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North State Bancorp (NSBC- OTC Bulletin Board)

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Price:	\$10.00	EPS *	2007A:	\$0.42	P/E	2007A:	23.8 x
52 Wk. Range:	\$9.00 - \$20.00	(FY: DEC)	2008E:	\$ 0.40		2008E:	25.0 x
Div/Div Yld:	\$0.00 / 0.0%		2009E:	\$ 0.52		2009E:	19.2 x
Shrs/Mkt Cap:	7.2 mm / \$72 mm	Book Value:		\$ 4.71	Price/Book Value:		2.12 x

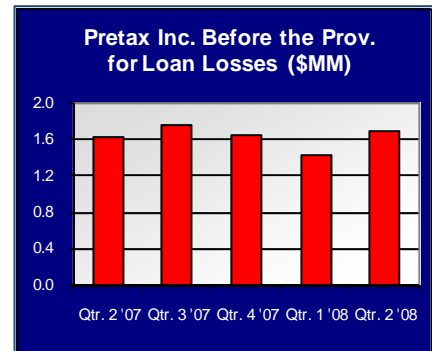
* Earnings per share are diluted. All per share figures have been adjusted for the 50% stock split paid on July 12, 2007.

Background

North State Bancorp ("the Company") is a single bank holding company headquartered in Raleigh, North Carolina with approximately \$632 million in assets as of June 30, 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. It also opened a loan production office in Morehead in May 2008. 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.

Second Quarter Results Were Excellent

North State Bancorp reported excellent second quarter results. Although the reported earnings were below the year-ago figures, essentially all of that shortfall can be attributed to the required increase in the provision for loan losses that resulted from the Bank's unusually strong loan growth. (The provision for loan losses more than tripled to \$671,000 in 2008's second quarter from \$211,000 in the year-ago quarter.) In fact, as can be seen from the adjacent chart, pretax income before the provision for loan losses increased from the year-ago quarter and improved from the first quarter of 2008. While it was true that operating expenses were higher than we had projected, much of this was due to the expansion related costs from the recently opened full service offices in downtown Raleigh and Wilmington, as well as from a new loan production office that opened at Morehead City in June, all of which contributed to the loan growth.



2ND QUARTER HIGHLIGHTS:

RESULTS WERE BETTER THAN IMPLIED BY THE BOTTOM LINE

THE PROVISION FOR LOAN LOSSES TRIPLED FROM THE YEAR-AGO QUARTER DUE TO STRONG LOAN GROWTH

EPS: \$0.09 vs. \$0.12

STRONG AVERAGE EARNING ASSET GROWTH MORE THAN OFFSET A DECLINE IN MARGINS

NET INTEREST INCOME GREW 22%

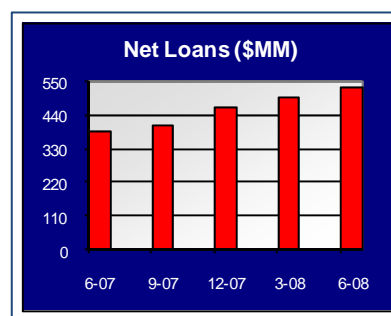
In terms of reported results, net income was \$643,000, or \$0.09 per diluted share, for the second quarter of 2008, versus \$846,000, or \$0.12 per diluted share, in the year-ago quarter. Margins remained under pressure (3.79% versus 3.88%), though strong average earning asset growth (+25%)

more than offset the negative impact, resulting in a 22% increase in net interest income, which is one of the highest levels of net interest income growth of the banks we follow. Noninterest income increased 6% to \$322,000 in 2008's second quarter (excluding modest securities losses) from \$303,000 in the year-ago quarter, while noninterest expense increased 30% to \$3,822,000 for the second quarter of 2008, from \$2,937,000 in the year-ago quarter.

Results for the first half of 2008 were likewise impacted by a much higher provision for loan losses, which more than doubled to \$1,097,000 for the first six months of 2008 from \$422,000 in the year-ago period. Net income totaled \$1,272,000, or \$0.17 per diluted share, for the first half of 2008, versus \$1,554,000, or \$0.21 per diluted share, in the year-ago period. Net interest income grew 22% over this period, while noninterest income was up 13%. Noninterest expense grew 29% compared to the first half of 2007.

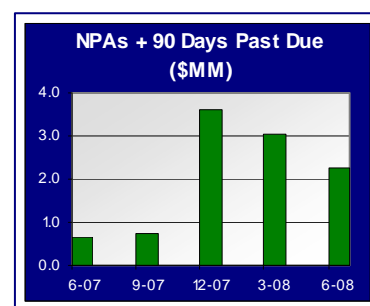
Loan Growth Remains Outstanding

Two of the major challenges in financial services industry have been deteriorating asset quality and slowing loan growth. The former has serious implications for an institution's financial health, while the latter reflects one of the primary engines of long-term earnings growth: increases in average earning assets. North State has been doing exceptionally well in both areas. As is discussed in more detail below, asset quality remains quite good, and loan growth, as can be seen in the adjacent chart, has been consistent and strong. For example, from June 30, 2007 to June 30, 2008, net loans increased 38%, and grew 28% on an annualized basis from March 31, 2008 to June 30, 2008. At the same time, North State has done an impressive job on the funding side of its balance sheet, as deposits increased 17% over the past year (30% annualized from the end of the first quarter of 2008 to the end of the second quarter of 2008). In order to support this growth, North State recently issued \$11 million in subordinated debentures, which are included in its total capital ratios. As of June 30, 2008, shareholders' equity was \$34 million, or 5.3% of total assets.



Asset Quality Remains Better Than Peers

Although NPAs were up compared to the year-ago date, they have been trending downward in the first half of 2008. Specifically, NPAs totaled \$2,269,000, or 0.36% of total assets, at June 30, 2008, compared to \$667,000 (0.13%) at the year-ago date and \$3,029,000 (0.53% of total assets) at March 31, 2008. The Company's NPAs-to-assets ratio of 0.36% was much better than the NC peer group median of 0.63%. The allowance for loan losses was \$5,321,000, or 2.35 times NPAs, at the end of 2008's first half, compared to \$4,103,000 (6.15 times NPAs) at the year-ago date. As a percentage of loans held for investment, the allowance was 1.00% at June 30, 2008.



Projections

To reflect the recent slowdown in the economy, we are slightly lowering our earnings projections to \$3.0 million, or \$0.40 per diluted share, for 2008 and \$3.8 million, or \$0.52 per diluted share, for 2009. 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.

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SIX MONTHS HIGHLIGHTS:

THE PROVISION MORE THAN DOUBLED

EPS: \$0.17 vs. \$0.21

LOAN GROWTH HAS BEEN EXCELLENT, BENEFITTING FROM NEW OFFICES

NET LOANS GREW 38% OVER THE PAST YEAR, AND AT AN ANNUALIZED RATE OF 28% FROM MARCH 31, 2008 TO JUNE 30, 2008

DEPOSIT GROWTH HAS ALSO BEEN QUITE STRONG

NPAs/ASSETS: 0.36%, vs. 0.63% FOR THE PEER GROUP MEDIAN

RESERVES/NPAs: 2.35 X

RESERVES / LOANS HFI: 1.00%

EPS PROJECTIONS

2007A: \$ 0.42
2008E: \$ 0.40
2009E: \$ 0.52