ANNUAL MEETING
The annual meeting of shareholders of North State Bancorp will be held on Tuesday, June 4, 2019, at 4:00 p.m. at North Ridge Country Club, 6612 Falls of Neuse Road, Raleigh, North Carolina 27615.

MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS
As of December 31, 2018, we had 5,921,145 shares of common stock outstanding, which were held by approximately 180 beneficial owners. During 2015, the Company filed for a change in tax status to become an S Corporation. As an S Corporation, shares of common stock are traded across the Company’s desk and are not traded on any exchange.

INDEPENDENT AUDITORS
Dixon Hughes Goodman LLP
2501 Blue Ridge Road
Suite 500
Raleigh, NC 27607

REGULATORY AND SECURITIES COUNSEL
Wyrick Robbins Yates & Ponton LLP
4101 Lake Boone Trail, Suite 300
Raleigh, NC 27607

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
A copy of North State Bancorp’s Audited Consolidated Financial Statements as of and for the years ended December 31, 2018, and 2017 is available without charge to shareholders upon written request to Stacy R. Reedy, Executive Vice President and Chief Financial Officer, North State Bancorp, P.O. Box 18367, Raleigh, NC 27619, and is available on our website at NorthStateBank.com.

This Annual Report and the above referenced Audited Consolidated Financial Statements have not been reviewed or confirmed for accuracy or relevance by the FDIC or any other governmental agency.

Banking and Mortgage Offices

CORPORATE HEADQUARTERS & BANKING OFFICE – NORTH RALEIGH
6204 Falls of Neuse Road
Raleigh, NC 27609
919.855.9925

NORTH STATE BANK MORTGAGE OPERATIONS
6200 Falls of Neuse Road
Suite 300
Raleigh, NC 27609

DOWNTOWN RALEIGH
230 Fayetteville Street
Suite 100
Raleigh, NC 27601

GARNER
835 Highway 70 West
Garner, NC 27529

NORTH HILLS
4270 The Circle at North Hills
Raleigh, NC 27609

SOUTHEAST RALEIGH
NORTH STATE BANK MORTGAGE
1708 Trawick Road
Suite 209
Raleigh, NC 27604

WAKE FOREST
14091 Falls of Neuse Road
Raleigh, NC 27614

WEST RALEIGH
2413 Blue Ridge Road
Raleigh, NC 27607

WILMINGTON
1411 Commonwealth Drive
Wilmington, NC 28403
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I am pleased to report our financial summary for 2018 as follows: total assets, loans and deposits as of December 31, 2018, were $896.7 million, $738.4 million and $810.4 million, respectively, compared to totals at December 31, 2017, of $836.0 million, $658.4 million and $754.8 million, for year-over-year increases of 7.3%, 12.1% and 7.4%, respectively. Net income for the year was $9.6 million, compared to net income of $9.2 million in 2017. As these results indicate, core growth remains strong as we support the customers and communities we serve.

Today, knowledge is changing at an ever-increasing pace. We must keep learning, growing, changing and improving, all while getting smarter. We must always be doing our best, but we cannot “rest on our best.”

Along those lines, I used to believe goals were the driving force behind every successful company. Goals are indeed healthy, but over the years I have learned to shift from “goals” to “growth.” Goals will help us to do better, but growth helps us to become better. Goals are more outward, whereas growth is more inward. In fact, growth on the inside fuels growth on the outside.

So again, while goals are important, growth takes us to a higher level. Growth’s highest reward is not what we get from it, but what we become by it.

I like what Truett Cathy, the founder of Chick-fil-A, once said when he was being pressed to expand his organization. “We need to get bigger,” they kept telling him. I love his response: “If we get better, our customers will demand that we get bigger.” The same applies to personal growth. When we get better, we get bigger. In fact, growth is the only guarantee that tomorrow will be better than today.

There are many things we must do in order to assure the growth and development of our people in this company, but one is simply learning more and more every day, starting with ourselves, then others, and our environment. We’ve got to make our love for learning greater than our fear of failure. We must be people of action, because as Dr. John C. Maxwell so clearly indicates, “Action reduces fear and increases courage.” This can be a major step toward increasing our love for learning and decreasing our fear of failure. It also enables us to, instead of counting our losses, count our lessons we learn from them. So, goals are certainly tools we use, but growth is what we strive for.

According to many leaders in banking today, we have entered a new era in banking. Those of us who have been around awhile remember the era of consolidation, when the number of commercial banks in the U.S. fell by half over a period of 20 years, from 1985–2005. This was the era of consolidation. Following that was the era of the financial crisis, which lasted
almost a decade, from 2006–2015. During that period of time, the banking industry was focused on capital, liquidity, increased regulation, and even failures and certainly survival. Now, many believe the industry has entered another era—the era of digital innovation and technology. References to Amazon, Google, Fintech, and digital branches are very common when we read about changes in banking today.

Early in my banking career during the late 1970s and early 1980s, I was told that checks, cash, branches and ATMs would go away . . . but they didn’t. However, the changes taking place now are different. 77% of all deposit transactions at Bank of America, the nation’s second-largest bank by assets, are completely digital. Nearly three-quarters of mortgage applications at U.S. Bancorp, another major financial institution, are completed and tracked by customers on mobile applications. More than half of the customers at PNC Financial Services Group say they don’t need a branch or only visit one infrequently. Clearly, there are changes this time which are unique to our industry. I certainly believe that the ability of larger banks in America to use digital distribution channels to enter new markets will limit future consolidation while community banks must respond wisely to these challenges.

While technology in this digital era is important, it alone will not create higher levels of success. The fundamentals of banking are still the same and they are—acquiring, maintaining, and growing core deposits through organic growth while attracting new customers with core deposits.

While I respect the changes digital banking and technology are bringing to our industry, I believe the very best banks, including community banks, will be those which are able to grow core deposits in order to fund their lending operations soundly and profitably.

In the very beginning of this organization, we made it clear to everyone that core deposits are the way we will, in turn, lend to our customers as they buy homes, build buildings for their businesses, purchase cars, and the like. Our percentage of non-interest-bearing deposits as a percentage of total deposits is currently 39–40%, one of the highest percentages in the entire industry. It has not been less than 30% going back five years and reflects well on our ability to grow core deposits over a long period of time.

Over these years, we have sought customers who understand mutually beneficial banking relationships, but this is getting harder to do. This is exactly why our vision for the future
must include new and innovative ways to serve our same customers and acquire new ones as we advance into the future. Along those lines, we are embracing new and more convenient ways to provide our customers with online banking services and other digital and technological methods to assure them of our willingness and ability to keep pace with the technological and digital changes occurring.

We cannot wait and watch as the large national and regional banks invade our markets by acquiring customers, including millennials, through expensive advertising followed by mass digital account openings. We must use our resolve, courage, and innovative planning to incrementally change how we do business. At the same time, we must remember the words of the late, great and legendary basketball coach, John Wooden, who said, “Don’t hurry, but be quick.” The changes we make in order to acquire deposits, transfer money for our customers, and do other things for them must be done fairly quickly, while also safeguarding their deposits.

I want to comment briefly on what I believe is the most important skill needed in today’s workplace and life in general. And I say that because banking is for humans, and humans are emotional beings. We need to understand ourselves, our fellow staff members, and our customers at much better and deeper levels in order to get things done.

I like what one writer said, “Some wake up to an alarm, some wake up to a calling.” While we all live busy and active lives, we must be clear about where our strengths are in order to leverage those strengths for the benefit of those we serve. Accordingly, some people declare they have a job and when you have a job, your main goal is to earn a living and support your family. Some folks look at it differently and say they are building a career, which is more than just holding a job. When you have a career, the implication is you are headed in the right direction in making progress toward attaining significant achievements in your life. But more importantly, some people believe they have a calling, which is what one author says is, “That place where your deep gladness meets the world’s deep need.” More specifically, a career is more about you—a calling is about others. In a career, our work is often separated from our life, but in a calling, it’s integrated into our entire life. A career is something we can do, and a calling is something we must do. And finally, careers are measured by success, whereas a calling is measured by significance. Having a calling connects us to why we are here and the difference we can make in a world which desperately
needs people who understand their calling and purpose in order to really add value to others.

But back to the point about what I believe is the most important skill needed in life and in our work today. That impactful skill is empathy. It’s the skill that enabled George Washington to lead a small, but extremely loyal group of men, which never was greater than 18,000, to defeat the greatest army and navy in the world at the time. It’s the skill that enabled Abraham Lincoln to reunite a widely divided nation, which led us to pursue the very best for all people, regardless of any differences between those people.

Empathy is about being able to discern the thoughts and feelings of another person followed by an appropriate response. Empathy should not be confused with sympathy, as it means taking the perspective of another person, which makes us the listener and the student, not the knower. Then we make sure, through using empathy, that we do not judge others, but simply seek to understand and communicate and create friendships and relationships that will endure. Much more can be said about empathy, but ultimately, the end result of practicing empathy is belonging, connecting, and loving others. These are critical human needs which must be present if we are to help and add value to others as we speak about so often as the core purpose of our company.

Tactics alone will not create the profitability and strength we need to confront a very changing and unpredictable future. It’s having the emotional strength and intelligence to connect to people in ways that lead to a desire to have mutual success and significance, which leads, I believe, to higher levels of profitability.

We appreciate your friendship and continue to build this company on it every day. For that reason, we hope to see you at our Annual Shareholders’ Meeting on Tuesday, June 4, 2019, at 4:00 p.m. at North Ridge Country Club on Falls of Neuse Road in Raleigh. We will share more with you about 2018 at that time and our progress so far in 2019.

On behalf of everyone at North State, thank you for your advocacy, trust and support.

Very cordially,

Larry D. Barbour
President and CEO
### Selected Financial Highlights

**As of or for the Year Ended December 31,**

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<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>OPERATING DATA:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total interest income</td>
<td>$35,882</td>
<td>$30,655</td>
<td>$27,997</td>
<td>$26,017</td>
<td>$24,982</td>
</tr>
<tr>
<td>Total interest expense</td>
<td>3,430</td>
<td>2,743</td>
<td>2,645</td>
<td>1,648</td>
<td>1,909</td>
</tr>
<tr>
<td>Net interest income</td>
<td>32,452</td>
<td>27,912</td>
<td>25,352</td>
<td>24,369</td>
<td>23,073</td>
</tr>
<tr>
<td>Provision for (recovery of) loan losses</td>
<td>700</td>
<td>(446)</td>
<td>(1,586)</td>
<td>(768)</td>
<td>(371)</td>
</tr>
<tr>
<td>Net interest income after provision for (recovery of) loan losses</td>
<td>31,752</td>
<td>28,358</td>
<td>26,938</td>
<td>25,137</td>
<td>24,444</td>
</tr>
<tr>
<td>Non-interest income</td>
<td>14,508</td>
<td>18,346</td>
<td>19,684</td>
<td>10,853</td>
<td>8,468</td>
</tr>
<tr>
<td>Non-interest expense</td>
<td>36,601</td>
<td>37,431</td>
<td>36,369</td>
<td>29,765</td>
<td>24,740</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>9,659</td>
<td>9,273</td>
<td>10,253</td>
<td>6,225</td>
<td>7,442</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>—</td>
<td>—</td>
<td>24</td>
<td>3,718</td>
<td>2,710</td>
</tr>
<tr>
<td>Net income</td>
<td>$9,659</td>
<td>$9,273</td>
<td>$10,229</td>
<td>$2,507</td>
<td>$4,732</td>
</tr>
</tbody>
</table>

| **PER SHARE DATA:** |       |       |       |        |      |
| Earnings per share—basic | $1.65 | $1.60 | $1.80 | $0.35 | $0.64 |
| Earnings per share—diluted | $1.65 | $1.60 | $1.80 | $0.35 | $0.64 |
| Tangible book value | $7.52 | $6.99 | $6.60 | $5.75 | $6.41 |

| **WEIGHTED AVERAGE SHARES OUTSTANDING:** |       |       |       |        |      |
| Basic | 5,867,754 | 5,779,343 | 5,687,095 | 7,259,034 | 7,447,347 |
| Diluted | 5,867,754 | 5,779,343 | 5,687,095 | 7,259,034 | 7,451,941 |

| **SELECTED YEAR-END BALANCE SHEET DATA:** |       |       |       |        |      |
| Total assets | $896,739 | $835,962 | $786,199 | $754,023 | $686,448 |
| Loans—held for sale | 17,216 | 33,183 | 66,931 | 33,046 | 47,328 |
| Loans | 738,368 | 658,436 | 621,674 | 602,364 | 531,841 |
| Allowance for loan losses | 4,164 | 3,951 | 4,346 | 6,039 | 6,711 |
| Deposits | 810,427 | 754,820 | 709,515 | 677,560 | 618,730 |
| Borrowings | 34,029 | 34,091 | 33,922 | 33,928 | 16,799 |
| Shareholders’ equity | 46,043 | 41,897 | 38,005 | 32,823 | 47,871 |

| **SELECTED AVERAGE BALANCES:** |       |       |       |        |      |
| Total assets | $879,174 | $835,915 | $791,637 | $745,929 | $695,285 |
| Loans—held for sale | 19,638 | 24,875 | 38,395 | 34,059 | 30,449 |
| Loans | 697,901 | 639,901 | 612,973 | 568,096 | 513,968 |
| Total interest-earning assets | 824,057 | 783,847 | 742,184 | 699,725 | 647,154 |
| Deposits | 793,492 | 755,239 | 714,981 | 672,377 | 624,426 |
| Borrowings | 34,419 | 34,087 | 34,671 | 38,850 | 21,696 |
| Total interest-bearing liabilities | 518,161 | 508,356 | 489,841 | 464,573 | 447,093 |
| Shareholders’ equity | 45,064 | 41,124 | 36,298 | 51,325 | 46,065 |
### SELECTED PERFORMANCE RATIOS:

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<tr>
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<tbody>
<tr>
<td>Return on average assets</td>
<td>1.10%</td>
<td>1.11%</td>
<td>1.29%</td>
<td>0.34%</td>
<td>0.68%</td>
</tr>
<tr>
<td>Return on average equity</td>
<td>21.43%</td>
<td>22.55%</td>
<td>28.18%</td>
<td>4.88%</td>
<td>10.27%</td>
</tr>
<tr>
<td>Net interest spread(^1)</td>
<td>3.66%</td>
<td>3.36%</td>
<td>3.24%</td>
<td>3.38%</td>
<td>3.43%</td>
</tr>
<tr>
<td>Net interest margin(^1)</td>
<td>3.91%</td>
<td>3.56%</td>
<td>3.42%</td>
<td>3.50%</td>
<td>3.57%</td>
</tr>
<tr>
<td>Non-interest income to total revenue</td>
<td>30.89%</td>
<td>39.66%</td>
<td>43.71%</td>
<td>30.81%</td>
<td>26.85%</td>
</tr>
<tr>
<td>Non-interest income to average assets</td>
<td>1.65%</td>
<td>2.19%</td>
<td>2.49%</td>
<td>1.45%</td>
<td>1.22%</td>
</tr>
<tr>
<td>Non-interest expense to average assets</td>
<td>4.16%</td>
<td>4.48%</td>
<td>4.59%</td>
<td>3.99%</td>
<td>3.52%</td>
</tr>
<tr>
<td>Efficiency ratio</td>
<td>77.94%</td>
<td>80.92%</td>
<td>80.76%</td>
<td>84.51%</td>
<td>77.58%</td>
</tr>
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### ASSET QUALITY RATIOS:

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</thead>
<tbody>
<tr>
<td>Nonperforming loans to period-end loans</td>
<td>0.13%</td>
<td>0.21%</td>
<td>0.28%</td>
<td>0.48%</td>
<td>0.44%</td>
</tr>
<tr>
<td>Allowance for loan losses to period-end loans</td>
<td>0.56%</td>
<td>0.60%</td>
<td>0.70%</td>
<td>1.00%</td>
<td>1.26%</td>
</tr>
<tr>
<td>Ratio of allowance for loan losses to nonperforming loans</td>
<td>4.43x</td>
<td>2.90x</td>
<td>2.46x</td>
<td>2.10x</td>
<td>2.89x</td>
</tr>
<tr>
<td>Nonperforming assets to total assets</td>
<td>0.10%</td>
<td>0.16%</td>
<td>0.26%</td>
<td>0.52%</td>
<td>0.45%</td>
</tr>
<tr>
<td>Net charge-offs (recoveries) to average loans</td>
<td>0.07%</td>
<td>-0.01%</td>
<td>0.02%</td>
<td>-0.02%</td>
<td>0.16%</td>
</tr>
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### CAPITAL RATIOS\(^2\):

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</thead>
<tbody>
<tr>
<td>Total risk-based capital</td>
<td>11.24%</td>
<td>11.60%</td>
<td>11.62%</td>
<td>12.11%</td>
<td>13.09%</td>
</tr>
<tr>
<td>Tier 1 risk-based capital</td>
<td>10.67%</td>
<td>11.00%</td>
<td>10.93%</td>
<td>11.08%</td>
<td>11.84%</td>
</tr>
<tr>
<td>CETI risk-based capital(^3)</td>
<td>10.67%</td>
<td>11.00%</td>
<td>10.93%</td>
<td>11.08%</td>
<td>NA</td>
</tr>
<tr>
<td>Leverage ratio</td>
<td>8.83%</td>
<td>8.68%</td>
<td>8.81%</td>
<td>8.73%</td>
<td>9.27%</td>
</tr>
<tr>
<td>Equity to assets ratio</td>
<td>5.13%</td>
<td>5.01%</td>
<td>4.83%</td>
<td>4.35%</td>
<td>6.97%</td>
</tr>
<tr>
<td>Average equity to average assets</td>
<td>5.13%</td>
<td>4.92%</td>
<td>4.59%</td>
<td>6.88%</td>
<td>6.63%</td>
</tr>
</tbody>
</table>

### OTHER DATA:

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Number of banking offices</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Number of full time equivalent employees</td>
<td>182</td>
<td>210</td>
<td>216</td>
<td>194</td>
<td>151</td>
</tr>
</tbody>
</table>

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*The Company changed its tax election to an S Corporation effective January 1, 2016. Under an S Corporation election, corporate income, gains and losses are passed through to the shareholders. The Company is subject to corporate level taxation on unrealized built-in gains during a five-year recognition period beginning January 1, 2016. Earnings per share for 2016, 2017 and 2018 are represented on a pre-tax basis.

**Includes items related to the Company’s change in tax election to an S Corporation. The items include: non-recurring professional fees of $859,000; issuance of $18 million in long-term subordinated debt; the retirement of 1.84 million shares of common stock; $1.5 million deferred tax asset write-off, included in tax expense; a prepaid asset and liability of approximately $6.6 million for remaining share repurchases; and a reclassification of held-to-maturity securities to available-for-sale.

\(^1\) Excludes average nonaccrual loans.

\(^2\) Capital ratios are for bank only.

\(^3\) Introduced as a new capital measure effective January 1, 2015.
To the Shareholders and the Board of Directors  
North State Bancorp  
Raleigh, North Carolina

The accompanying condensed consolidated financial statements, which comprise the condensed consolidated balance sheets as of December 31, 2018 and 2017, and the related condensed consolidated statements of operations for the years then ended, are derived from the audited consolidated financial statements of North State Bancorp as of December 31, 2018 and 2017 and for the years then ended. We expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 28, 2019.

The condensed consolidated financial statements do not contain the disclosures required by accounting principles generally accepted in the United States of America. Reading the condensed consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of North State Bancorp.

Management’s Responsibility for the Condensed Consolidated Financial Statements
Management is responsible for the preparation of the condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America.

Auditor’s Responsibility
Our responsibility is to express an opinion about whether the condensed consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with auditing standards generally accepted in the United States of America. The procedures consisted principally of comparing the condensed consolidated financial statements with the related information in the audited consolidated financial statements from which the condensed consolidated financial statements have been derived, and evaluating whether the condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Opinion
In our opinion, the condensed consolidated financial statements of North State Bancorp as of December 31, 2018 and 2017 and for the years then ended referred to above are consistent, in all material respects, with the audited consolidated financial statements from which they have been derived.

Raleigh, North Carolina  
March 28, 2019
# North State Bancorp Condensed Consolidated Balance Sheets

*December 31, 2018 and 2017*

## Assets

<table>
<thead>
<tr>
<th>Item</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and due from banks</td>
<td>$13,027</td>
<td>$12,439</td>
</tr>
<tr>
<td>Interest-earning deposits with banks</td>
<td>48,302</td>
<td>53,090</td>
</tr>
<tr>
<td>Investment securities available for sale, at fair value</td>
<td>1,805</td>
<td>2,214</td>
</tr>
<tr>
<td>Investment securities held to maturity, at amortized cost</td>
<td>26,276</td>
<td>25,615</td>
</tr>
<tr>
<td>Loans held for sale</td>
<td>17,216</td>
<td>33,183</td>
</tr>
<tr>
<td><strong>Loans</strong></td>
<td>738,368</td>
<td>658,436</td>
</tr>
<tr>
<td>Less allowance for loan losses</td>
<td>4,164</td>
<td>3,951</td>
</tr>
<tr>
<td>Net loans</td>
<td>734,204</td>
<td>654,485</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>1,815</td>
<td>1,914</td>
</tr>
<tr>
<td>Federal Home Loan Bank and Federal Reserve stock, at cost</td>
<td>1,794</td>
<td>1,749</td>
</tr>
<tr>
<td>Premises and equipment, net</td>
<td>24,245</td>
<td>25,026</td>
</tr>
<tr>
<td>Bank owned life insurance</td>
<td>16,344</td>
<td>16,066</td>
</tr>
<tr>
<td>Prepaid for unexchanged common stock</td>
<td>961</td>
<td>1,061</td>
</tr>
<tr>
<td>Other assets</td>
<td>10,750</td>
<td>9,120</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$896,739</td>
<td>$835,962</td>
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</tbody>
</table>

## Liabilities and Shareholders’ Equity

<table>
<thead>
<tr>
<th>Deposits:</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand</td>
<td>$308,204</td>
<td>$270,936</td>
</tr>
<tr>
<td>Savings, money market and NOW</td>
<td>463,776</td>
<td>427,379</td>
</tr>
<tr>
<td>Time</td>
<td>38,447</td>
<td>56,505</td>
</tr>
<tr>
<td><strong>Total deposits</strong></td>
<td>810,427</td>
<td>754,820</td>
</tr>
<tr>
<td>Accrued interest payable</td>
<td>245</td>
<td>211</td>
</tr>
<tr>
<td>Payable for unexchanged common stock</td>
<td>961</td>
<td>1,061</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>406</td>
<td>505</td>
</tr>
<tr>
<td>Long-term borrowings, net</td>
<td>33,623</td>
<td>33,586</td>
</tr>
<tr>
<td>Accrued expenses and other liabilities</td>
<td>5,034</td>
<td>3,882</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>850,696</td>
<td>794,065</td>
</tr>
</tbody>
</table>

## Shareholders’ Equity

<table>
<thead>
<tr>
<th>Preferred stock, no par value, 1,000,000 shares authorized, none issued</th>
<th>—</th>
<th>—</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock, no par value; 10,000,000 shares authorized; 5,921,145 and 5,835,464 shares issued and outstanding, December 31, 2018 and 2017, respectively</td>
<td>7,230</td>
<td>6,088</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>38,903</td>
<td>35,874</td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td>(90)</td>
<td>(65)</td>
</tr>
<tr>
<td><strong>Total Shareholders’ Equity</strong></td>
<td>46,043</td>
<td>41,897</td>
</tr>
</tbody>
</table>

## Total Liabilities and Shareholders’ Equity

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>$896,739</td>
</tr>
<tr>
<td>Total Liabilities and Shareholders’ Equity</td>
<td>$896,739</td>
</tr>
<tr>
<td></td>
<td>2018</td>
</tr>
<tr>
<td>---------------------------</td>
<td>-----------</td>
</tr>
<tr>
<td>INTEREST INCOME</td>
<td></td>
</tr>
<tr>
<td>Loans</td>
<td>$33,064</td>
</tr>
<tr>
<td>Loans held for sale</td>
<td>776</td>
</tr>
<tr>
<td>Investments</td>
<td>552</td>
</tr>
<tr>
<td>Dividends and interest-earning deposits</td>
<td>1,490</td>
</tr>
<tr>
<td><strong>TOTAL INTEREST INCOME</strong></td>
<td><strong>35,882</strong></td>
</tr>
<tr>
<td>INTEREST EXPENSE</td>
<td></td>
</tr>
<tr>
<td>Savings, money market and NOW</td>
<td>1,234</td>
</tr>
<tr>
<td>Time deposits</td>
<td>232</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>2</td>
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<tr>
<td>Long-term borrowings</td>
<td>1,962</td>
</tr>
<tr>
<td><strong>TOTAL INTEREST EXPENSE</strong></td>
<td><strong>3,430</strong></td>
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<tr>
<td>NET INTEREST INCOME</td>
<td>32,452</td>
</tr>
<tr>
<td>PROVISION FOR (RECOVERY OF) LOAN LOSSES</td>
<td>700</td>
</tr>
<tr>
<td><strong>NET INTEREST INCOME AFTER PROVISION FOR (RECOVERY OF) LOAN LOSSES</strong></td>
<td><strong>31,752</strong></td>
</tr>
<tr>
<td>NON-INTEREST INCOME</td>
<td></td>
</tr>
<tr>
<td>Fees from mortgage operations</td>
<td>8,192</td>
</tr>
<tr>
<td>Fees and gains on sales from SBA operations</td>
<td>4,117</td>
</tr>
<tr>
<td>Other</td>
<td>2,199</td>
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<tr>
<td><strong>TOTAL NON-INTEREST INCOME</strong></td>
<td><strong>14,508</strong></td>
</tr>
<tr>
<td>NON-INTEREST EXPENSE</td>
<td></td>
</tr>
<tr>
<td>Salaries and employee benefits</td>
<td>20,845</td>
</tr>
<tr>
<td>Occupancy and equipment</td>
<td>3,891</td>
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<tr>
<td>Data processing and other outsourced services</td>
<td>4,794</td>
</tr>
<tr>
<td>Net cost of foreclosed assets</td>
<td>13</td>
</tr>
<tr>
<td>Other</td>
<td>7,058</td>
</tr>
<tr>
<td><strong>TOTAL NON-INTEREST EXPENSE</strong></td>
<td><strong>36,601</strong></td>
</tr>
<tr>
<td>NET INCOME</td>
<td>$9,659</td>
</tr>
<tr>
<td>NET INCOME PER COMMON SHARE</td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>$1.65</td>
</tr>
<tr>
<td>Diluted</td>
<td>$1.65</td>
</tr>
<tr>
<td>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>5,867,754</td>
</tr>
<tr>
<td>Diluted</td>
<td>5,867,754</td>
</tr>
</tbody>
</table>
Corporate Board of Directors

(Seated l to r) Burley Mitchell and Fred Smith • (Standing l to r) Charles Francis, Leslie Bristow, Forrest Ball, Hal Perry, Larry Barbour, Jack Stancil, Fred “Jule” Smith III and Jim Branch

FORREST H. BALL
President
Hartwell Realty, Inc.
Garner, NC

LARRY D. BARBOUR
President and CEO
North State Bancorp
and North State Bank
Raleigh, NC

JAMES C. BRANCH
Personal Investments
Retired
Raleigh, NC

LESLIE B. BRISTOW
Co-Owner
Bristow Landscaping, LLC
Wake Forest, NC

CHARLES T. FRANCIS
Attorney and Managing Member
The Francis Law Firm, PLLC
Raleigh, NC

THE HONORABLE BURLEY B.
MITCHELL JR.
Retired Chief Justice
North Carolina Supreme Court
Raleigh, NC

W. HAROLD (HAL) PERRY
Vice Chairman of the Board
North State Bancorp
Chief Executive Officer
Real Estate Marketing & Consulting, Inc.
Raleigh, NC

FRED J. SMITH JR.
Chairman of the Board
North State Bancorp
Chief Executive Officer
Fred Smith Company
Clayton, NC

FRED J. “JULE” SMITH III
President
Fred Smith Company
Raleigh, NC

JACK M. STANCIL
Private Investments
Retired Certified Public Accountant
Founder and Past President
Stancil & Company
Member, Board of Trustees
GuideStone Financial Services, Dallas, TX
Raleigh, NC
**DOWNTOWN RALEIGH**

David R. Crabtree  
*Anchor*  
WRAL-TV 5  
Raleigh, NC

Robin M. Hammond  
*Retired Attorney*  
Raleigh, NC

Rita Anita Linger, PhD  
*Executive Director*  
Recovery Communities of North Carolina  
Raleigh, NC

A. Patrick Roberts  
*Partner*  
Roberts Law Group, PLLC  
Raleigh, NC

Kerry B. Saunders  
*Executive Vice President and Chief Operating Officer*  
NAI Carolantic Realty  
Raleigh, NC

David L. Sherlin  
*Partner*  
Holt Sherlin, LLP  
Raleigh, NC

Megan Sherron  
*Assistant General Counsel*  
Campbell University  
Raleigh, NC

The Reverend Charles R. Tyner Sr.  
*Pastor and Chief Executive Officer*  
White Oak Missionary Baptist Church/White Oak Foundation  
Apex, NC

Thomas C. Worth Jr.  
*Attorney/Owner*  
Thomas C. Worth, Jr., Attorney at Law  
Raleigh, NC

M. Carter Worthy  
*President*  
Carter Worthy Commercial, Inc.  
Raleigh, NC

---

**GARNER**

David J. Adams, DMD, MS  
*Private Practice*  
Garner, NC

Jonathan D. Adams  
*Partner*  
John D. Adams & Co., CPAs, PLLC  
Garner, NC

Douglas Ball  
*President*  
Ball Rentals  
Garner, NC

David W. Bannister  
*President*  
DWB Properties, LLC  
Garner, NC

Johnny G. Blankenship  
*Vice President*  
Pipeline Utilities, Inc.  
Raleigh, NC

Lynda R. Herring  
*Attorney at Law*  
Lynda R. Herring, PA  
Garner, NC

Jerry E. Jones  
*President*  
Jones Insurance Agency  
Garner, NC

Scott D. Leonard  
*Owner/Vice President*  
Garner, NC

Jason D. "Dan" Moore  
*Managing Member*  
Ninja Cow Farm  
Raleigh, NC

Tracy W. Pleasant  
*President*  
Triangle Auto Sales  
Raleigh, NC

Judy M. Stephenson  
*Former Executive Vice President and Business Development Officer (retired)*  
North State Bank  
Raleigh, NC

---

**NORTH HILLS**

William T. Barker Jr.  
*President*  
Barker Realty, Inc.  
Raleigh, NC

C. Delaine Bradsher  
*Owner*  
Bradsher & Bunn Insurance Agency, Inc.  
Raleigh, NC

Victoria M. Herriott, MD  
*Pediatrician*  
Jeffers, Mann and Artman Pediatric and Adolescent Medicine, P.A.  
Raleigh, NC

James F. Jordan  
*Principal*  
Jordan Law Offices, P.A.  
Raleigh, NC

John E. Lawton  
*Consultant*  
Raleigh, NC

Nikhil ("Nik") Vyas, Esq.  
*Founder, Managing Attorney*  
Vyas Realty Law  
Raleigh, NC

---

**NORTH RALEIGH**

Robert Cerwin, MD  
*Radiologist (retired)*  
Wake Radiology Consultants  
Member of the Board of Trustees of Wake Med  
Raleigh, NC

David M. Fajgenbaum, MD  
*Chairman*  
North Raleigh Board North State Bank  
Orthopaedic Surgeon (retired)  
Bone & Joint Surgery Clinic  
Raleigh, NC

Leland E. Garrett, MD FACP FASN CPC  
*Chief Medical Officer*  
Contractor Medical Director Medicare Jurisdictions J & M  
Palmetto GBA  
Columbia, SC/Raleigh, NC

---

**WAKE FOREST**

J. Robert Craig  
*Outreach Pastor*  
North Wake Church  
Wake Forest, NC

Michael D. Feldbusch, CPA, CFP  
*Partner*  
Holden Moss, CPAs  
Raleigh, NC

James Gerds, CCIM  
*Real Estate Broker / Owner*  
SquareHat Real Estate  
Raleigh, NC
George E. Pittman  
Chairman  
Wake Forest Board North State Bank  
President  
Real Living Pittman Properties  
Raleigh, NC

Thomas G. Walters  
Agency Owner  
Walters Insurance Agency, Inc.  
Wake Forest, Wendell and  
Raleigh, NC

David Williams Jr.  
Owner/President  
Focus Design Builders  
Wake Forest, NC

WEST RALEIGH

Jamie Baker  
President  
The Lundy Group, Inc  
Raleigh, NC

Andy Curliss  
Chief Executive Officer  
North Carolina Pork Council  
Raleigh, NC

J. Mark Livingston  
Certified Public Accountant  
Hughes Pittman & Gupton, LLP  
Raleigh, NC

Robert E. Monroe  
Chairman  
West Raleigh Board North State Bank  
Partner  
Monroe Wallace & Morden PA  
Raleigh, NC

Don L. Oschwald, MD  
Plastic Surgeon  
Specialists in Plastic Surgery, PA  
Raleigh, NC

A. Silvia Ross  
Rheumatologist  
Triangle Arthritis & Rheumatology  
Associates  
Raleigh, NC

WILMINGTON

Thomas H. Fetzer Jr.  
President  
Fetzer Strategic Partners  
Wilmington NC

Rick Graves  
Senior Partner, Attorney at Law  
Graves May PLLC  
Wilmington, NC

Michael W. Head  
President  
CEPCO Property Management  
Wilmington, NC

Michael F. Stonestreet  
Chairman  
Wilmington Board North State Bank  
President  
CAMS, Inc.  
Wilmington, NC

Tara Tatum, CPA  
Practice Administrator  
Wilmington Plastic Surgery  
Wilmington, NC

Alan E. Toll  
Attorney/Partner  
Toll Ray & Associates, PLLC  
Wilmington, NC

Keith D. Walker  
CEO and President  
East Carolina Community  
Development Inc. (ECCDI)  
Beaufort, NC

Jenny Warwick, OD  
Co-Owner  
Seashore Eye Associates OD PLLC  
Wilmington, NC

Kenneth S. White, MD  
Plastic Surgeon / Partner  
Wilmington Plastic Surgery  
Specialists, PA  
Wilmington, NC
Management Team and Staff

**EXECUTIVE MANAGEMENT**

- **Larry D. Barbour**
  President
  Chief Executive Officer

- **Brian S. Hedges**
  Executive Vice President
  Chief Credit Officer

- **Jonathan N. Krieps**
  Executive Vice President
  Chief Operations Officer

- **Amanda M. Lloyd**
  Executive Vice President
  Chief People Officer

- **Stacy R. Reedy**
  Executive Vice President
  Chief Financial Officer

- **Stacey S. Koble**
  Senior Vice President
  Corporate Secretary

**SENIOR VICE PRESIDENT**

- **B. Wayne Adams**
  Chief Risk Officer
  Risk Management

- **Debra D. Adcock**
  Security & Risk Management Officer
  Risk Management

- **Kelly T. Arrington**
  Chief Mortgage Operations Officer
  Mortgage Operations

- **Gregory W. Asbelle**
  Director, Cash Management
  Bank Operations

- **Casey V. Atwater**
  Market President
  West Raleigh

- **Christopher R. Bruffey**
  CommunityPLUS Senior Commercial Officer
  CommunityPLUS

- **S. Alexander Covington**
  Director, IT & Cyber Security
  Bank Operations

- **Allison W. Ferguson**
  Director, Bank Operations Administration

- **M. Dean Gooden Jr.**
  Market President
  North Hills

- **Jonathan E. Hand**
  President, Specialized Lending Group
  Bank Operations

- **Susan R. Jordan**
  Mortgage Accounting Manager
  Mortgage Finance

- **Diane D. Klietsch**
  CommunityPLUS Relationship Banker
  CommunityPLUS

- **Sharon R. Moe**
  Market President
  Downtown Raleigh

- **Lawrence M. Moran**
  President, Government Lending
  Bank Operations

- **Kathy M. Nall**
  Human Resources Manager
  Human Resources

- **John H. Norwood**
  Market President
  North Raleigh

- **Kevin M. Payne**
  Market President
  Garner

- **Shannon S. Reaves**
  Chief Mortgage Sales Officer
  Mortgage Operations

- **Shaun L. Respess**
  Controller
  North Raleigh

- **Robert D. Ross**
  Commercial Banker
  North Raleigh

- **June A. Sadowski**
  Market President
  Wake Forest

- **Sabrina Sells**
  Market President
  Wilmington

- **Babette Stone**
  Director, Credit Administration
  Bank Operations

- **J. Kenneth Sykes**
  Senior Relationship Development Officer
  North Raleigh

- **Andrew T. Wheeler Jr.**
  SBA Business Development Officer
  Bank Operations

- **Gary L. Woodlief**
  President, CommunityPLUS
  CommunityPLUS

**VICE PRESIDENT**

- **Gina B. Bunch**
  Office Manager
  West Raleigh

- **Bret W. Burgess**
  Commercial Banker
  North Raleigh

- **Andrew P. Callanan**
  Credit Administration Officer
  Bank Operations

- **Sondra G. Collins**
  Mortgage Community Outreach Officer
  Southeast Raleigh

- **Debra C. Cook**
  Credit Administration Officer
  Bank Operations

- **Elaine C. Crabtree**
  Officer Manager
  Garner

- **Lauryln M. Fowler**
  Loan Operations Manager
  Bank Operations

- **D. Worth Joyner III**
  Mortgage Loan Officer
  North Raleigh

- **Tara M. Lau**
  Commercial Banker
  North Hills

- **Frank B. Layne**
  Senior Leasing Officer
  Bank Operations

- **Laura V. Miller**
  Retail & Business Banker
  Wilmington

- **Ruth A. Payne**
  Office Manager
  North Raleigh

- **Kelly H. Purcell**
  Deposit Support Manager
  Bank Operations

- **Kyle H. Robbins**
  SBA Underwriter Supervisor
  Tennessee

- **Mark B. Shuffler**
  Commercial Banker
  Wilmington

- **Mark W. Snyder**
  Credit Administration Officer
  Bank Operations

- **Susan L. Watkins**
  SBA Operations Supervisor
  Bank Operations

- **Cameron A. Young**
  Secondary Market Manager
  Mortgage Operations

**ASSISTANT VICE PRESIDENT**

- **Bert V. Bornsesser IV**
  Mortgage Systems Administrator
  Mortgage Operations

- **Thomas W. Eller**
  Mortgage Loan Officer
  Mortgage Operations

- **James E. Evans**
  Commercial Loan Portfolio Manager
  Downtown Raleigh

- **Rhonda E. Faucette**
  Mortgage Loan Officer
  North Hills

- **Sherry P. Green**
  Mortgage Loan Officer
  Mortgage Operations

- **Ryan P. Hartman**
  Bank Operations Specialist
  Bank Operations
Management Team and Staff (cont’d.)

William L. Hood  
Commercial Loan Portfolio Manager  
Wilmington

Jumeekah L. Ingram  
Office Manager  
North Hills

Laura P. Jeffries  
Mortgage Underwriting & Appraisal Supervisor  
Mortgage Operations

Shaunnika N. Johnson  
Commercial Loan Portfolio Manager  
North Hills

John G. Lehman  
Commercial Loan Portfolio Manager  
North Raleigh

Grayson R. Merrill  
Commercial Loan Portfolio Manager  
Bank Operations

Sean J. Nock  
Mortgage Loan Officer  
Southeast Raleigh

Linda F. O’Dell  
Accounting Supervisor  
Finance

Adam C. Parker  
Audit & Compliance Officer  
Risk Management

Daniel J. Pedroni  
Mortgage Loan Officer  
Wilmington

S. Boyd Pringle  
Mortgage Closing & Shipping Supervisor  
Mortgage Operations

Sharmorrow Proctor  
Mortgage Underwriter  
Mortgage Operations

Kyle B. Smith  
Commercial Loan Portfolio Manager  
North Raleigh

Amanda F. Turnage  
Deposit Support Supervisor  
Bank Operations

Michael A. Vincent  
Loan Operations Supervisor  
Bank Operations

Holly A. Walter  
Office Manager  
Wake Forest

Lynn E. Westley  
Mortgage Processing Supervisor  
Wilmington

BANKING OFFICER

Danny L. Conner  
Commercial Banking Assistant  
Wilmington

Karen M. Kilmer  
Banker Loan Assistant  
Bank Operations

Katherine B. Skaggs  
Lockbox Supervisor  
Bank Operations

BANKING STAFF

John Abdella  
Assistant Network Administrator  
Bank Operations

Cody Adcock  
Loan Documentation Specialist  
Bank Operations

Virginia Dell Allen  
Mortgage Loan Officer  
Wilmington

James R. Bailey  
Courier  
Bank Operations

K. Shay Barkley  
SBA Business Development Officer  
Georgia

Amanda F. Turnage  
Deposit Support Supervisor  
Bank Operations

Michael A. Vincent  
Loan Operations Supervisor  
Bank Operations

Holly A. Walter  
Office Manager  
Wake Forest

Lynn E. Westley  
Mortgage Processing Supervisor  
Wilmington

BANKING OFFICER

Danny L. Conner  
Commercial Banking Assistant  
Wilmington

Karen M. Kilmer  
Banker Loan Assistant  
Bank Operations

Katherine B. Skaggs  
Lockbox Supervisor  
Bank Operations

BANKING STAFF

John Abdella  
Assistant Network Administrator  
Bank Operations

Cody Adcock  
Loan Documentation Specialist  
Bank Operations

Virginia Dell Allen  
Mortgage Loan Officer  
Wilmington

James R. Bailey  
Courier  
Bank Operations

K. Shay Barkley  
SBA Business Development Officer  
Georgia

Dannette Barnes  
Mortgage Loan Processor  
Fayetteville

Andrea P. Barton  
Accounting Specialist  
Finance

M. Dion Bennett  
Banker Loan Assistant  
Bank Operations

L. Mechelle Berndt  
Commercial Banking Assistant  
Bank Operations

Iris G. Best  
Lockbox Customer Service Representative  
Bank Operations

Lawrence R. Bevis  
Courier  
Bank Operations

Deborah C. Birkenmeyer  
Human Resources Assistant  
Human Resources

Melanie E. Blanton  
Mortgage Loan Officer Assistant  
North Raleigh

Cynthia F. Buzak  
Office Manager  
Downtown Raleigh

Laurie A. Clark  
Mortgage Systems Specialist  
Mortgage Operations

Tandra L. Clifton  
Teller  
North Raleigh

Patricia L. Foster  
Teller  
Wilmington

Sherryl L. Fradenburg  
Mortgage Post-Closing Specialist  
Mortgage Operations

JoAnn M. Galloway  
Mortgage Post-Closing Assistant  
Mortgage Operations

Donna T. Gavan  
Mortgage Loan Officer  
Wake Forest

Stephanie L. Gavidia  
Relationship Banking Specialist  
Wake Forest

Turner C. Gaw  
SBA Business Development Officer  
Tennessee

Debra D. Hause  
Mortgage Marketing Specialist  
Wilmington

Michael F. Hawks  
Incoming Wire Specialist  
Bank Operations

Cynthia L. Heidinger  
Lockbox Operator  
Bank Operations

James T. Hobgood  
Mortgage Lock Desk Specialist  
Mortgage Operations

Lisa Q. Hobgood  
Office Manager  
Wilmington

Christy B. Jackson  
Loan Documentation Specialist  
Bank Operations

Daryl Johnson  
Mortgage Servicing Specialist  
Bank Operations

Kimberly P. Kasai  
Banker Loan Assistant  
Bank Operations

Amanda M. Kitts  
SBA Servicer  
Tennessee

Brian E. Lawlor  
SBA Business Development Officer  
Missouri
<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nikki N. McCray</td>
<td>Deposit Support Fraud Specialist</td>
<td>Bank Operations</td>
</tr>
<tr>
<td>Sanjay H. Mishra</td>
<td>SBA Business Development Officer</td>
<td>Bank Operations</td>
</tr>
<tr>
<td>Steven L. Mitchell</td>
<td>Mortgage Loan Officer</td>
<td>Wilmington</td>
</tr>
<tr>
<td>Alec D. Mohn</td>
<td>Teller</td>
<td>Garner</td>
</tr>
<tr>
<td>Emily I. Molgaard</td>
<td>Lead Teller</td>
<td>West Raleigh</td>
</tr>
<tr>
<td>Angela D. Monroe</td>
<td>Document Quality Assurance Specialist</td>
<td>Bank Operations</td>
</tr>
<tr>
<td>Patrick R. Moore</td>
<td>SBA Business Development Officer</td>
<td>Tennessee</td>
</tr>
<tr>
<td>Michele D. Mullins</td>
<td>Mortgage Underwriter</td>
<td>Fayetteville</td>
</tr>
<tr>
<td>Kaitlyn K. Murphy</td>
<td>Relationship Banking Specialist</td>
<td>West Raleigh</td>
</tr>
<tr>
<td>Tara B. Newton</td>
<td>Mortgage Loan Officer</td>
<td>Bank Operations</td>
</tr>
<tr>
<td>Sabiny O’Rourke</td>
<td>Teller</td>
<td>North Raleigh</td>
</tr>
<tr>
<td>Alka P. Patel</td>
<td>Teller</td>
<td>North Raleigh</td>
</tr>
<tr>
<td>Anita J. Patel</td>
<td>SBA Specialist</td>
<td>Bank Operations</td>
</tr>
<tr>
<td>Christopher J. Patterson</td>
<td>System Support Specialist</td>
<td>Bank Operations</td>
</tr>
<tr>
<td>Debra S. Peoples</td>
<td>Loan Servicing Specialist</td>
<td>Bank Operations</td>
</tr>
<tr>
<td>Elaine M. Perrigo</td>
<td>Deposit Support Document Specialist</td>
<td>Bank Operations</td>
</tr>
<tr>
<td>Cheryl H. Pettiford</td>
<td>Mortgage Servicing Specialist</td>
<td>Bank Operations</td>
</tr>
<tr>
<td>Bonnie S. Powell</td>
<td>Outgoing Wire Specialist</td>
<td>Bank Operations</td>
</tr>
<tr>
<td>John A. Purcell</td>
<td>Teller</td>
<td>West Raleigh</td>
</tr>
<tr>
<td>Christina S. Richardson</td>
<td>Lockbox Operator</td>
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<td>E. Shane Richardson</td>
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<td>Connie L. Rieske</td>
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<td>Dwight Scott</td>
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<td>Susan R. Selwanes</td>
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<td>Megan Sewell</td>
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<td>Pamela A. Smallwood</td>
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<td>Lease Processor</td>
<td>Greenville</td>
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<td>Deloris C. Smith</td>
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<td>Maria E. Smith</td>
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<td>Tabitha M. Staley</td>
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<td>Evelyn D. White</td>
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