



PUBLIC DISCLOSURE

August 16, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

North State Bank

Raleigh, North Carolina

**Federal Reserve Bank of Richmond
Richmond, Virginia**

This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Federal financial supervisory agency concerning the safety and soundness of this financial institution.

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2915461

6204 Falls of Neuse Road

Raleigh, North Carolina 27609

**Federal Reserve Bank of Richmond
P. O. Box 27622
Richmond, Virginia 23261**

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INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated: SATISFACTORY

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Outstanding.

The major factors supporting this rating include:

- The bank's loan-to-deposit ratio is considered more than reasonable given the bank's size, financial condition, and credit needs of its assessment areas.
- A majority of the institution's Home Mortgage Disclosure Act (HMDA) and small business loans were originated within the bank's assessment areas.
- The bank's borrower distribution performance is considered reasonable for both HMDA and small business lending.
- The bank's geographic distribution performance for HMDA lending varies from reasonable to excellent and is considered reasonable overall. Similarly, small business lending performance is considered reasonable.
- The bank's community development performance demonstrates an excellent level of responsiveness to the community development needs of its assessment areas.
- The institution has not received any complaints regarding its CRA performance since the previous evaluation.

SCOPE OF EXAMINATION

North State Bank (NSB) was evaluated using the interagency examination procedures for intermediate small banks developed by the Federal Financial Institutions Examination Council (FFIEC). Consistent with these procedures, residential mortgage loans reported by the institution in accordance with the HMDA during calendar years 2018, 2019, and 2020 were reviewed. Additionally, small business lending is a primary product line and was considered in the evaluation. As such, a sample of small business loans originated by the bank during 2019 was also included in the analysis.

Qualified community development loans and services are considered for activities since the previous evaluation (October 31, 2016). All qualified investments made during this same period and those outstanding as of the date of this evaluation, regardless of when made, were also considered.

Based on the FFIEC's evaluation procedures, ratings are assigned to the institution and are based only on the performance in the assessment areas subject to full-scope review. Because of the relative size as determined by loan activity, proportion of bank deposits, and market population, full-scope evaluation procedures were applied to the Raleigh-Cary, NC assessment area. The Wilmington, NC assessment area was subject to the limited review procedures provided for by the FFIEC, and a determination was made as to whether the performance was consistent with the institution's overall assigned ratings.

Appendix B includes information detailing the lending volume, branch locations, and deposit volume by assessment area.

The bank's 2020 small business lending was not included in this analysis because 2020 CRA aggregate data is not yet available. Because aggregate data captures lending done under the same business and market conditions, aggregate data from 2020 is an important performance context factor needed to evaluate the bank's lending performance especially since the pandemic occurred during most of 2020.

DESCRIPTION OF INSTITUTION

NSB is headquartered in Raleigh, North Carolina and operates seven full-service branch offices in central and eastern North Carolina and one mortgage loan production office (LPO) in Raleigh, North Carolina. The bank is a wholly-owned subsidiary of North State Bancorp, also headquartered in Raleigh, North Carolina. The bank received a Satisfactory rating at its previous CRA evaluation dated October 31, 2016. No known legal impediments exist that would prevent the bank from meeting the credit needs of its assessment areas.

As of June 30, 2021, NSB had total assets of \$1.3 billion, of which 71.3% were net loans and 3.1% were securities. As of the same time period, deposits totaled \$1.2 billion. Various deposit and loan products are available through the institution, including loans for residential mortgage, consumer, and business purposes. Additionally, in April 2020, the Small Business Administration (SBA) created the Paycheck Protection Program (PPP). This program was designed to provide direct incentive for small businesses, allow workforces to remain employed, and promote economic stability during the Coronavirus (COVID-19) crisis. NSB has originated 1,703 PPP loans totaling approximately \$168.7 million since the program's inception. The composition of the loan portfolio (using gross loans) as of June 30, 2021, is depicted in the following table.

Composition of Loan Portfolio

Loan Type	6/30/2021	
	\$(000s)	%
Secured by 1-4 Family dwellings	222,636	24.1
Multifamily	41,585	4.5
Construction and Development	100,521	10.9
Commercial & Industrial/ NonFarm NonResidential	546,910	59.3
Consumer Loans and Credit Cards	3,481	0.4
Agricultural Loans/ Farmland	289	0.0
All Other	7,471	0.8
Total	922,893	100.0

As previously detailed, the bank operates in two assessment areas within North Carolina. The bank includes whole counties in its delineations, and the following table reflects the composition of each area.

Assessment Area Composition	
Assessment Area Name	County
Raleigh-Cary, NC	Wake
Wilmington, NC	New Hanover

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

Reported residential mortgage loan data from calendar years 2018, 2019, and 2020 as well as a sample of originated small business loan data from calendar year 2019 were fully analyzed and considered in this evaluation. During 2018, 2019, and 2020 the bank reported a total of 5,650 HMDA loans totaling \$1.4 billion. Additionally, the bank originated 269 small business loans totaling \$59.2 million during 2019, of which a sample of 120 loans totaling \$26.1 million was included in the analysis.

While American Community Survey (ACS) data is collected and published by the U.S. Census Bureau on an annual basis, the demographic data relied upon in this performance evaluation is based on ACS data that is updated once every five years. As such, when evaluating the bank's performance, relevant area demographic data is derived from both 2015 ACS and 2019 Dun and Bradstreet (D&B) data.

The geographic and borrower distribution performance of HMDA loans focused on performance for Home Purchase, Home Improvement, Refinancing, and Multi-family loan categories. Performance for the Not Applicable, Other Closed, and Other Line of Credit loan categories was not evaluated because not all HMDA reporters are required to report each loan category, or the category contains relatively few loans overall.

To evaluate the geographic and borrower distribution for a specific loan product within an assessment area, primary emphasis is placed on the number (and corresponding percentage) of loans originated. To arrive at an overall conclusion regarding the distribution of lending performance, each loan product is then generally weighted by dollar volume of such loans made in the assessment area.

While HMDA loan data from calendar years 2018, 2019, and 2020 as well as small business data from calendar year 2019 were fully analyzed and considered in the evaluation, only bank and aggregate data from 2020 for HMDA and 2019 for small business lending are presented in the assessment area tables. In instances where the 2018 or 2019 HMDA performance varies significantly from the performance noted during 2020, such variances and the corresponding impact on the overall performance are discussed.

Within the assessment area, a high level of small business lending activity was reported by specialized lenders who often originate or purchase small business loans in the form of credit cards. The loans, however, tend to be much smaller in size than traditional small business bank loans, and a substantial majority of such loans do not have revenue data reported. The presence of these lenders is reflected in a smaller market share for traditional lenders and tends to understate the percentage of aggregate lending to businesses with annual revenues of \$1 million or less. These factors were considered as an aspect of performance context when evaluating the level and distribution of small business lending.

Loan-To-Deposit Ratio

The bank's loan-to-deposit ratio as of June 30, 2021, equaled 77.6% and averaged 89.6% for the preceding 19-quarter period ending during the same time period. In comparison, the average of quarterly loan-to-deposit ratio for eight similarly situated institutions that operate in at least one of NSB's assessment areas ranged from 45.2% to 99.2% during the same 19-quarter period. Since December 31, 2016, NSB's assets, net loans, and deposits have increased by 63.9%, 34.2%, and 66.2% respectively. The bank's loan-to-deposit ratio is considered more than reasonable given the institution's size, financial condition, market conditions, and local credit needs.

Lending in Assessment Areas

To determine the institution's volume of lending within its assessment areas, the geographic location of the bank's HMDA and small business loans included in this evaluation were considered. The lending distribution inside and outside of the bank's assessment areas is represented in the following table.

Comparison of Credit Extended Inside and Outside of Assessment Area(s)

Loan Type	Inside				Outside			
	#	%	\$ (000)	%	#	%	\$ (000)	%
Home Purchase	1,583	43.8	431,519	50.0	2,033	56.2	431,885	50.0
Home Improvement	22	64.7	2,314	58.8	12	35.3	1,623	41.2
Refinancing	1,212	62.9	344,311	67.6	714	37.1	165,309	32.4
Multi-Family Housing	14	51.9	26,843	65.0	13	48.1	14,424	35.0
Loan Purpose Not Applicable	0	0.0	0	0.0	2	100.0	305	100.0
Other Purpose Closed/Exempt	24	54.5	4,836	64.6	20	45.5	2,653	35.4
Other Purpose LOC	1	100.0	150	100.0	0	0.0	0	0.0
Total HMDA related	2,856	50.5	809,973	56.8	2,794	49.5	616,199	43.2
Small Business*	80	66.7	16,978	65.0	40	33.3	9,136	35.0
TOTAL LOANS	2,936	50.9	826,951	56.9	2,834	49.1	625,335	43.1

*The number and dollar amount of loans reflects a sample of such loans originated during the evaluation period and does not reflect loan data collected or reported by the institution.

As previously noted, the evaluation includes three years of reported HMDA data and a sample of one year of small business loans. After accounting for this difference, a majority of both the number and dollar volume of loans considered in the evaluation were extended to residents within the bank's assessment areas. Overall, the institution's level of lending in its assessment areas is considered responsive to community credit needs.

Lending to Borrowers of Different Incomes and To Businesses of Different Sizes

The bank's distribution of lending to borrowers of different income levels (including low- and moderate-income) and businesses of different revenue sizes is considered reasonable for both HMDA and small business lending based on the bank's performance in the full-scope Raleigh-Cary, NC assessment area.

Geographic Distribution of Loans

The bank's geographic distribution of lending is considered reasonable overall for HMDA and small business lending based on performance in the Raleigh-Cary, NC assessment area.

Community Development Loans, Investments, and Services

NSB's performance under the community development test is considered Outstanding. The bank demonstrates an excellent responsiveness to local community needs through qualified community development loans, investments, and services. Although there was an extended time period between evaluations, the vast majority of the bank's community development activity occurred within a timeframe consistent with its three year mandate. The rating is largely driven by NSB's overall level of community development lending (48 loans totaling \$20.5 million), its responsiveness to an identified credit need of the Raleigh, NC assessment area (affordable housing), and the bank's significant financial contributions benefiting low- and moderate-income residents of its assessment areas.

During the review period, the bank participated in the following community development activities benefiting the broader statewide area including the bank's two assessment areas:

- NSB originated 36 community development loans totaling \$8 million, mostly through Centrant Community Capital (CCC). Formerly known as the Community Investment Corporation of the Carolinas, CCC is a wholly-owned subsidiary of the North Carolina Bankers Association and provides permanent debt financing for non-profit and for-profit developers building affordable housing communities throughout the Mid-Atlantic region.

- The bank holds a \$500,000 equity investment issued by the Carolina Affordable Housing Equity Corporation. The investment was used to finance affordable housing projects throughout the state of North Carolina.
- NSB invested \$100,000 of capital into a designated Minority Financial Institution (MFI) headquartered in North Carolina and provided \$10,000 in contributions to qualified community development organizations serving the broader region.
- The bank partners with the Federal Home Loan Bank of Atlanta (FHLBA) to offer down payment assistance grants up to \$7,500 for first time homebuyers and \$10,000 for community partners, such as law enforcement, firefighters, education, and healthcare employees. Prior to 2021, the grant amounts were \$5,000 for first time homebuyers and \$7,500 for community partners. These FHLB grants are authorized through the Affordable Housing Program (AHP) which was created to help low and moderate-income households achieve homeownership. Since June 2018, the bank assisted 79 borrowers obtain a total of \$478,500 in assistance.

Additional community development activities directly benefiting specific assessment areas are detailed in subsequent sections of this report.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

METROPOLITAN AREAS

*(For metropolitan areas with some or all assessment areas
reviewed using full-scope review)*

DESCRIPTION OF INSTITUTION'S OPERATIONS IN RALEIGH-CARY, NC ASSESSMENT AREA

This assessment area is located in central North Carolina and includes the entirety of Wake County, which is a part of the Raleigh-Cary, NC MSA. The bank operates six full-service branches and one LPO within this market. As of June 30, 2021, NSB ranked eighth out of 37 financial institutions in local deposit market share according to data compiled by the Federal Deposit Insurance Corporation and held 2.9% of local deposits (excluding credit union deposits). Additionally, according to 2020 aggregate data, the bank ranked 19th out of 683 lenders in reported mortgage lending with a 1.2% market share.

Based on 2015 American Community Survey (ACS) data, the assessment area served by the bank has a total population of 976,019 and a median housing value of \$234,021. Within the assessment area, the owner-occupancy rate is 59.6%, which is higher than the owner-occupancy rate for the state of North Carolina (55.7%), but slightly lags the rate for the Raleigh-Cary, NC MSA (60.4%). The percentage of families living below the poverty level in the assessment area (7.9%) is lower than the rates in the state of North Carolina (12.8%) and the entire MSA (8.6%). The Raleigh-Cary, NC MSA median family income during 2018, 2019, and 2020 equaled \$84,300, \$93,100, and \$94,100, respectively. The following table includes pertinent demographic data for the assessment area.

Assessment Area Demographics

Raleigh-Cary, NC (Based on 2015 ACS Data and 2019 D&B Information)								
Income Categories*	Tract Distribution		Families by Tract		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	12	6.4	10,357	4.2	3,064	29.6	48,494	19.9
Moderate	36	19.3	51,294	21.0	7,572	14.8	39,546	16.2
Middle	57	30.5	79,605	32.6	5,514	6.9	45,805	18.8
Upper	79	42.2	102,616	42.2	3,005	2.9	110,095	45.1
NA	3	1.6	68	0.0	0	0.0		
Total	187	100.0	243,940	100.0	19,155	7.9	243,940	100.0
	Owner Occupied Units by Tract		Households					
			HHs by Tract		HHs < Poverty by Tract		HHs by HH Income	
	#	%	#	%	#	%	#	%
Low	4,911	2.1	19,917	5.5	5,615	28.2	76,346	20.9
Moderate	44,836	19.2	82,894	22.7	13,106	15.8	60,368	16.6
Middle	80,203	34.3	120,584	33.1	10,751	8.9	64,865	17.8
Upper	104,083	44.4	141,164	38.7	6,407	4.5	163,090	44.7
NA	51	0.0	110	0.0	14	12.7		
Total	234,084	100.0	364,669	100.0	35,893	9.8	364,669	100.0
	Total Businesses by Tract		Businesses by Tract and Revenue Size					
			Less than or = \$1 Million		Over \$1 Million		Revenue not Reported	
	#	%	#	%	#	%	#	%
Low	2,467	4.1	2,169	3.9	280	6.9	18	3.1
Moderate	11,927	19.7	10,910	19.5	926	22.9	91	15.6
Middle	19,882	32.8	18,388	32.8	1,327	32.8	167	28.5
Upper	26,338	43.3	24,538	43.7	1,491	36.9	309	52.8
NA	83	0.1	64	0.1	19	0.5	0	0.0
Total	60,697	100.0	56,069	100.0	4,043	100.0	585	100.0
Percentage of Total Businesses:				92.4		6.7		0.9

*NA-Tracts without household or family income as applicable

The assessment area's economy is dependent upon education, health care, state and local government, and retail as the primary sectors for employment. Major employers include North Carolina State University, Wake County Public School System, Wake Med, and Wal-Mart. The table below provides annual unemployment rates since the previous evaluation.

Geographic Area	June 2017	June 2018	June 2019	June 2020	June 2021
Wake County	4.1%	3.8%	3.6%	8.1%	4.1%
Raleigh-Cary, NC MSA	4.2%	3.8%	3.7%	8.1%	4.2%
State of North Carolina	4.7%	4.3%	4.1%	8.9%	4.9%

As indicated by the data in the table above, unemployment rates within the assessment area prior to 2020 have generally declined since the previous evaluation and remained similar to the MSA rate and slightly below the statewide rate. Current unemployment levels within the assessment area are also similar to the MSA and slightly lower than the statewide rate of unemployment. Sharp increases in unemployment rates starting in 2020 can be attributed to nationwide quarantine restrictions implemented as part of the COVID-19 global pandemic response. The local unemployment rates have begun to decline as restrictions have lessened throughout the pandemic.

A local housing official was recently contacted to discuss area economic conditions and community credit needs. He stated that the local economy has seen significant growth, but there is a strain on affordable housing. There are opportunities for financial institutions to improve and provide financial literacy and first-time home buyer classes. However, the contact also indicated that area financial institutions are reasonably serving the banking needs of the local community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

The institution's overall lending performance within the assessment area is considered reasonable. This conclusion is based on an evaluation of the bank's borrower and geographic distributions of lending while taking into account its market strategy, area demographic data, and aggregate HMDA and small business loan data. Based on the loan data, NSB originated a substantially larger volume of HMDA loans than small business loans within the assessment area during the evaluation period. During 2019, the bank reported 544 HMDA loans totaling \$161.5 million and an estimated 154 small business loans totaling approximately \$32.6 million in the assessment area. Accordingly, the bank's HMDA lending carries greater weight when determining overall lending performance.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The bank's distribution of lending reflects a reasonable penetration among individuals of different income levels (including low- and moderate- income) and businesses of different revenue sizes.

Distribution of HMDA Loans by Income Level of Borrower

Raleigh-Cary, NC (2020)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
HMDA Totals								
Low	74	7.4	10,288	3.6	4,549	6.1	729,627	3.4
Moderate	158	15.9	32,157	11.3	12,986	17.3	2,799,486	13.1
Middle	196	19.7	51,341	18.0	18,085	24.1	4,763,557	22.2
Upper	567	57.0	191,441	67.1	39,528	52.5	13,135,930	61.3
Total	995	100.0	285,227	100.0	75,148	100.0	21,428,600	100.0
Unknown	99		42,002		10,522		3,829,654	

Percentages (%) are calculated on all loans where incomes are known

The bank's level of lending to low-income borrowers (7.4%) is less than the percentage of area low-income families in the assessment area (19.9%), but exceeds aggregate lending levels to such borrowers (6.1%). Conversely, NSB's lending to moderate-income borrowers (15.9%) is slightly lower than the percentage of moderate-income families within the assessment area (16.2%) and the aggregate lending levels (17.3%). Overall, the bank's performance during 2020 is considered reasonable, and its 2018 and 2019 lending is substantially similar.

Distribution of Lending by Loan Amount and Size of Business

Raleigh-Cary, NC (2019)								
by Revenue	Bank				Aggregate*			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
\$1 Million or Less	45	65.2	7,979	55.4	14,360	48.0	444,033	37.4
Over \$1 Million	23	33.3	6,321	43.9	NA	NA	NA	NA
Unknown	1	1.5	102	0.7	NA	NA	NA	NA
by Loan Size								
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
\$100,000 or less	32	46.4	1,419	9.9	27,909	93.3	453,592	38.2
\$100,001-\$250,000	17	24.6	3,236	22.5	967	3.2	171,155	14.4
\$250,001-\$1 Million	20	29.0	9,748	67.6	1,026	3.5	563,205	47.4
Total	69	100.0	14,403	100.0	29,902	100.0	1,187,952	100.0

* No data is available for Aggregate loans with Revenues over \$1 million and those with Unknown revenues

D&B data from 2019 indicates that 92.4% of all local businesses have revenues that do not exceed \$1 million per year. According to 2019 aggregate small business data, 48% of reported loans were to businesses with annual revenues of \$1 million or less. After excluding large credit card lenders, 56.7% of the remaining reported small business loans were to businesses having revenues of \$1 million or less. Of the small business loans reported by NSB, 65.2% of originations were to businesses having annual revenues of \$1 million or less. Given these contextual factors, the bank's small business lending performance to businesses having revenues less than \$1 million is considered reasonable.

Geographic Distribution of Loans

The bank's geographic distribution performance for HMDA lending varied from reasonable to excellent and is considered reasonable overall. Geographic distribution performance for small business lending is also considered reasonable.

Distribution of HMDA Loans by Income Level of Census Tract

Raleigh-Cary, NC (2020)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
	(426) Home Purchase				(29,272)			
Low	29	6.8	5,414	4.5	624	2.1	147,382	1.6
Moderate	79	18.5	16,172	13.5	5,054	17.3	1,226,557	13.3
Middle	177	41.5	48,280	40.4	10,359	35.4	2,942,803	31.9
Upper	141	33.1	49,733	41.6	13,235	45.2	4,909,218	53.2
	(655) Refinance				(53,350)			
Low	18	2.7	4,358	2.3	929	1.7	204,673	1.4
Moderate	79	12.1	17,672	9.2	6,633	12.4	1,389,009	9.3
Middle	221	33.7	56,754	29.6	16,409	30.8	4,062,938	27.1
Upper	337	51.5	113,266	59.0	29,379	55.1	9,335,347	62.3
	(8) Home Improvement				(2,949)			
Low	0	0.0	0	0.0	51	1.7	3,876	1.4
Moderate	1	12.5	362	42.5	418	14.2	29,719	10.8
Middle	5	62.5	373	43.8	928	31.5	70,314	25.6
Upper	2	25.0	117	13.7	1,552	52.6	170,958	62.2
	(5) Multi-Family				(98)			
Low	1	20.0	6,342	43.1	15	15.3	61,103	8.0
Moderate	2	40.0	1,170	7.9	37	37.8	166,071	21.7
Middle	2	40.0	7,216	49.0	30	30.6	299,894	39.2
Upper	0	0.0	0	0.0	16	16.3	237,964	31.1
	HMDA Totals							
Low	48	4.4	16,114	4.9	1,619	1.9	417,034	1.7
Moderate	161	14.7	35,376	10.8	12,142	14.2	2,811,356	11.1
Middle	405	37.0	112,623	34.4	27,726	32.4	7,375,949	29.2
Upper	480	43.9	163,116	49.9	44,182	51.5	14,653,487	58.0
NA*	0	0.0	0	0.0	1	0.0	428	0.0
Total	1,094	100.0	327,229	100.0	85,670	100.0	25,258,254	100.0

NA*-Tracts without household or family income as applicable

The primary HMDA product by number of loans for both NSB and aggregate peer lenders was refinance, followed by home purchase and home improvement. Multifamily lending was not a factor in this analysis due to limited lending within the assessment area. Considering both demographic and aggregate proxies for demand, the bank's performance for home purchase lending is considered excellent. Refinance and home improvement lending are each considered reasonable.

NSB's level of lending in low-income census tracts (4.4%) exceeds both the percentage of owner-occupied housing units located in low-income census tracts (2.1%) and the aggregate level of lending in such tracts (1.9%). The level of lending in moderate-income census tracts (14.7%) is slightly higher than the aggregate lending level in such tracts (14.2%), but lower than the percentage of owner-occupied units located in moderate-income census tracts (19.2%). Overall, the bank's performance of lending in low- and moderate-income census tracts during 2020 is considered reasonable, and 2018 lending performance is substantially similar.

During 2019, NSB extended 544 HMDA loans totaling \$161.5 million, of which 30 loans (5.5%) totaling \$5.2 million were extended in low-income census tracts. This level of lending is significantly greater than the aggregate level of lending (2.2%) and the percentage of owner-occupied housing units located in such tracts (2.1%). Additionally, 97 loans (17.8%) totaling \$20.4 million were extended by NSB in moderate-income census tracts, which exceeds the aggregate lending level (16.8%) but is slightly less than the percentage of owner-occupied housing units in such tracts (19.2%). This level of performance is considered to be excellent.

Overall, the bank's combined HMDA geographic distribution lending performance is considered reasonable based on the relative dollar volume of originations and strength of performance each year.

Distribution of Small Business Loans by Income Level of Census Tract

Raleigh-Cary, NC (2019)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
Low	4	5.8	890	6.2	1,170	4.0	56,885	4.8
Moderate	7	10.1	2,696	18.7	5,280	17.8	203,665	17.3
Middle	21	30.4	2,993	20.8	9,444	31.9	381,059	32.3
Upper	37	53.7	7,824	54.3	13,692	46.2	536,596	45.5
NA*	0	0.0	0	0.0	17	0.1	1,638	0.1
Total	69	100.0	14,403	100.0	29,603	100.0	1,179,843	100.0

*NA-Tracts without household or family income as applicable

Loans where the geographic location is unknown are excluded from this table.

The bank's level of small business lending in low-income census tracts (5.8%) exceeds both the percentage of area businesses (4.1%) and the aggregate lending level in such tracts (4%). Conversely, its lending in moderate-income census tracts (10.1%) lags both the percentage of area businesses (19.7%) and the aggregate lending level (17.8%) in such tracts. NSB's overall small business lending geographic distribution performance is considered reasonable.

Community Development Loans, Investments, and Services

A discussion with an individual knowledgeable of the local market area and reviews of the performance evaluations of other financial institutions having a local presence indicate that community development opportunities are reasonably available within the bank's assessment area when considering its strategy, size, competition, and other relevant factors. Additionally, the institution faces no significant constraints in participating in community development activities.

NSB's performance under the community development test demonstrates excellent responsiveness to local community needs through qualified community development loans, investments, and services. In addition to the community development activities detailed previously that serve the broader statewide area including this assessment area, NSB originated 11 community development loans totaling approximately \$12.3 million that facilitate affordable housing initiatives and provide services for low- and moderate-income residents directly within this assessment area.

The bank made approximately \$576,500 in charitable donations within the assessment area to organizations promoting economic development, supporting affordable housing initiatives, and providing access to services for low- and moderate-income individuals. Most notable is the bank's continued partnership with Transitions Life Care (formerly Hospice of Wake County). The bank has contributed \$369,500 during the review period to subsidize hospice costs to low- and moderate-income individuals who would otherwise be unable to afford hospice care.

Bank employees have volunteered their time and financial expertise to organizations providing community development services within the assessment area that include, but are not limited to, the following:

- Centre of Home Ownership
- Downtown Raleigh Alliance Civic Ventures
- North Carolina State Leadership and Civic Engagement
- DHIC of North Carolina
- Lost Sheep Community Outreach
- Raleigh Area Development Authority
- Raleigh Housing Authority
- Shop Local Raleigh

As previously mentioned, the bank has a partnership with Transitions Life Care. As part of this relationship, the bank hosts an annual gala to raise funds for indigent care. The bank is responsible for all aspects of this event, and several employees devote significant volunteer hours planning the event and facilitating a successful fundraiser. In addition to the money donated by the institution, the bank provides a significant amount of financial expertise and other resources.

METROPOLITAN AREAS

(For each metropolitan area where no assessment areas were reviewed using full-scope review)

DESCRIPTION OF INSTITUTION'S OPERATIONS IN WILMINGTON, NC ASSESSMENT AREA

The bank's Wilmington, NC assessment area, as noted in the table below, was reviewed using the limited review examination procedures. Information detailing the composition of the assessment area, including selected demographic data, is included in **APPENDIX A** of this report.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Facts and data reviewed for the assessment area, including performance and demographic information, can be found in **APPENDIX A** of this evaluation. A conclusion regarding performance, which did not impact the institution's overall rating, is included in the following table. For each test, the conclusion conveys whether performance in an assessment area was generally below, consistent with, or exceeded the institution's overall rating. In the case where the performance was considered below, the performance was at least adequate for the assessment area.

Assessment Area	Lending Test	Community Development Test
Wilmington, NC	Exceeds	Below

CRA APPENDIX A
LIMITED REVIEW TABLES

Wilmington, NC Assessment Area

NSB operates one branch office within this assessment area, which is comprised of New Hanover County in its entirety.

Performance Test Data for the Wilmington, NC Assessment Area

Limited Review Lending Table

Wilmington, NC (2019)								
Income Categories	Bank		Aggregate	Demographic	Bank		Aggregate	Demographic
	#	%	%	%	#	%	%	%
	Home Purchase				Home Improvement			
Geographic	(76)				(1)			
Low	8	10.5	6.8	5.2	0	0.0	4.9	5.2
Moderate	6	7.9	5.0	4.9	0	0.0	2.8	4.9
Middle	33	43.4	47.8	45.9	0	0.0	38.9	45.9
Upper	29	38.2	40.5	44.0	1	100.0	53.4	44.0
	Refinance				Multi-Family			
Geographic	(41)				(1)			
Low	1	2.4	4.1	5.2	0	0.0	45.2	5.2
Moderate	0	0.0	3.1	4.9	1	100.0	9.7	4.9
Middle	15	36.6	43.6	45.9	0	0.0	22.6	45.9
Upper	25	61.0	49.2	44.0	0	0.0	22.6	44.0
	HMDA Totals				Consumer			
Geographic	(119)				(NA)			
Low	9	7.6	5.9	5.2	NA	NA	NA	NA
Moderate	7	5.9	4.3	4.9	NA	NA	NA	NA
Middle	48	40.3	45.8	45.9	NA	NA	NA	NA
Upper	55	46.2	44.0	44.0	NA	NA	NA	NA
Borrower	(113)				(NA)			
Low	5	4.4	5.1	22.1	NA	NA	NA	NA
Moderate	14	12.4	18.4	16.7	NA	NA	NA	NA
Middle	24	21.2	22.7	18.1	NA	NA	NA	NA
Upper	70	61.9	53.8	43.0	NA	NA	NA	NA
	Small Business				Small Farm			
Geographic	(11)				(NA)			
Low	3	27.3	12.7	14.8	NA	NA	NA	NA
Moderate	0	0.0	8.8	9.3	NA	NA	NA	NA
Middle	2	18.2	34.8	33.3	NA	NA	NA	NA
Upper	6	54.5	43.7	42.3	NA	NA	NA	NA
Revenue								
Busn/ Farms with revenues <=\$1 M	10	90.9	47.0	91.4	NA	NA	NA	NA

Geographic () represents the total number of bank loans for the specific Loan Purpose where geography is known
 Borrower () represents the total number of bank loans for the specific Loan Purpose where income is known
 NA represents no activity in the income category

Limited Review Lending Table

Wilmington, NC (2020)								
Income Categories	Bank		Aggregate	Demographic	Bank		Aggregate	Demographic
	#	%	%	%	#	%	%	%
	Home Purchase				Home Improvement			
Geographic	(154)				(2)			
Low	30	19.5	6.3	5.2	0	0.0	4.5	5.2
Moderate	13	8.4	4.1	4.9	0	0.0	4.3	4.9
Middle	48	31.2	45.3	45.9	0	0.0	37.8	45.9
Upper	63	40.9	44.3	44.0	2	100.0	53.5	44.0
	Refinance				Multi-Family			
Geographic	(123)				(2)			
Low	9	7.3	3.4	5.2	1	50.0	26.3	5.2
Moderate	13	10.6	3.1	4.9	1	50.0	21.1	4.9
Middle	35	28.5	44.3	45.9	0	0.0	23.7	45.9
Upper	66	53.7	49.1	44.0	0	0.0	28.9	44.0
	HMDA Totals				Consumer			
Geographic	(281)				(NA)			
Low	40	14.2	4.7	5.2	NA	NA	NA	NA
Moderate	27	9.6	3.6	4.9	NA	NA	NA	NA
Middle	83	29.5	44.5	45.9	NA	NA	NA	NA
Upper	131	46.6	47.2	44.0	NA	NA	NA	NA
Borrower	(234)				(NA)			
Low	11	4.7	6.7	22.1	NA	NA	NA	NA
Moderate	38	16.2	20.1	16.7	NA	NA	NA	NA
Middle	52	22.2	22.6	18.1	NA	NA	NA	NA
Upper	133	56.8	50.7	43.0	NA	NA	NA	NA
	Small Business				Small Farm			
Geographic	(NA)				(NA)			
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	NA	NA	NA	NA	NA	NA	NA	NA
Middle	NA	NA	NA	NA	NA	NA	NA	NA
Upper	NA	NA	NA	NA	NA	NA	NA	NA
Revenue								
Busn/ Farms with revenues <=\$1 M	NA	NA	NA	NA	NA	NA	NA	NA

Geographic () represents the total number of bank loans for the specific Loan Purpose where geography is known

Borrower () represents the total number of bank loans for the specific Loan Purpose where income is known

NA represents no activity in the income category

The bank's lending test rating of Satisfactory is based on performance in the Raleigh-Cary, NC assessment area where borrower and geographic distribution performance are considered reasonable overall. Performance in this limited review assessment area is considered to exceed the institution's overall rating, as geographic distribution performance is considered excellent for both HMDA and small business lending. Borrower distribution performance for HMDA lending is considered reasonable, while small business lending performance is considered excellent.

Community Development Loans, Investments, and Services

The bank's community development test rating of Outstanding is driven by performance in the full scope Raleigh-Cary, NC assessment area. While performance in the Wilmington, NC assessment area is considered below the institution's overall rating, the bank's level of community development activities in this area still demonstrate an adequate responsiveness to community credit needs relative to the bank's local presence and capacity.

In addition to the community development activities benefiting the broader geographic area including the bank's assessment areas discussed previously, the following activities specifically benefited this assessment area during the evaluation period:

- A loan totaling \$215,000 to an organization that provides affordable housing primarily to low- and moderate-income individuals.
- Four employees provided financial expertise either as a committee member or board member for three community development/affordable housing organizations.
- The bank made \$12,000 in donations to qualified community development organizations.

CRA APPENDIX B

LOAN, BRANCH, AND DEPOSIT VOLUME BY ASSESSMENT AREA

The following table includes the distribution of NSB's branch offices, along with deposit and loan volume. The deposit volume includes all bank deposits as of June 30, 2021, while the loan volume includes all HMDA and small business loans considered in the evaluation.

Assessment Area	Loan Volume				Full-Service Branches		Deposit Volume	
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Raleigh-Cary, NC	2,413	82.2%	\$696,138	84.2%	6	85.7%	\$1,036,293	87.8%
Wilmington, NC	523	17.8%	\$130,813	15.8%	1	14.3%	\$144,161	12.2%
TOTAL	2,936	100%	\$826,951	100%	7	100%	\$1,180,454	100%

CRA APPENDIX C

GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - (A) Rates of poverty, unemployment, and population loss; or
 - (B) Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-scope review: Performance under the Lending and Community Development Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance under the Lending and Community Development Tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.