

# NORTH STATE BANK

*Experience relationship banking.*



REPORT FOR NORTH STATE BANCORP SHAREHOLDERS | FALL 2006

## MESSAGE FROM THE PRESIDENT



Communicating to you, our shareholders, is a top priority at North State Bank. Because of the trust and confidence you have placed in us, we have been able to create a community bank which now has more than \$400 million in assets, a good operating history, and focused plans for our future. We will always strive to keep you informed about our progress.

For the third quarter ended September 30, 2006, North State Bancorp (the "Company"), the holding company for North State Bank, reported net income of

\$870,000 or \$0.18 per diluted share, compared to \$717,000 or \$0.15 per diluted share for third quarter 2005, an increase of 21.3%. For the nine months ended as of the same date, the Company reported net income of \$2.3 million, compared to net income of \$1.76 million as of September 30, 2005, an increase of 31%. Earnings per diluted share for the nine months ended for 2006 and 2005 were, respectively, \$0.49 and \$0.38. These earnings reflect the 50% stock split effected in the form of a dividend announced in August, our sixth split since we opened in 2000.

Total assets for the Company as of September 30, 2006, were \$444.2 million, compared to \$373.3 million at September 30, 2005, an increase of 19.0%. Total deposits for the Company at September 30, 2006, were \$396.8 million and total loans were \$327.3 million, compared to total deposits of \$334.9 million and total loans of \$273.7 million reported for the third quarter 2005, increases of 18.5% and 19.6%, respectively.

I have spoken recently about the importance of alignment and focus. It is imperative that we have staff and customers who are well-aligned with our values, vision, and plans for improvement. According to noted author Steven Covey, "The key to progress is having a clear sense of destination and direction, and continually returning to course . . . otherwise you are just straightening the deck chairs on the *Titanic*."

Improvement always begins with a good attitude. Successful people with good attitudes are able to more adequately face hurdles, and realize that overcoming challenges and obstacles is a normal part of life. They are able to embrace the idea once expressed by Ralph Waldo Emerson, who said, "What lies behind and what lies before us are tiny matters compared to what lies within us." We will continue to grow and improve our performance through the growth and improvement

of our people who, in turn, will help us maintain our clear vision and take ownership of our strategic thinking, planning, and execution.

As we strive to grow our bank and improve our performance, we are reminded of the importance of contributing to our community. Recently, the E. Carroll Joyner Visitor Center at North Carolina State University held a ribbon-cutting ceremony. The building is named in honor of Carroll Joyner, a good friend and customer of North State Bank. We were pleased to donate the necessary funds to furnish the boardroom. We will continue to participate in worthwhile civic and charitable events in our community in order to enhance lives of citizens in Wake County.

In early October, we celebrated the opening of our Wake Forest office. More than 300 people honored us with their attendance at this event, which marks the next step in our plans to become a dominant and high-performing bank in the Wake Forest community. I am pleased and proud of Jonathan Hand, vice president and market office executive, and his entire staff for their commitment to providing superior customer service in this market.

In late October, we were able to tell our story to a significant number of friends and supporters in the Wilmington area as we celebrated the opening of our loan production office there. The event gave us an opportunity to reflect on the success we've seen there since June, and to share our plans for the future. We are currently looking for permanent space for our full-service office and will keep you abreast of our progress in that regard.

North State Bank is committed to using technology to enable us to provide higher levels of convenience and service for our customers. We are presently implementing a service that allows us to accept deposits from our customers' offices called DepositScan. Customers can make deposits at their place of business up to 5:00 p.m., with the funds available for use the next business day.

Thank you for your continued confidence, support, and advocacy as we strive for even higher performance. If we can be of service, I hope that you will call on any of our staff at one of our offices who will always be pleased to explain our bank services to you.

Very cordially,

Larry D. Barbour  
President and CEO

---

**"Successful people with good attitudes are able to more adequately face hurdles, and realize that overcoming challenges and obstacles is a normal part of life."**

---

## CELEBRATION IN WAKE FOREST!

"I believe we can all still remember the cold December day when we stood on this site for the ground breaking. Now, here we are celebrating our new building in the Wake Forest and Wakefield community, anticipating continued growth and commitment to this area.

"When we say experience relationship banking, 'relationship' is not just a word but a belief that is part of the foundation of this bank. We hold up values like integrity, hard work, fairness, teamwork, and consistency as our guide. Relationship is how we provide unique value to our customers — it's our point of differentiation. We will be passionate about developing long-lasting relationships."

Jonathan Hand, Vice President  
and Wake Forest Market Executive



Joining in the ribbon cutting celebration were (l to r): Dr. Ron Rowe, pastor of Bay Leaf Baptist Church; Jonathan Hand, vice president and Wake Forest market executive of North State Bank; Larry Barbour, president and CEO of North State Bank; Joe Rucker, executive vice president of JD Beam, Inc.; Bob Pace, chairman of North State Bank's Wake Forest Advisory Board; and Vivian Jones, mayor of Wake Forest.

A beautiful fall day graced a full day of celebration at our new Wake Forest office on New Falls of Neuse Road. A ribbon cutting started the morning, followed by a brief ceremony and a light breakfast. That evening, we held a reception that drew a crowd estimated at 300 people. A string trio played in the background as attendees enjoyed refreshments catered by Michael Dean's Seafood Grill & Oyster Bar while they toured the office.

introduce the staff and advisory board members, recognizing the impact the staff and board have played in the early success of the office. Joe Rucker, a representative from the contractor J.D. Beam, architect Harold Annis, and interior designer Brenda Bateman were all on hand for the celebration. Mark Fleming, executive director of the Wake Forest Chamber of Commerce spoke briefly, welcoming North State Bank to the area.

"We are so excited about all the possibilities in this market," stated Jonathan Hand, vice president and Wake Forest market executive. "We have had a loan production office here for three years, but with a full-service office we can really expand our ability to meet this community's financial needs."

The opening celebrations were hailed a success, and we eagerly anticipate the positive contribution the Wake Forest office will have on our bank and the Wake Forest community.

Hand and Larry Barbour, North State Bank's president and CEO, welcomed everyone and took a few moments to



David Williams, President of the Wake Forest Chamber of Commerce, takes a moment to congratulate North State Bank's Jonathan Hand on the office opening.

## CUSTOMER APPRECIATION DAY



What better way to say thank you than with food, giveaways and special attention? In August, we held a Customer Appreciation Day at our North Hills office. "This was our first customer appreciation event since opening last year. We just wanted to thank everyone that comes in to do business," said teller Rita Tolley.

More than 200 people stopped in throughout the day including many families. "I think everyone who stopped by enjoyed the fun atmosphere," Tolley said. "They grabbed a bag of popcorn, got some ice cream for their kids and chatted with North State Bank staff. It was very laid-back and casual — a great opportunity for customers to get to know us."

Pictured at left: North State Bank's Virginia Watson (r) takes a moment to talk with customer Al Proctor over ice cream.

GETTING TO KNOW...

DENISE BARBOUR

After working with a larger bank like Central Carolina Bank (now SunTrust) for more than 20 years, joining a community bank could have been culture shock. However, Denise Barbour, office manager of the Wake Forest office, said she felt like she stepped into a family.



“North State Bank has such a different philosophy,” she said. “Everything is about relationships — with other staff members and particularly with customers. We’re encouraged to call them and know what’s going on with them, both professionally and personally.”

Denise has more than 25 years of banking experience, serving in positions such as teller, customer service representative, and branch manager. She and her husband, Buddy, live in Creedmoor where she serves in several capacities at Brassfield Baptist Church, is a member of the Ladies Auxiliary for the Brassfield Volunteer Fire Department, and is the treasurer for the Youngsville Area Business Association. In her spare time, Denise enjoys swimming, going to the beach, and cooking. She anticipates that spending time with her first grandchild, due in early 2007, may become a favorite pastime as well.

As a member of a large family — she has six brothers and sisters — Denise learned early in life to treat people with respect and to keep things moving forward. “My father said to always give it your all. You have to take whatever you’re given and make the best of it,” she stated. In her role, she believes she has the best in the staff she works with, saying that, “when you are surrounded with good people and work as a team, the possibilities can really be limitless.”

Looking to the future, Denise commented that, “We are in such a great place right now. Wake Forest is growing and will really explode over the next 10 years. Everyone wants to partner with the town, and North State Bank is going to be there.”

RECENT HISTORY OF NORTH STATE BANCORP'S SHARE PRICE COMPARED TO THE SNL SOUTHEAST BANK INDEX



SUMMARY BALANCE SHEET

As of September 30, 2006  
(in thousands)

ASSETS	
Cash, due from banks	\$ 16,518
Interest-earning deposits with banks	1,473
Federal funds sold	49,293
Investment securities available for sale at fair value	41,743
Loans less allowance (\$4,247)	323,056
Other assets	12,135
<b>Total assets</b>	<b>\$ 444,218</b>

LIABILITIES AND SHAREHOLDERS' EQUITY	
Demand deposits	\$ 114,439
Interest-bearing deposits	282,363
Total deposits	396,802
Other borrowings	18,968
Other liabilities	2,906
Total liabilities	418,676

SHAREHOLDERS' EQUITY	
Total shareholders' equity	25,542
<b>Total liabilities and shareholders' equity</b>	<b>\$ 444,218</b>

SUMMARY STATEMENT OF INCOME AND EXPENSE

For the quarter and nine months ended September 30, 2006  
(in thousands except per share data)

	Quarter	Year-to-date
Interest income	\$ 6,908	\$ 19,126
Interest expense	3,072	8,150
Net interest income	3,836	10,976
Provision for loan losses	85	461
Net interest income after provision for loan losses	3,751	10,515
Noninterest income	273	853
Noninterest expenses	2,638	7,687
Net income before income taxes	1,386	3,681
Income tax expense	516	1,369
<b>Net income</b>	<b>\$ 870</b>	<b>\$ 2,312</b>
<b>Earnings per diluted share</b>	<b>\$ 0.18</b>	<b>\$ 0.49</b>

SIGNIFICANT RATIOS

For the quarter ended September 30, 2006

Return on average assets	0.85%
Return on average equity	14.68%
Efficiency ratio	64.20%
Nonperforming loans	\$ 0
Ratio of allowance for loan losses to nonperforming and nonaccrual loans	NA
Allowance for loan losses to loans	1.30%

The information as of and for the quarter and nine months ended September 30, 2006, as presented is unaudited. This newsletter contains forward-looking statements. The actual results might differ materially from those projected in the forward-looking statements for various reasons, including our ability to manage growth, our limited operating history, substantial changes in financial markets, regulatory changes, changes in interest rates, loss of deposits and loan demand to other savings and financial institutions, and changes in real estate values and the real estate market. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the company's sec filings, including its periodic reports under the securities exchange act of 1934, as amended, copies of which are available upon request from the company.



# NORTH STATE BANK

P.O. Box 18367  
Raleigh, NC 27619

PRSR STD  
US Postage  
PAID  
Raleigh, NC  
Permit No. 2214

Please call Kirk Whorf at 919-645-2707 or email him at [kwhorf@northstatebank.com](mailto:kwhorf@northstatebank.com) to update your mailing address.

## Save the Date

### SUMMER SALUTE 2007

The 2007 North State Bank Summer Salute for Hospice of Wake County will be Saturday, June 2, 2007, at North Ridge Country Club. Watch the Summer Salute page on our website ([www.northstatebank.com](http://www.northstatebank.com)) for more information.

North State Bank / Raleigh 919-787-9696



[www.northstatebank.com](http://www.northstatebank.com)

## THE NEW E. CARROLL JOYNER VISITOR CENTER OPENS



September marked a momentous occasion as the E. Carroll Joyner Visitor Center officially opened with a ribbon-cutting ceremony, becoming the “new front door” to N.C. State University. We were on hand to honor Carroll Joyner, a long-time customer and friend of the bank, to celebrate the opening, and to take a first look at the boardroom furnishings for which North State Bank donated funding.

exhibit space, is located just off Western Boulevard, adjacent to the McKimmon Center. Visitors can view multimedia kiosks, videos, and other graphic images about N.C. State’s teaching, research, and extension. The exhibits provide information about the university and its achievements to prospective students and their parents, as well as to student groups on field trips touring the university.

The 27,000-square-foot Visitor Center, which includes 2,200 square feet of

We are pleased to be able to honor a friend and to be part of the changing face of North Carolina State University.



*Pictured at left: Carroll Joyner shares his enthusiasm about the new visitor center at his alma mater.*

*Pictured above: In the board room where North State Bank funded the furnishings are Phillip Frye, North Raleigh office manager for North State Bank; Hal Perry, North State Bank Board member; Larry Barbour, president and CEO of North State Bank; and Leslie Bristow, public relations specialist for North State Bank.*