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North State Bancorp (NSBC- OTC Bulletin Board)

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Price:	\$12.25	EPS *	2006A:	\$0.46	P/E	2006A:	26.6 x
52 Wk. Range:	\$9.00 - \$21.75	(FY: DEC)	2007A:	\$ 0.42		2007A:	29.2 x
Div/Div Yld:	\$0.00 / 0.0%		2008E:	\$ 0.49		2008E:	25.0 x
Shrs/Mkt Cap:	7.0 mm / \$85 mm	Book Value:		\$ 4.53	Price/Book Value:		2.70 x

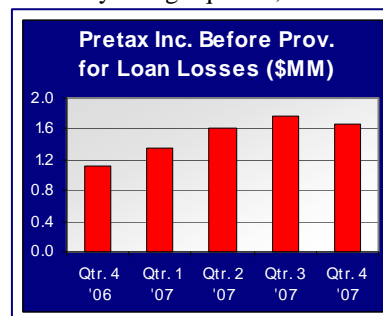
* Earnings per share are diluted. All per share figures have been adjusted for the 50% stock split paid on July 12, 2007.

Background

North State Bancorp ("the Company") is a single bank holding company headquartered in Raleigh, North Carolina with approximately \$548 million in assets as of December 31, 2007. Its bank subsidiary is North State Bank, a commercial bank that began operations on June 1, 2000. North State Bancorp serves Raleigh, Garner and Wake Forest, North Carolina through four full-service offices in Raleigh, one office (each) in Garner, the Wake Forest area and a newly opened full-service office in Wilmington, NC. The Company focuses on serving the total banking needs of professional firms, professionals, property management companies, churches and individuals who highly value a mutually beneficial banking relationship in the Raleigh, Garner and greater Wake County (and recently, New Hanover County) market areas. Loan products include business products, such as commercial lines of credit, loans for equipment, owner occupied commercial mortgages and other commercial real estate loans and personal lines of credit, such as home equity loans, first and second mortgages and auto loans. Product deposit services include demand deposits, money market accounts, consumer and business time deposits and sweep accounts. North State Bancorp also offers debit cards, ATM access, home and business banking via the Internet and courier services for businesses. Recent service enhancements include same day banking (i.e., transactions are processed on the same day they occur) and remote capture capabilities. Insiders own approximately 51% of the outstanding stock.

Pretax Earnings Before the Provision for Loan Losses Increased 49%

Fourth quarter results were much better than implied by bottom line results. While North State Bancorp reported lower fourth quarter of 2007 earnings relative to the year-ago figures, all of that shortfall was due to a large swing in the provision for loan losses. In the year-ago quarter, there was a reversal of the provision (i.e., a negative provision) of \$392,000, whereas the provision for loan losses in the fourth quarter of 2007 was a higher than normal \$662,000. Most of the increase in this provision did not relate to higher delinquencies (Although NPAs did increase) but instead was due to a rapid acceleration in loan growth in the fourth quarter, which is discussed further on the next page. The main point, though, is that earnings would have been up significantly had it not been for the swing in the provision. To help quantify the improvement, we would note that pretax income before the provision in 2007's fourth quarter increased 49% from the comparable figure in the fourth quarter of 2006.



4TH QUARTER HIGHLIGHTS:

EPS: \$0.08 vs. \$0.13

**NET INCOME DECLINED 36%,
THOUGH PRETAX INCOME
BEFORE THE PROVISION GREW
49%**

**NET INTEREST INCOME GREW
18%**

**NONINTEREST INCOME
DECREASED 14%**

Margins were relatively stable in 2007's fourth quarter relative to the year-ago figures, while average earning assets increased 15% over this period, allowing for a solid increase in net interest

income. Specifically, net interest income grew 18% to \$4,558,000 for the fourth quarter of 2007, from \$3,849,000 in the year-ago quarter. Noninterest income declined 14% to \$275,000 for 2007's fourth quarter from \$321,000 in the year-ago quarter. One of the more impressive aspects of the quarter was expense containment, as noninterest expense in the fourth quarter of 2007 increased a meager 4% over this year-ago figure. Further, noninterest expense improved as a percentage of average assets by 27 basis points to 2.45% (annualized) for the fourth quarter of 2007 from 2.72% in the year-ago quarter.

YEAR 2007 HIGHLIGHTS:

EPS: \$0.42 vs. \$0.46

EARNINGS LIKEWISE AFFECTED BY HIGHER PROVISION; FUNDAMENTALS WERE POSITIVE

For the twelve months ended December 31, 2007, North State earned \$3,095,000, or \$0.42 per diluted share, which was down 5% (or 9% on an EPS basis) from the year ended December 31, 2006. As was the case with the quarterly results, the decline in earnings was principally related to a significant increase in the provision for loan losses, which was \$1,339,000 in 2007, versus \$69,000 in 2006. Strong loan growth often penalizes short-term results in this way, although longer term earnings will obviously benefit from the higher level of average earning assets.

Trust Preferred Issuance will Support Further Growth and Expansion

On November 28, 2007, North State Bancorp raised \$5million through the issuance of trust preferred securities in a private placement offering. The proceeds of the issuance are to be used to bolster the Company's capital position and to support the Bank's ongoing expansion. As we discussed previously, balance sheet growth has been exceptional, and accelerated at the end of the year. As can be seen from the table below, annualized sequential quarter balance sheet growth was around 10% to 20% for much of 2007, and during the third quarter of 2007, assets and deposits actually contracted. From the third quarter of 2007 to the fourth quarter of 2007, total assets grew 48%, loans increased 55% and deposits were up 21% on an annualized basis. Relative to year-end 2006, total assets at December 31, 2007 grew 20% to \$548 million, net loans grew 36% to \$464 million and deposits increased 14% to \$457 million. Shareholders' equity totaled \$32 million, or 5.76% of total assets, at December 31, 2007.

\$5 MILLION IN TRUST PREFERRED SECURITIES ISSUED ON NOVEMBER 28, 2007

SEQUENTIAL GROWTH IN THE BALANCE SHEET ACCELERATED IN THE FOURTH QUARTER OF 2007

FROM DECEMBER 31, 2006 TO DECEMBER 31, 2007:

**ASSETS GREW 20%
NET LOANS WERE UP 36%
DEPOSITS INCREASED 14%**

BALANCE SHEET GROWTH FROM THE PREVIOUS SEQUENTIAL QUARTER (ANNUALIZED %)					
	Q4 '06	Q1 '07	Q2 '07	Q3 '07	Q4 '07
Total Assets	10.1	21.2	20.9	-11.6	47.6
Loans	22.8	22.8	23.5	26.6	54.6
Deposits	5.3	24.0	24.7	-16.1	21.2

Nonperforming Assets Increased at the End of 2007

Nonperforming assets increased at the end of 2007, primarily due to higher nonaccrual loans. NPAs (including loans more than 90 days past due but still accruing) totaled \$3,595,000, or 0.66% of total assets, at December 31, 2007, compared to \$397,000, or 0.09% of total assets, at the year-ago date. NPAs consisted of \$3,103,000 in nonaccrual loans, and \$492,000 in loans more than 90 days delinquent. The allowance for loan losses increased 26% to \$5,020,000, or 1.40 times NPAs, from \$3,983,000 at the year-ago date. As a percentage of loans held for investment, the allowance was 1.07% at December 31, 2007, which was below the NC peer group median of 1.26%.

NPAS / ASSETS: 0.66%

RESERVES/NPAS: 1.40 X

RESERVES / LOANS HFI: 1.07%

Projections

We are lowering our earnings estimates for North State Bancorp to \$3.6 million, or \$0.49 per diluted share, for the year 2008, from \$4.4 million, or \$0.62 per diluted share, projected previously. We will introduce our 2009 projections in one of our next reports. For more information, including current press releases and stock quotes, please visit either North State Bancorp's web site at www.northstatebank.com, or Equity Research Services' web site at www.equityresearch.com.

EPS PROJECTIONS

**2006A: \$ 0.46
2007A: \$ 0.42
2008E: \$ 0.49**

ADDITIONAL INFORMATION UPON REQUEST

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