

North State Bancorp (Not Publicly Traded)

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ASSETS: \$1.3 BB

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1ST QUARTER HIGHLIGHTS:

EARNINGS WERE \$0.13 PER SHARE ABOVE PROJECTIONS

NET INCOME INCREASED 120%

EPS: \$0.97 VS. \$0.45

THE SOLID EARNINGS GROWTH WAS ACHIEVED DESPITE A SUBSTANTIALLY HIGHER PROVISION FOR LOAN LOSSES

SOLID GROWTH OF 29% IN EARNING ASSETS OFFSET LOWER MARGINS

NET INTEREST INCOME INCREASED 19%

NONINTEREST INCOME AS A PERCENTAGE OF TOTAL REVENUES CONTINUES TO INCREASE

NONINTEREST INCOME GREW 60%, BENEFITING FROM MORTGAGE OPERATIONS AND SBA LOAN SALES

Price: *	\$16.00	EPS	2019A:	\$1.95	P/E	2019A:	8.2x
52 Wk. Range:	N/A	(FY: DEC)	2020A:	\$2.53		2020A:	6.3x
Distributions (Estimated):	\$2.15		2021E:	\$2.30		2021E:	7.0x
Shares:	6.1 mm	Book Value:		\$10.17	Price/Book Value:		1.57x

* Stock is not actively traded. Last known trade. Tangible book value is \$9.82.

Background

North State Bancorp (the “Company”) is a single bank holding company headquartered in Raleigh, North Carolina with approximately \$1.3 billion in assets as of March 31, 2021. Its bank subsidiary is North State Bank, a commercial bank that began operations on June 1, 2000. North State Bancorp serves Wake and New Hanover Counties through seven full-service offices. The Company focuses on serving the total banking needs of small businesses and individuals, professional firms, professionals, property management companies, churches, non-profits and any others who value a mutually beneficial banking relationship. Market areas include Raleigh, Garner, greater Wake County and New Hanover County. The Company is an S-Corporation for tax purposes.

First Quarter Earnings Doubled and Beat Estimates

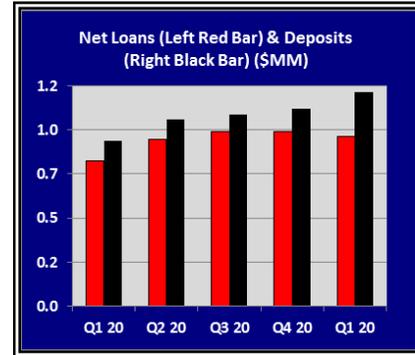
North State Bancorp started the first quarter of 2021 with excellent results, as net income more than doubled from the year-ago quarter and earnings outpaced our projections by \$0.13 per share, due mostly to excellent growth in noninterest income, which increased more than anticipated. The balance sheet continued to accelerate, also increasing in the double-digits, and not surprisingly, the Company’s profitability and efficiency measures greatly improved as well.

North State Bancorp reported net income in the first quarter of 2021 of \$5,936,000, or \$0.97 per share, versus \$2,702,000, or \$0.45 per share, in the year-ago quarter. The strong earnings growth reflected higher total revenues and modest growth in expenses, and was achieved despite a higher provision for loan losses, which increased to \$660,000 from \$225,000 in 2020’s first quarter. As has been the case for the past several quarters, the net interest margin remained under pressure, decreasing to 3.55% in 2021’s first quarter from 3.78% in the year-ago quarter, though earning asset growth of 29% more than offset the compression. The net effect was that net interest income grew 19% to \$10,435,000 in the first quarter of 2021 from \$8,796,000 in the year-ago quarter. (Most of this increase was due to the recognition of PPP deferred fee income, which totaled \$1.26 million in 2021’s first quarter.) Noninterest income continues to be another key contributor to North State’s total revenue growth. Specifically, noninterest income totaled \$6,511,000 in 2021’s first quarter, up 60% from \$4,067,000 in the year-ago quarter, and increased as a percentage of total revenues to 37% in 2021’s first quarter from 29% in the year-ago quarter. As can be seen from the adjacent table, much of this strength came from the mortgage area, although there was exceptional growth in the SBA area as well. Looking ahead, we believe there is some risk that momentum in the mortgage area could moderate, although it is important to keep in mind that the Bank has done a good job of keeping many of its expenses in this area variable, which would mitigate the impact on earnings

NONINTEREST INCOME COMPONENTS (\$000s)			
	Q1 '20	Q1 '21	% Change
Fees from Mortgage	2,963	4,736	59.8
Gains Sale SBA	421	1,263	200.0
Deposit Svc. Charges	119	66	-44.5
Merchant	287	160	-44.3
BOLI	67	62	-7.5
Wealth Mngmt.	3	14	366.7
Other	207	210	1.5
Total	4,067	6,511	60.1

from a slowdown. Cost control was also evident in the quarter, as noninterest expense increased a modest 4% to \$10,350,000 in 2021's first quarter from \$9,936,000 in the year-ago quarter, with the majority of the growth coming from higher salaries and employee benefits, as well as data processing and other outsourced sources.

Loans Grew 17% and Deposits Were Up 29% Over the Past Year



Balance sheet growth over the past year was led by deposits, though loan growth was also strong. From March 31, 2020 to March 31, 2021, net loans increased 17% to \$926 million, deposits were up 29% to \$1.16 billion and total assets grew 27% to \$1.27 billion. While much of this growth resulted from PPP, we would note that that program has ultimately created a host of new relationships for the Bank. And the momentum stays strong, as deposits grew 8% (34% on an annualized basis) in the past three months. Looking ahead, the Bank's high ROAE should support this ongoing growth. Shareholders' equity at March 31, 2021 was \$62.3 million, or 4.91% of total assets.

North State's Efficiency Ratio Has Benefitted from Surge in Revenues

North State has seen a significant improvement in its efficiency ratio over the past year. While much of this is due to the surge from mortgage and SBA (as well as PPP fees), it does strike us as noteworthy

NORTH STATE BANCORP					
	Q1 '20	Q2 '20	Q3 '20	Q4 '20	Q1 '21
Assets Per Employee (\$MM)	5.5	6.9	6.4	6.0	6.3
Efficiency Ratio (%)	77.2	73.4	71.9	67.7	61.1

that this has occurred while the Bank has been actively adding personnel. For example, during the first quarter of 2021, North State added three commercial loan portfolio managers and a director of credit administration, which

should benefit the overall quality of the Company's loan portfolio. Moreover, in the past year, it has added 19 FTEs, bringing the total to 200 at March 31, 2021. (Nearly half of these additions were mortgage related.) Even with the staff additions, assets per employee have increased from \$5.5 million in 2020's first quarter to \$6.3 million in 2021's first quarter, and the efficiency ratio likewise improved. We would also note that the North State average assets per employee, which is better (higher) than the typical bank in the Carolinas and Virginia, is somewhat lower than normal for North State Bank due to the elevated number of mortgage related employees.

Nonperforming Assets/Total Assets Decreased Over the Past Year, Reserves Up 41%

Asset quality remains good. Nonperforming assets ("NPAs", excluding restructured loans) were \$3.8 million, or 0.30% of total assets, at March 31, 2021, as compared to \$3.6 million, or 0.31% of total assets, at December 31, 2020, and \$3.7 million, or 0.38% of total assets, at the year-ago date. Reserve coverage improved, with the allowance for loan losses increasing to \$7.3 million, or 0.78% of total loans, at March 31, 2021, from \$5.2 million, 0.65% of total loans, at the year-ago date. The allowance as a percentage of non-PPP loans (PPP loans are guaranteed) was 0.87% as of March 31, 2021.

Projections

Although first quarter of 2021 results were better than expected, we are maintaining our 2021 earnings projections at \$14.1 million, or \$2.30 per share. We would note that we expect the provision to remain elevated for the next several quarters given the continued economic uncertainty. As stated previously, actual earnings could vary substantially from these projections given the economic uncertainties.

FROM MARCH 31, 2020 TO MARCH 31, 2021:

NET LOANS GREW 17%, DEPOSITS WERE UP 29% AND TOTAL ASSETS INCREASED 27%

DEPOSIT GROWTH HAS BEEN ACCELERATING

EQUITY/ASSETS: 4.91%

NORTH STATE HAS ADDED SEVERAL STRATEGIC KEY NEW HIRES OVER THE PAST YEAR

ASSETS PER EMPLOYEE INCREASED TO \$6.3 MILLION IN 2021'S FIRST QUARTER FROM \$5.5 MILLION IN THE YEAR-AGO QUARTER

THE EFFICIENCY RATIO HAS DECREASED (IMPROVED) AS WELL

NPAs/ASSETS: 0.30% VS. 0.38% AT THE YEAR-AGO DATE

RESERVES/LOANS: 0.78% (0.87% EXCLUDING PPP LOANS)

EPS:
2019A: \$ 1.95
2020A: \$ 2.53
2021E: \$ 2.30

ADDITIONAL INFORMATION UPON REQUEST

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