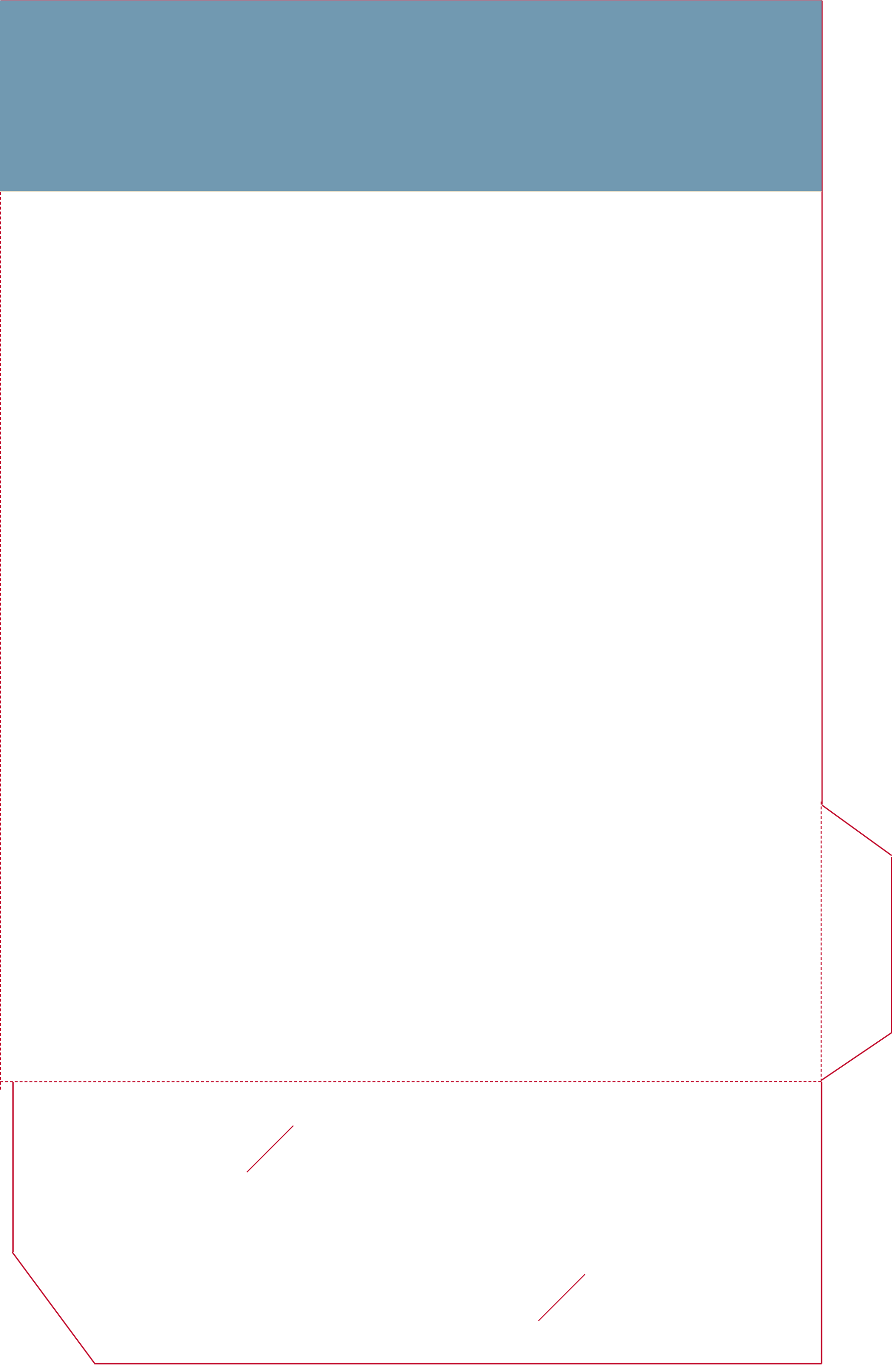
Copies of Crescent Financial Corporation's 2007 Annual Report on Form 10-K as filed with the Securities and Exchange Commission may be obtained by shareholders at no charge by writing: Bruce W. Elder, Vice President and Principal Financial Officer, Crescent Financial Corporation, 206 High House Road, Cary, NC 27513 or downloading it via the investor relations section of our website at [www.crescentstatebank.com](http://www.crescentstatebank.com).

## CRESCENT STATE BANK BRANCH OPERATIONS MANAGERS



**Left to right** – Candy Parker, Knightdale, Bob Hipsher, Apex, Deborah Benson, Clayton, Eric Divine, Cary-Preston, Toni Goodrich, Pinehurst, Brandi Herder, Cary-Kildaire, Debbie McLamb, Branch Operations Officer, Harry Sadler, Southern Pines, Poppy Clark, Wilmington-Independence, Monica Navarro- Raleigh-Falls, Pam Chastain, Sanford, Shannon Ward, Branch Operations Specialist, Kimberly Graham, Wilmington-Main, Lisa Terwilliger, Garner.







Apex

Cary

Clayton

Garner

Holly Springs

Knightdale

Pinehurst

Raleigh

Sanford

Southern Pines

Wilmington

Crescent Financial Corporation  
Corporate Headquarters  
1005 High House Road, Cary NC 27513  
[www.crescentstatebank.com](http://www.crescentstatebank.com)  
Stock Symbol: CRFN

