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## North State Bancorp (NSBC- OTC Bulletin Board)

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**April 18, 2008**

<b>Price:</b>	\$10.75	<b>EPS *</b>	<b>2007A:</b>	\$0.42	<b>P/E</b>	<b>2007A:</b>	25.6 x
<b>52 Wk. Range:</b>	\$9.00 - \$21.75	(FY: DEC)	<b>2008E:</b>	\$ 0.44		<b>2008E:</b>	24.4 x
<b>Div/Div Yld:</b>	\$0.00 / 0.0%		<b>2009E:</b>	\$ 0.56		<b>2009E:</b>	19.2 x
<b>Shrs/Mkt Cap:</b>	7.2 mm / \$77 mm	<b>Book Value:</b>		\$ 4.68	<b>Price/Book Value:</b>		2.30 x

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

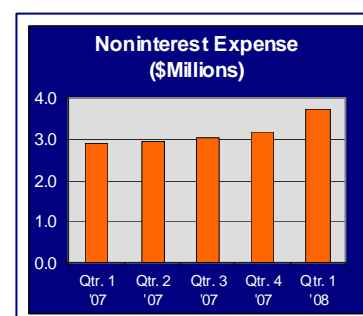
### Background

North State Bancorp ("the Company") is a single bank holding company headquartered in Raleigh, North Carolina with approximately \$571 million in assets as of March 31, 2008. 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, greater Wake County and 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), telephone banking, lockbox and remote deposit capture capabilities. Insiders own approximately 51% of the outstanding stock.

### First Quarter Results Reflected Investment in New Branches

Although earnings declined modestly in the first quarter of 2008 relative to the year-ago quarter, the shortfall was largely due to the start-up expenses of new offices, a higher provision (in accordance with excellent loan growth in the quarter) and ongoing margin pressures. While the margin pressures are likely to persist for several more quarters, we do expect the effect of the new office costs to be quickly absorbed as the balance sheet (and earning assets) continues to expand. In terms of specific results, the Company reported earnings of \$629,000, or \$0.09 per diluted share, for the first quarter of 2008, compared to \$707,000, or \$0.10 per diluted share, for the year-ago quarter.

Total revenues had excellent growth, reflecting both solid increases in net interest income and noninterest income. The growth in net interest income (it increased 21% to \$4,843,000 in the first quarter of 2008 from \$4,004,000 in the year-ago quarter) was particularly gratifying given the compression in margins, and was due to the strength of the growth in earning assets, something that has characterized North State Bank from its inception eight years ago. Earnings also benefitted from higher noninterest income, which grew 21% to \$303,000 for 2008's first quarter from \$250,000 in the year-ago quarter. Offsetting the strength of revenues was a jump in noninterest expense, as can be seen from the adjacent chart. Much of this increase was due to the opening of two new offices, one in downtown Raleigh and the other in



**ASSETS: \$571 MM**

**HQ: RALEIGH, NC**

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#### 1<sup>ST</sup> QUARTER HIGHLIGHTS:

**THOUGH EARNINGS DECLINED,  
PRETAX INCOME BEFORE THE  
PROVISION INCREASED 5%**

**EPS: \$0.09 vs. \$0.10**

**VOLUME GROWTH MORE THAN  
OFFSET DECLINES IN THE  
MARGIN**

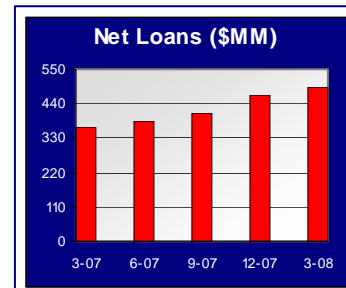
**NONINTEREST INCOME  
INCREASED 21%**

**NONINTEREST EXPENSE  
GROWTH REFLECTED THE  
OPENING OF TWO NEW OFFICES**

Wilmington, NC. One other factor contributing to the modest reduction in earnings was a more than doubling of the provision for loan losses to \$426,000 in 2008's first quarter from \$211,000 in the year-ago quarter, which was related to loan growth as opposed to a deterioration in loan quality. Pretax income before the provision increased 5%.

### Loan Growth Remains Outstanding

Though the slowdown in the housing market has led to a significant slowdown in balance sheet growth at many community banks, North State Bancorp's balance sheet growth has remained quite strong. Net loan growth was especially impressive over the past year, as net loans increased 37% to \$495 million from March 31, 2007 to March 31, 2008. Over the same period, total assets grew 19% to \$571 million, while total deposits increased 16% to \$493 million. We would also note that the Company has made major strides growing core deposits, with February 2008 being the single largest month of core deposit growth in North State's history. Some of North State's deposit growth has come from the effective targeting of niches, such as homeowners' associations and property management companies. A good example is Community Association Account balances, which exceeded \$100 million in the first quarter of 2008. The Company's involvement with the Community Association essentially involves the Bank providing the banking needs of property management companies in its market area, and is a successful niche North State has found that generates low-cost/no-costs deposits. The Company serves 32 Community Associations in North Carolina from the mountains to the coast.



### Long-Term Stock Performance is Excellent

Although shares of North State Bank have been under pressure on a short-term basis, much like virtually all community banks, we believe it is instructive to remember the Company's long-term record of building shareholder value. On a three-year basis, North State's shares had total appreciation of 58%, which compared to a negative 0.2% for the NC peer group median. On a five-year basis, the shares had a price change of 226%, versus a peer group median of only 42%. On a three-year basis, the price change was the second best and on a five-year basis it was the highest of all the publicly traded peers, which included 32 NC banks with assets between \$100 million and \$1 billion.

	TOTAL RETURN (%)	
	North State Bancorp	NC Peer Group Median
Three-Year	57.9	-0.2
Five-Year	226.4	42.0

### Nonperforming Assets Improved from December 31, 2007

Though nonperforming assets were higher than at the year-ago date, they did improve from the end of 2007. NPAs (including loans more than 90 days past due but still accruing) were \$3,029,000, or 0.53% of total assets, at March 31, 2008, up from \$586,000 (0.12% of total assets) at the year-ago date but down 16% from \$3,595,000 (0.66% of total assets) at December 31, 2007. The allowance for loan losses grew 40% to \$5,444,000, or 1.80 times NPAs, at March 31, 2008, from \$3,894,000 at the year-ago date. As a percentage of loans held for investment, the allowance was 1.09% at March 31, 2008.

### Projections

Based on the ongoing margin pressures and the weakness in the economy, we are lowering our 2008 projections to \$3.2 million, or \$0.44 per diluted share. For 2009, we estimate the Company will earn \$4.1 million, or \$0.56 per diluted share. For more information, including current press releases and stock quotes, please visit either North State Bancorp's web site at [www.northstatebank.com](http://www.northstatebank.com), or Equity Research Services' web site at [www.equityresearch.com](http://www.equityresearch.com).

NET LOANS GREW 37% OVER THE PAST YEAR, A RECORD LEVEL OF GROWTH

FROM MARCH 31, 2007 TO MARCH 31, 2008:

ASSETS GREW 19%

DEPOSITS INCREASED 16%

CORE DEPOSIT GROWTH WAS STRONG

COMMUNITY ASSOCIATION BALANCES EXCEEDED \$100 MILLION

ON A THREE-YEAR BASIS, THE SHARES HAD THE SECOND BEST PRICE CHANGE OF THE NC PEER GROUP

NSBC SHARES HAD THE BEST PRICE CHANGE OF THE PEER GROUP ON A FIVE-YEAR BASIS

NPAS DECREASED 16% FROM 12/31/07

NPAS/ASSETS: 0.53%

RESERVES/NPAS: 1.80 X

RESERVES / LOANS HFI: 1.09%

EPS PROJECTIONS

2007A: \$ 0.42  
2008E: \$ 0.44  
2009E: \$ 0.56

ADDITIONAL INFORMATION UPON REQUEST

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