



NORTH STATE BANK

Experience relationship banking.



REPORT FOR NORTH STATE BANCORP SHAREHOLDERS | SUMMER 2006

MESSAGE FROM THE PRESIDENT

I am pleased to share information about our performance at North State Bank as we continue to make significant progress in becoming a high-performing bank that creates value for our shareholders, as is evident from our second quarter results.

For the quarter ended June 30, 2006, North State Bancorp (the "Company"), the holding company for North State Bank, reported net income of \$751,000 or \$0.24 per diluted share, compared to \$599,000 or \$0.19 per diluted share for second quarter 2005, an increase of 25.4%. For the six months ended as of the same

date, the Company reported net income of \$1.4 million, compared to net income of \$1.0 million as of June 30, 2005, an increase of 40%. Earnings per diluted share for the six months ended June 30 for 2006 and 2005 were, respectively, \$0.46 and \$0.34.

Total deposits for the Company at June 30, 2006, were \$374.8 million and total loans were \$321.0 million, compared to total deposits of \$313.8 million and total loans of \$260.8 million for second quarter 2005, increases of 19.4% and 23.1%, respectively.

Total assets for North State Bancorp as of June 30, 2006, were \$423.2 million, compared to \$350.5 million at June 30, 2005, an increase of 20.7%.

These numbers are a positive reflection of our progress at North State. Other recent developments include:

- Opening a loan production office in Wilmington. The office is located at 1908 Eastwood Road, Suite 321, in Lumina Station. I recently visited with Phil Whittington, our market executive, and his assistant, Sandy Coniglio, and they reported prospects are looking good. We appreciate our advisory board members who have agreed to be part of helping to bring relationship banking to the Wilmington area.
- Opening our full-service Wake Forest office mid-August. Our loan production office there has been open since

September 2003. Expanding into the full-service facility will increase our ability to meet the banking needs of this growing area.

- Announcing our move into downtown Raleigh. Downtown Raleigh has experienced a resurgence, and we anticipate that it will continue to be a hub of activity. We recently announced our agreement to lease 3,700 square feet on the 12th floor of the Capital Club building at the corner of Martin and Salisbury Streets. This area is a vital one to attorneys, one of the key niche markets we serve, and we plan to acquire new banking relationships with many of the firms in that area.
- Netting \$140,000 for Hospice of Wake County at Summer Salute, bringing the three-year total to \$355,000. We presented Hospice with the donation in July and thanked them for all they contribute to our community. Thanks also go to all of you who made this year's event such a success.
- Expanding our staff in two important areas. Adding Bill Wiley as senior vice president and Chief Risk Officer/Internal Auditor, and JoAnn Bratton as assistant vice president and Accounting Manager. Both have extensive experience and will be tremendous assets to our bank.

Our operating results so far this year are impressive, and we believe there is more to look forward to as we continue to plan for the future. It is hard to believe that it was only a short six years ago on June 1 that we first opened for business. Thank you to those who have contributed to the growth of this bank. If you know people who are not banking with us and would enjoy a relationship with a bank like North State, please encourage them to come and talk with us.

Very cordially,

Larry D. Barbour
President and CEO

"Our operating results so far this year are impressive, and we believe there is more to look forward to as we continue to plan for the future."

BUILDING RELATIONSHIPS IN WILMINGTON

the opportunity to move back to Wilmington came up, he jumped at the chance, and so far it's been like a homecoming. Joining him in his efforts is his assistant, Sandy Coniglio. Sandy has been in the banking industry in Wilmington for more than 20 years.

According to Phil, "A lot of the names and faces have remained the same, but the area has also grown a whole lot, traffic is heavier — the market is really strong. It's exciting to be back and to be able to do business as a community banker. It's all about forming and maintaining relationships, and I'm excited to be able to do that here."

Whittington has named five advisory board members so far: Mike Stonestreet, president of Century 21/Sweyer/CAMS, a property management firm; Mike Head, president of CEPCO, also a property management firm; Alan Toll, attorney and partner with Stevens, McGhee, Morgan, Lennon and Toll, LLP; Lionel Yow, attorney and partner with Yow Fox & Mannen; and Dr. Kenneth White of Wilmington Plastic Surgery Specialists. "A good part of our success will come from the support of our advisory board. I am looking forward to working with each of these leaders who have agreed to offer their time, experience, and insight."

We are quietly becoming the place to bank in Wake County . . . and Wilmington.

Wilmington, North Carolina, is a dynamic market.

Recently conducted research showed New Hanover County has 246 attorneys, 491 physicians, 108 dentists, 83 accountants, 225 churches, and 26 property management companies. With a loan production office at Lumina Station near the waterway, and a staff with a combined total of 40 years experience in the Wilmington market, we are poised to experience tremendous growth.

"I just can't stop smiling," laughed Phillip "Phil" T. Whittington, senior vice president and Wilmington market executive. "Coming back to this area and knowing the potential for what we can accomplish is amazing."

A long-time resident of Wilmington, Phil spent more than 14 years there while working in the banking industry as a personal banker, branch manager, and commercial lender. He has been in Raleigh with North State Bank for the past three years, but when

A NEW LOOK

We have a new logo! After much thought, we decided to recreate our logo in order to have it reflect our strong feelings toward the state we serve. We kept some of the same elements from our first logo but accomplished our goal by adding a touch of longleaf pine, the state tree of North Carolina. We unveiled the new logo at our annual meeting to much applause, and since then have been transitioning all of our stationery and marketing materials to reflect the new look.

Our logo redesign will soon be followed by an update and redesign of our website: www.northstatebank.com. Along with the update, we will add new, convenient features for our customers and website visitors. Plans call for the new site to be up and running by this fall. We'll include more about it in the next newsletter.



GETTING TO KNOW...

WILLIAM "BILL" H. WILEY

"Risk management is everyone's responsibility." That is the belief of Bill Wiley, North State's senior vice president and Chief Risk Officer/Internal Auditor. "I really want to work with all the employees so they see that risk management is not just the responsibility of the chief risk officer. From a teller who makes a conscious effort to lock up the teller drawer before leaving the window to the CFO who buys investments each week — we *all* deal with risks every day, and we need to think proactively."

Bill is a Certified Bank Auditor with more than 20 years of experience in internal bank auditing. He is enjoying the challenges of his role. According to Bill, "There are three distinct, but related, aspects to my position. First is risk management, which includes helping the bank with strategic planning and advising on forward-thinking practices as it relates to new or changing risks we face. Second is the auditing component, where I evaluate our key processes to ensure our internal controls are effective—what works and what needs improvement. Third is the regulatory component, where my goal is to help ensure that we comply with applicable laws and regulations and respond appropriately when they change. Each area is important to our success, and they correlate nicely so that I am often working in more than one aspect at any particular moment. I enjoy what I am doing and look forward to helping the bank achieve its objectives through sound, profitable growth."

Born in Georgia, Bill grew up in a military family, moving all around before settling in Cary, NC as a senior in high school. He remained in the area and graduated from North Carolina State University. He has served on the Bedford Family YMCA Board of Directors, the Triangle Chapter of the Institute of Internal Auditors, and the United Way. He and his wife, Ruth, reside in Raleigh. They have three grown children and two grandchildren.

SUMMARY BALANCE SHEET

As of June 30, 2006

(in thousands)

ASSETS

Cash, due from banks	\$ 14,824
Interest earning deposits with banks	1,092
Federal funds sold	37,111
Investment securities available for sale at fair value	42,061
Loans less allowance (\$4,162)	316,833
Other assets	11,245
Total assets	\$ 423,166

LIABILITIES AND SHAREHOLDERS' EQUITY

Demand deposits	\$ 117,429
Interest-bearing deposits	257,379
Total deposits	374,808
Other borrowings	22,237
Other liabilities	3,004
Total liabilities	\$ 400,049

SHAREHOLDERS' EQUITY

Total shareholders' equity	\$ 23,117
Total liabilities and shareholders' equity	\$ 423,166

SUMMARY STATEMENT OF INCOME AND EXPENSE

For the quarter and six months ended June 30, 2006

(in thousands except for per share data)

Interest income	\$ 6,353	\$ 12,218
Interest expense	2,701	5,078
Net interest income	3,652	7,140
Provision for loan losses	223	376
Net interest income after provision for loan losses	3,429	6,764
Noninterest income	295	580
Noninterest expenses	2,527	5,049
Net income before income taxes	1,197	2,295
Income tax expense	446	853
Net income	\$ 751	\$ 1,442
Earnings per diluted share	\$ 0.24	\$ 0.46

SIGNIFICANT RATIOS

For the quarter ended June 30, 2006

Return on average assets	0.78%
Return on average equity	13.33%
Efficiency ratio	64.02%
Nonperforming loans	\$14,000
Ratio of allowance for loan losses to nonperforming and nonaccrual loans	297.3x
Allowance for loan losses to loans	1.30%

The information as of and for the quarter and six months ended June 30, 2006, as presented is unaudited. This newsletter contains forward-looking statements. The actual results might differ materially from those projected in the forward-looking statements for various reasons, including our ability to manage growth, our limited operating history, substantial changes in financial markets, regulatory changes, changes in interest rates, loss of deposits and loan demand to other savings and financial institutions, and changes in real estate values and the real estate market. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the Company's SEC filings, including its periodic reports under the Securities Exchange Act of 1934, as amended, copies of which are available upon request from the Company.



NORTH STATE BANK

P.O. Box 18367
Raleigh, NC 27619

PRSR STD
US Postage
PAID
Raleigh, NC
Permit No. 2214

Please call Kirk Whorf at 919-645-2707 or email him at kwhorf@northstatebank.com to update your mailing address.



SEE THE VIDEO ON OUR WEBSITE!

At this year's annual meeting we premiered our *Leading the Way* video. The video focuses on the aspects of business we do best, stated from the perspective of our customers. Hear first-hand how we are leading the way in relationship banking. Visit our website at www.northstatebank.com and click on the "Watch our video" link on the left.

North State Bank / Raleigh 919-787-9696



www.northstatebank.com

NSB AND NCSU

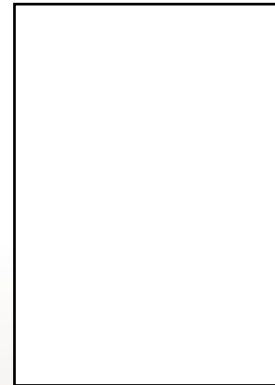
This fall, we are taking advantage of opportunities to support North Carolina State University, Raleigh's hometown university, while spreading the word about North State Bank.

The E. Carroll Joyner Visitor Center and Advancement Services Building (on campus facing Western Boulevard) is slated to open this September. To benefit NC State University and to honor Carroll Joyner, a long-time North State Bank customer and supporter, we're proud to donate funds to purchase furnishings for the Visitor Center's boardroom. For supporting the Visitor Center, North State Bank will be recognized on a plaque to be displayed in the rotunda of the building.

You can also see some familiar faces if you purchase a football program at Wolfpack games this fall. Look for our "North State Bank Backs the Pack" ad featuring bank employees who are alumni.

Go Pack!

In Memory of Our Friend



Kit Boney
1936-2006

On July 28, North State Bank lost a dear friend. Katherine "Kit" Boney will always be remembered for her love for others and her leadership in this community. Kit was a strong advocate for Hospice of Wake County and played a major part in the success of North State Bank's Summer Salute for Hospice of Wake County. Her life was an inspiration to many and her memory will live on here at North State Bank.