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North State Bancorp (NSBC- OTC Bulletin Board)

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Price:	\$23.60	EPS *	2005A:	\$0.53	P/E	2005A:	44.5 x
52 Wk. Range:	\$14.67 - \$26.75	(FY: DEC)	2006A:	\$ 0.69		2006A:	34.2 x
Div/Div Yld:	\$0.00 / 0.0%		2007E:	\$ 0.76		2007E:	31.1 x
Shrs/Mkt Cap:	4.5 mm / \$107 mm	Book Value:		\$ 5.86	Price/Book Value:		4.03 x

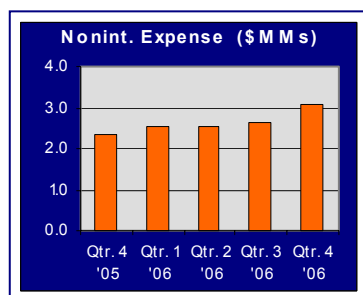
* Earnings per share are diluted.

Background

North State Bancorp ("the Company") is a single bank holding company headquartered in Raleigh, North Carolina with approximately \$456 million in assets as of December 31, 2006. Its bank subsidiary is North State Bank, a commercial bank that began operations on June 1, 2000. North State Bancorp serves Raleigh, Garner and Wake Forest, North Carolina through three full-service offices in Raleigh, one office (each) in Garner and the Wake Forest area and a loan production office in Wilmington, NC. The full-service office serving Wake Forest was opened in August 2006 and replaced a loan production office. The Company focuses on serving the total banking needs of professional firms, professionals, property management companies, churches and individuals who highly value a mutually beneficial banking relationship in the Raleigh, Garner and greater Wake County (and recently, New Hanover County) market areas. Loan products include business products, such as commercial lines of credit, loans for equipment, owner occupied commercial mortgages and other commercial real estate loans and personal lines of credit, such as home equity loans, first and second mortgages and auto loans. Product deposit services include demand deposits, money market accounts, consumer and business time deposits, remote capture and sweep accounts. North State Bancorp also offers debit cards, ATM access, home and business banking via the Internet and courier services for businesses. Insiders own approximately 52% of the outstanding stock.

Net Income Increased 42% for the Fourth Quarter and 34% for the Year 2006

North State Bancorp reported strong results for both the fourth quarter and full year of 2006. For the fourth quarter of 2006, the Company reported net income of \$960,000, or \$0.20 per diluted share, up 42%, or 43% on an earnings per share basis, from \$677,000, or \$0.14 per diluted share, for the year-ago quarter. The EPS figure was \$0.02 ahead of estimates. However, we would note that there was a *credit* for loan losses in the fourth quarter of 2006 of \$392,000, compared to a provision for loan losses of \$215,000 in the year-ago quarter. The credit for loan losses occurred due to substantial recoveries in 2006 of loans that had been charged off prior to 2006, a decline in the level of loan charge-offs in the year and enhancements in the methodology used to estimate the allowance for loan losses.



Noninterest expense growth was a little higher than normal in the fourth quarter, increasing 29% to \$3,056,000 versus \$2,363,000 for the year-ago quarter (see the adjacent chart). In part, the increase in noninterest expense was due to the additional expenses associated with the Wakefield office that was opened in the third quarter and, to a lesser extent, the opening of a loan production office in Wilmington in June. Additionally, noninterest expense in 2006's fourth quarter included an accounting adjustment for North Hills' office rent of \$46,000 and additional lease expense for a downtown Raleigh office that is scheduled to open later this year. The rest of the underlying fundamentals were quite positive in the fourth quarter of 2006.

ASSETS: \$456 MM

HQ: RALEIGH, NC

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4TH QUARTER HIGHLIGHTS:

RESULTS WERE \$0.02 AHEAD OF PROJECTIONS, THOUGH THIS WAS MOSTLY DUE TO THE CREDIT FOR LOAN LOSSES

NET INCOME GREW 42%, OR 43% ON AN EPS BASIS

EPS: \$0.20 VS. \$0.14

NET INTEREST INCOME WAS UP 15%, WHILE NONINTEREST INCOME WAS FLAT

NONINTEREST EXPENSE GROWTH REFLECTED THE RECENT EXPANSION ACTIVITIES

Net interest income increased 15% to \$3,849,000 for the fourth quarter of 2006 from \$3,357,000 for the year-ago quarter, with strong growth in average earning assets more than offsetting a decline in margins. Noninterest income totaled \$321,000 in the fourth quarter of 2006, which was unchanged from the year-ago quarter.

Earnings for the year ended 2006 likewise benefited from a lower provision for loan losses. For the twelve months ended December 31, 2006, North State Bancorp reported earnings of \$3,272,000, or \$0.69 per diluted share, up 34% (31% on an EPS basis) from \$2,438,000, or \$0.53 per diluted share, for the year-ago period. Compared to 2005, net interest income grew 21%, offsetting a 10% decline in noninterest income, while noninterest expense increased 21%. The provision for loan losses decreased to \$69,000 for 2006 versus \$792,000 in 2005.

Loan Growth Accelerated in the Fourth Quarter

North State Bancorp continues to report excellent overall balance sheet growth, which has greatly reduced the drag on earnings from tighter margins. Furthermore, sequential quarter loan growth picked up in the fourth quarter of 2006, increasing 23% on an annualized basis. From December 31, 2005 to December 31, 2006, total assets and deposits grew 19%, and net loans were up 18%. Shareholders' equity totaled \$27 million, or 5.8% of total assets, as of December 31, 2006.

North State Has Consistently Built Market Share Since it Began Operations

North State Bancorp's deposit market share in Wake County has increased in every year since it began operations in 2000. As can be seen from the adjacent table, the Company's deposits increased to \$378 million at June 2006 from \$10 million in 2000, and deposit market share increased to 3% from less than 1% over this period. Gaining market share in North State's market of Wake

	2000	2001	2002	2003	2004	2005	2006
Deposits (\$MM)	10	92	137	215	247	314	378
Deposit Market Share (%)	0.1	1.2	1.6	2.3	2.4	2.6	3.0

County is particularly gratifying given the attractive demographics of this market. Wake County's projected population growth from 2006 to 2011 is 18% compared to 8% for North Carolina, and its median household income in 2006 was approximately \$69,000 versus \$48,000 for the state.

Asset Quality Remains Better than the Majority of Peers

As of December 31, 2006, North State Bancorp had nonperforming assets of \$397,000, or 0.09% of total assets, compared to no NPAs at the year-ago date. The allowance for loan losses increased 8% to \$3,983,000, or 10.03 times NPAs, at the end of 2006, from \$3,679,000 at the end of 2005. As a percentage of loans held for investment, the allowance for loan losses was 1.15% as of December 31, 2006. As can be seen from the table to the left, North State's ratios of NPAs-to-assets and reserves-to-NPAs both were far better than the North Carolina peer group median.

	North State	NC Peer Group Median
NPAs+90/Assets	0.09%	0.48%
Res./NPAs+90	10.03x	1.75x
Res./Loans HFI	1.15%	1.31%

Projections

We expect the provision to be at a more normalized level in 2007, which will likely make the increase in EPS in 2007 look less than it is from an operating standpoint. For the year 2007, we project the Company will have earnings of \$3.6 million, or \$0.76 per diluted share. The increase in pretax earnings before the provision is projected to be about 17%. For more information, including current press releases and stock quotes, please visit either North State Bancorp's web site at www.northstatebank.com, or Equity Research Services' web site at www.equityresearch.com.

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YEAR 2006 HIGHLIGHTS:

EPS: \$0.69 vs. \$0.53

NET INTEREST INCOME GREW 21%

BALANCE SHEET GROWTH WAS AROUND 20% FROM DECEMBER 31, 2005 TO DECEMBER 31, 2006

NORTH STATE'S DEPOSIT MARKET SHARE HAS GROWN TO 3% FROM LESS THAN 1% IN WAKE COUNTY

WAKE COUNTY HAS IMPRESSIVE DEMOGRAPHICS

NPAs / ASSETS: 0.09%

RESERVES GREW 8%

RESERVES / LOANS HFI: 1.15%

EPS PROJECTIONS

2005A: \$ 0.53
2006A: \$ 0.69
2007E: \$ 0.76