

AVAILABLE ON THE WEB AT www.equityresearch.com

North State Bancorp (NSBC- OTC Bulletin Board)

5003 Falls of Neuse Road

Raleigh
North Carolina
27609

919-876-8868 ph
919-876-8839 fax

www.equityresearch.com

John A. Howard, CFA
October 8, 2007

Price:	\$17.25	EPS *	2006A:	\$0.46	P/E	2006A:	37.5 x
52 Wk. Range:	\$14.67 - 21.75	(FY: DEC)	2007E:	\$ 0.49		2007E:	35.2 x
Div/Div Yld:	\$0.00 / 0.0%		2008E:	\$ 0.62		2008E:	27.8 x
Shrs/Mkt Cap:	7.0 mm / \$120 mm	Book Value:		\$ 4.35	Price/Book Value:		3.97 x

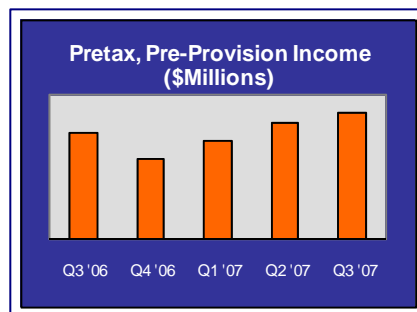
* Earnings per share are diluted. All per share figures have been adjusted for the 50% stock split paid on July 12, 2007.

Background

North State Bancorp ("the Company") is a single bank holding company headquartered in Raleigh, North Carolina with approximately \$490 million in assets as of September 30, 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 three full-service offices in Raleigh, one office (each) in Garner and the Wake Forest area and a loan production office in Wilmington, NC. (The Bank plans to open an office in downtown Raleigh and convert the Wilmington loan production office to a full-service office in the fourth quarter of 2007.) 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.

Earnings Growth Was Better Than It Appeared Given Higher Provision

North State Bancorp reported solid results for the third quarter of 2007. Earnings per share were a penny short of projections, due mainly to a higher than projected provision and higher expenses from several key hires at the beginning of 2007. Net income was \$931,000, or \$0.13 per diluted share, for the third quarter of 2007, up 7% (8% on an EPS basis) from \$870,000, or \$0.12 per diluted share, in the year-ago quarter. Relative to the year-ago figures, the improvement in profitability was actually better than implied by the bottom line figures, as the provision for loan losses tripled relative to the year-ago figure. As can be seen in the adjacent chart, pretax earnings before the provision have been increasing at a rapid level for the past three quarters.



3RD QUARTER HIGHLIGHTS:

EPS: \$0.13 vs. \$0.12

PRETAX, PRE-PROVISION
INCOME WAS UP 20%

NET INTEREST INCOME WAS UP
17%

AVERAGE EARNING ASSET
GROWTH WAS STRONG

The earnings increase was primarily due to strong growth of 17% in net interest income to \$4,482,000 in 2007's third quarter, from \$3,836,000 in the year-ago quarter. Margins were generally flat, with net interest income growth mainly attributable to solid average earning asset growth, which was 18% compared to the year-ago quarter. The average earning asset growth was a reflection of excellent loan growth over the past year, as is discussed in more detail later in this report.

NONINTEREST INCOME WAS UP 7%

NONINTEREST EXPENSE GROWTH COULD ACCELERATE AS NEW OFFICES OPEN

YEAR-TO-DATE HIGHLIGHTS:

NET INCOME WAS UP 7%

EPS: \$0.34 vs. \$0.33

NET INTEREST INCOME GREW 16%

LOAN GROWTH HAS BEEN PARTICULARLY STRONG OVER THE PAST YEAR

NSBC SHARES HAVE A FIVE-YEAR APPRECIATION OF 489%, THE HIGHEST OF ALL NC BANKS, COMPARED TO 115% FOR THE PEER GROUP MEDIAN

THE THREE-YEAR PRICE CHANGE ALSO WAS FAR BETTER THAN THE PEER MEDIAN

NPAS / ASSETS: 0.15%

RESERVES / LOANS HFI: 1.06%

EPS PROJECTIONS

2006A: \$ 0.46
2007E: \$ 0.49
2008E: \$ 0.62

Noninterest income grew 7% to \$293,000 in the third quarter of 2007 from \$273,000 in the year-ago quarter, though it was down slightly compared to the previous quarter. Noninterest expense was up 14% compared to the year-ago quarter. We expect noninterest expense growth to remain in the double digits for the next year or so, as North State opens new offices in Wilmington and Raleigh in the next few months. As mentioned earlier, the provision for loan losses tripled to \$255,000 for the third quarter of 2007, from \$85,000 in the year-ago quarter. Excluding the provision, pretax income increased 20% from the year-ago quarter.

North State earned \$2,485,000, or \$0.34 per diluted share, for the nine months ended September 30, 2007, up 7% (3% on an EPS basis) from \$2,312,000, or \$0.33 per diluted share, for the year-ago period. The provision was up a good amount year-to-date compared to the year-ago period (47%); pretax income before the provision grew 14% over this period. Net interest income grew 16% year-to-date versus the year-ago period, noninterest income declined about 1% and noninterest expense grew 15% over this period.

Net Loan Growth was Excellent and Accelerated in the Third Quarter

The highlight of the balance sheet growth has been in net loans. Net loans specifically grew 26% to \$409 million at September 30, 2007, from \$323 million at the year-ago date. Annualized sequential growth from the second quarter of 2007 to the third quarter of 2007 was 27%, the highest for the past seven quarters. Deposit and overall asset growth over the past year have been more modest, increasing 9% and 10%, respectively, from September 30, 2006 to September 30, 2007.

North State Bancorp's Shares have the Best Five-Year Price Appreciation of all NC Banks

The stock performance of North State Bancorp's shares has been excellent, especially on a long term basis. Over the past five years, the shares are up nearly 500% (489% specifically), which was the highest of all 49 publicly traded banks in North Carolina. In contrast, the median price appreciation of the Company's peer group was 115%. The shares' three-year performance is also strong, with appreciation of 220% over this period, compared to 32% for the NC peer group median (which includes NC community with assets between \$100 million and \$1 billion).



Overall Asset Quality Remains Exceptional

Nonperforming assets inched up a bit at the end of the third quarter of 2007, although overall asset quality remains among the best of NC banks. NPAs were \$721,000, or 0.15% of total assets, as of September 30, 2007, versus no NPAs at the year-ago date and NPAs of \$667,000, or 0.13% of total assets, at June 30, 2007. The allowance for loan losses totaled \$4,358,000, or 6.04 times NPAs, at September 30, 2007, compared to \$4,247,000 at the year-ago date. The allowance for loan losses as a percentage of loans held for investment was 1.06% at September 30, 2007, which was down from 1.30% at September 30, 2006.

Projections

We are projecting earnings of \$3.5 million, or \$0.49 per diluted share, for 2007, and \$4.4 million, or \$0.62 per diluted share, for 2008. Per share figures have been adjusted for the 50% stock split paid on July 12, 2007. 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.

ADDITIONAL INFORMATION UPON REQUEST

Copyright © 2007 Equity Research Services, Inc. All rights reserved. This material is for your information only and is not a solicitation, or an offer, to buy or sell securities mentioned. Equity Research Services, Inc. ("ERS") is a firm involved in financial advisory, equity research, valuation and investor relations services. All reports generated by ERS for the purpose of investor relations are designated "Investor Relations Report," and ERS receives a fee (from the company whose securities are described) for producing such reports. ERS may also act in a financial advisory role to the company. The information contained herein has been obtained from sources we believe reliable but in no way is guaranteed by us. Furthermore, this report contains forward-looking statements and projections that are based on certain assumptions and expectations. Accordingly, actual results may differ considerably from those reflected in this report due to such factors as those which are listed in the Company's SEC filings. Any non-factual information in the report is our opinion and is subject to change without notice.