



October 8, 2008

Dear Fellow Shareholders,

In my last letter to you I talked about how the last year had been a challenging year for the financial services industry in dealing with the economic slow down and the declining rate market which had placed a strain on our net interest margin. You are well aware that the market has not improved since that letter and the financial services industry is in turmoil. The Economic Stabilization Plan of 2008 has been implemented and hopefully that will bring stability to the credit markets. Patriot State Bank does not have any Sub-Prime Loans, Fannie Mae or Freddie Mac stock investments, and we do not need nor will we receive any benefit from the Economic Stabilization Plan other than our clients will benefit from the temporary increase in FDIC Insurance. Your deposits are now insured up to \$250,000. **Your deposits are safe with Patriot State Bank.** We meet or exceed all liquidity and capital ratios set by the FDIC and the North Carolina Banking Commission.

**Where we are now:**

I am happy to report that even during this economic slow down Patriot State Bank continues to grow. During the first six months of 2008, total assets had increased to \$76.4 million, an increase of \$18.2 million or 31% from total assets on December 31, 2007. This increase in assets was mainly attributable to the \$15.4 million or 33% growth in net loans during the first six months of 2008 to \$62.3 million on June 30, 2008 from \$46.9 million on December 31, 2007. As of June 30, 2008, our deposits had increased to \$53.8 million an increase of \$14.7 million or 38% from \$39.1 million on December 31, 2007. As of June 30, 2008 Patriot State Bank's Total Risk Based Capital Ratio was 29.57% and our Liquidity Ratio was 18.23%.

Our annual and quarterly regulatory reports can be reviewed online at [www.fdic.gov](http://www.fdic.gov).

**New Market:**

As I alluded to above our strong capital position is placing us in an excellent position to grow our deposit and loan base. I am excited to announce that we have hired an experienced team of lenders to open a loan production office in Cary, NC. Patsy Johnson will be our City Executive for the Cary market. I had the good fortune of working with Patsy in my previous banking life and I am very excited to have her as a member of our team. Her long term contacts in the Cary Market will be invaluable to us in establishing Patriot State Bank in Cary. Patsy brings with her Cindy Smith as a mortgage originator and Waller Wills, IV as a Business Lender. Both are experienced bankers with several years banking experience in Cary and Raleigh. We are currently looking for office space for this team and plan on having a full service branch in a temporary facility by the first quarter of 2009.

On behalf of the Board of Directors and staff we would like to thank you for your continued support. Going forward shareholder correspondence will be available on our web site at [www.patriotstatebank.com](http://www.patriotstatebank.com).

Sincerely,

M. Gregg Strickland  
President & CEO