JUNIPER NETWORKS INC
Form 4
February 29, 2008

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
KRIENS SCOTT

(Last) (First) (Middle)

1194 NORTH MATHILDA AVENUE

(Street)

SUNNYVALE, CA 94089

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
JUNIPER NETWORKS INC [JNPR]

3. Date of Earliest Transaction (Month/Day/Year)
02/27/2008

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chief Executive Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	02/27/2008		J (1)		42,000	A	$ 0 (2)	43,299 (3)	D	
Common Stock								27,037	I	By Foundation (4)
Common Stock								9,481,672	I	by 1996 Kriens Trust (5)
Common Stock								384,750	I	by Partnership (6)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
RSU Award	$ 0	02/27/2008		J (1)			42,000	02/27/2008	02/27/2009	Common Stock	42,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
KRIENS SCOTT 1194 NORTH MATHILDA AVENUE SUNNYVALE, CA 94089	X		Chief Executive Officer	

Signatures

By: Mitchell L. Gaynor, Attorney-in-Fact For: Scott G. Kriens	02/29/2008
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Represents the issuance of common stock pursuant to the vest of RSU award granted 2/27/2007.

(2) Represents the per share price for the vested RSU.

(3) Amount of securities beneficially owned includes shares acquired by the reporting person under the Juniper Networks, Inc. 1999 Employee Stock Purchase Plan.

(4) Held by the Kriens Family Foundation, over which the reporting person and his spouse exercise voting and investment control.

(5) Held by the Kriens 1996 Trust U/T/A October 29, 1996 over which the Reporting Person and his spouse exercise investment and voting control.

(6) Held by Saratoga Investments, LP over which the reporting person exercises voting and investment control.

(7) Column 8 is not an applicable reportable field.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Earnings before income taxes

11,738

12,733

11,325

Income tax expense

2,561

3,100

1,937

Net earnings
$
9,177

9,633

9,388

Basic net earnings per common share

$
1.68

1.73

1.67

Diluted net earnings per common share

$
1.65

1.72

1.66

Cash dividends declared per common share

$
0.38

0.28

0.18

See accompanying Notes to Consolidated Financial Statements.

PEOPLES BANCORP OF NORTH CAROLINA, INC.

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2016, 2015 and 2014

(Dollars in thousands)

	2016	2015	2014
Net earnings	$9,177	9,633	9,388
Other comprehensive income (loss):			
Unrealized holding gains (losses) on securities available for sale	(3,274)	93	11,117
Reclassification adjustment for gains on securities available for sale included in net earnings	(729)	-	(266)
Total other comprehensive income (loss), before income taxes	(4,003)	93	10,851
Income tax (benefit) expense related to other comprehensive (loss) income:			
Unrealized holding gains (losses) on securities available for sale	(1,196)	36	4,330
Reclassification adjustment for gains on securities available for sale included in net earnings	(284)	-	(104)
Total income tax expense (benefit) related to other comprehensive income (loss)	(1,480)	36	4,226
Total other comprehensive income (loss), net of tax	(2,523)	57	6,625
Total comprehensive income	$6,654	9,690	16,013

See accompanying Notes to Consolidated Financial Statements.

A-31

PEOPLES BANCORP OF NORTH CAROLINA, INC.

Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended December 31, 2016, 2015 and 2014

(Dollars in thousands)

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance, December 31, 2013	5,613,495	$ 48,133	36,758	(1,172)	83,719
Common stock repurchase	(4,537)	(82)	-	-	(82)
Cash dividends declared on common stock	-	-	(1,022)	-	(1,022)
Stock options exercised	3,630	37	-	-	37
Net earnings	-	-	9,388	-	9,388
Change in accumulated other comprehensive income, net of tax	-	-	-	6,625	6,625
Balance, December 31, 2014	5,612,588	$ 48,088	45,124	5,453	98,665
Common stock repurchase	(102,050)	(1,917)	-	-	(1,917)
Cash dividends declared on common stock	-	-	(1,574)	-	(1,574)
Net earnings	-	-	9,633	-	9,633
Change in accumulated other comprehensive income, net of tax	-	-	-	57	57
Balance, December 31, 2015	5,510,538	$ 46,171	53,183	5,510	104,864
Common stock repurchase	(92,738)	(1,984)	-	-	(1,984)
Cash dividends declared on common stock	-	-	(2,106)	-	(2,106)
Net earnings	-	-	9,177	-	9,177
Change in accumulated other comprehensive income, net of tax	-	-	-	(2,523)	(2,523)
Balance, December 31, 2016	5,417,800	$ 44,187	60,254	2,987	107,428

See accompanying Notes to Consolidated Financial Statements.

PEOPLES BANCORP OF NORTH CAROLINA, INC.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2016, 2015 and 2014

(Dollars in thousands)

	2016	2015	2014
Cash flows from operating activities:			
Net earnings	$9,177	9,633	9,388
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation, amortization and accretion	5,423	6,053	6,889
Reduction of provision for loan losses	(1,206)	(17)	(699)
Deferred income taxes	(547)	673	178
Gain on sale of investment securities	1,097	-	(266)
Gain on sale of other real estate	(81)	(363)	(5)
Write-down of other real estate	17	118	627
Restricted stock expense	932	487	389
Proceeds from sales of loans held for sale	67,764	50,770	40,898
Origination of loans held for sale	(69,324)	(53,544)	(40,020)
Change in:			
Cash surrender value of life insurance	(406)	(421)	(419)
Other assets	(818)	(408)	(2,534)
Other liabilities	211	882	(12,509)
Net cash provided by operating activities	12,239	13,863	1,917
Cash flows from investing activities:			
Purchases of investment securities available for sale	(12,707)	(19,220)	(32,851)
Proceeds from sales, calls and maturities of investment securities available for sale	4,053	5,475	36,148
Proceeds from paydowns of investment securities available for sale	20,675	22,732	20,202
Purchases of other investments	(255)	(6)	-
FHLB stock redemption	1,256	401	959
Net change in loans	(36,116)	(43,441)	(36,692)
Purchases of premises and equipment	(1,610)	(2,354)	(3,120)
Proceeds from sale of other real estate and repossessions	1,083	6,287	3,456
Net cash used by investing activities	(23,621)	(30,126)	(11,898)
Cash flows from financing activities:			
Net change in deposits	60,743	17,475	15,339
Net change in securities sold under agreement to repurchase	8,560	(20,556)	3,034
Proceeds from FHLB borrowings	6,000	20,001	-
Repayments of FHLB borrowings	(29,500)	(26,501)	(15,000)
Proceeds from FRB borrowings	1	1	1
Repayments of FRB borrowings	(1)	(1)	(1)

Proceeds from Fed Funds Purchased	9,112	5,192	2,602
Repayments of Fed Funds Purchased	(9,112)	(5,192)	(2,602)
Stock options exercised	-	-	37
Common stock repurchased	(1,984)	(1,917)	(82)
Cash dividends paid on common stock	(2,106)	(1,574)	(1,022)
Net cash (used) provided by financing activities	41,713	(13,072)	2,306
Net change in cash and cash equivalents	30,331	(29,335)	(7,675)
Cash and cash equivalents at beginning of period	39,763	69,098	76,773
Cash and cash equivalents at end of period	$70,094	39,763	69,098

A-33

PEOPLES BANCORP OF NORTH CAROLINA, INC.

Consolidated Statements of Cash Flows, continued

For the Years Ended December 31, 2016, 2015 and 2014

(Dollars in thousands)

	2016	2015	2014
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 3,415	3,518	4,388
Income taxes	$ 2,028	2,278	1,939
Noncash investing and financing activities:			
Change in unrealized (loss) gain on investment securities available for sale, net	$ (2,523)	57	6,625
Transfer of loans to other real estate and repossessions	$ 563	4,825	4,415
Financed portion of sale of other real estate	$ -	60	374
Accrued redemption of Series A Preferred Stock	S -	-	(12,524)

See accompanying Notes to Consolidated Financial Statements.

PEOPLES BANCORP OF NORTH CAROLINA, INC.

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Organization
Peoples Bancorp of North Carolina, Inc. ("Bancorp") received regulatory approval to operate as a bank holding company on July 22, 1999, and became effective August 31, 1999. Bancorp is primarily regulated by the Board of Governors of the Federal Reserve System, and serves as the one-bank holding company for Peoples Bank (the "Bank").

The Bank commenced business in 1912 upon receipt of its banking charter from the North Carolina Commissioner of Banks (the "Commissioner"). The Bank is primarily regulated by the Commissioner and the Federal Deposit Insurance Corporation (the "FDIC") and undergoes periodic examinations by these regulatory agencies. The Bank, whose main office is in Newton, North Carolina, provides a full range of commercial and consumer banking services primarily in Catawba, Alexander, Lincoln, Mecklenburg, Iredell, Union, Wake, Durham and Forsyth counties in North Carolina.

Peoples Investment Services, Inc. is a wholly owned subsidiary of the Bank and began operations in 1996 to provide investment and trust services through agreements with an outside party.

Real Estate Advisory Services, Inc. ("REAS") is a wholly owned subsidiary of the Bank and began operations in 1997 to provide real estate appraisal and property management services to individuals and commercial customers of the Bank.

Community Bank Real Estate Solutions, LLC ("CBRES") is a wholly owned subsidiary of the Bank and began operations in 2009 as a "clearing house" for appraisal services for community banks. Other banks are able to contract with CBRES to find and engage appropriate appraisal companies in the area where the property is located. CBRES was moved from a wholly owned subsidiary of Peoples Bancorp of North Carolina, Inc. to a wholly owned subsidiary of the Bank effective August 31, 2016.

PB Real Estate Holdings, LLC ("PBREH") is a wholly owned subsidiary of the Bank and began operation in 2015. PBREH acquires, manages and disposes of real property, other collateral and other assets obtained in the ordinary course of collecting debts previously contracted.

The Bank operates four offices focused on the Latino population under the name Banco de la Gente. These offices are operated as a division of the Bank. Banco de la Gente offers normal and customary banking services as are offered in the Bank's other branches such as the taking of deposits and the making of loans and therefore is not considered a reportable segment of the Company (as defined below).

Principles of Consolidation
The consolidated financial statements include the financial statements of Bancorp and its wholly owned subsidiary, the Bank, along with the Bank's wholly owned subsidiaries, Peoples Investment Services, Inc., REAS, CBRES and PBREH (collectively called the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation
The accounting principles followed by the Company, and the methods of applying these principles, conform with accounting principles generally accepted in the United States of America ("GAAP") and with general practices in the banking industry. In preparing the financial statements in conformity with GAAP, management is required to make

estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ significantly from these estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses and valuation of real estate acquired in connection with or in lieu of foreclosure on loans.

Cash and Cash Equivalents

Cash, due from banks and interest-bearing deposits are considered cash and cash equivalents for cash flow reporting purposes.

A-35

Investment Securities

There are three classifications the Company is able to classify its investment securities: trading, available for sale, or held to maturity. Trading securities are bought and held principally for sale in the near term. Held to maturity securities are those securities for which the Company has the ability and intent to hold until maturity. All other securities not included in trading or held to maturity are classified as available for sale. At December 31, 2016 and 2015, the Company classified all of its investment securities as available for sale.

Available for sale securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and are reported as a separate component of shareholders' equity until realized.

Management evaluates investment securities for other-than-temporary impairment on an annual basis. A decline in the market value of any investment below cost that is deemed other-than-temporary is charged to earnings for the decline in value deemed to be credit related and a new cost basis in the security is established. The decline in value attributed to non-credit related factors is recognized in comprehensive income.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to the yield. Realized gains and losses for securities classified as available for sale are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

Other Investments

Other investments include equity securities with no readily determinable fair value. These investments are carried at cost.

Mortgage Loans Held for Sale

Mortgage loans held for sale are carried at lower of aggregate cost or market value. The cost of mortgage loans held for sale approximates the market value.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are reported at the principal amount outstanding, net of the allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. The recognition of certain loan origination fee income and certain loan origination costs is deferred when such loans are originated and amortized over the life of the loan.

A loan is impaired when, based on current information and events, it is probable that all amounts due according to the contractual terms of the loan will not be collected. Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

Accrual of interest is discontinued on a loan when management believes, after considering economic conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. Interest previously accrued but not collected is reversed against current period earnings.

Allowance for Loan Losses

The allowance for loan losses reflects management's assessment and estimate of the risks associated with extending credit and its evaluation of the quality of the loan portfolio. The Bank periodically analyzes the loan portfolio in an effort to review asset quality and to establish an allowance for loan losses that management believes will be adequate in light of anticipated risks and loan losses. In assessing the adequacy of the allowance, size, quality and risk of loans in the portfolio are reviewed. Other factors considered are:

- the Bank's loan loss experience;
- the amount of past due and non-performing loans;
- specific known risks;
- the status and amount of other past due and non-performing assets;
- underlying estimated values of collateral securing loans;
- current and anticipated economic conditions; and
- other factors which management believes affect the allowance for potential credit losses.

A-36

Management uses several measures to assess and monitor the credit risks in the loan portfolio, including a loan grading system that begins upon loan origination and continues until the loan is collected or collectability becomes doubtful. Upon loan origination, the Bank's originating loan officer evaluates the quality of the loan and assigns one of eight risk grades. The loan officer monitors the loan's performance and credit quality and makes changes to the credit grade as conditions warrant. When originated or renewed, all loans over a certain dollar amount receive in-depth reviews and risk assessments by the Bank's Credit Administration. Before making any changes in these risk grades, management considers assessments as determined by the third party credit review firm (as described below), regulatory examiners and the Bank's Credit Administration. Any issues regarding the risk assessments are addressed by the Bank's senior credit administrators and factored into management's decision to originate or renew the loan. The Bank's Board of Directors reviews, on a monthly basis, an analysis of the Bank's reserves relative to the range of reserves estimated by the Bank's Credit Administration.

As an additional measure, the Bank engages an independent third party to review the underwriting, documentation and risk grading analyses. This independent third party reviews and evaluates loan relationships greater than $1.0 million, excluding loans in default, and loans in process of litigation or liquidation. The third party's evaluation and report is shared with management and the Bank's Board of Directors.

Management considers certain commercial loans with weak credit risk grades to be individually impaired and measures such impairment based upon available cash flows and the value of the collateral. Allowance or reserve levels are estimated for all other graded loans in the portfolio based on their assigned credit risk grade, type of loan and other matters related to credit risk.

Management uses the information developed from the procedures described above in evaluating and grading the loan portfolio. This continual grading process is used to monitor the credit quality of the loan portfolio and to assist management in estimating the allowance for loan losses. The provision for loan losses charged or credited to earnings is based upon management's judgment of the amount necessary to maintain the allowance at a level appropriate to absorb probable incurred losses in the loan portfolio at the balance sheet date. The amount each quarter is dependent upon many factors, including growth and changes in the composition of the loan portfolio, net charge-offs, delinquencies, management's assessment of loan portfolio quality, the value of collateral, and other macro-economic factors and trends. The evaluation of these factors is performed quarterly by management through an analysis of the appropriateness of the allowance for loan losses.

The allowance for loan losses is comprised of three components: specific reserves, general reserves and unallocated reserves. After a loan has been identified as impaired, management measures impairment. When the measure of the impaired loan is less than the recorded investment in the loan, the amount of the impairment is recorded as a specific reserve. These specific reserves are determined on an individual loan basis based on management's current evaluation of the Bank's loss exposure for each credit, given the appraised value of any underlying collateral. Loans for which specific reserves are provided are excluded from the general allowance calculations as described below.

The general allowance reflects reserves established under GAAP for collective loan impairment. These reserves are based upon historical net charge-offs using the greater of the last two, three, four or five years' loss experience. This charge-off experience may be adjusted to reflect the effects of current conditions. The Bank considers information derived from its loan risk ratings and external data related to industry and general economic trends in establishing reserves.

The unallocated allowance is determined through management's assessment of probable losses that are in the portfolio but are not adequately captured by the other two components of the allowance, including consideration of current economic and business conditions and regulatory requirements. The unallocated allowance also reflects management's acknowledgement of the imprecision and subjectivity that underlie the modeling of credit risk. Due to the subjectivity involved in determining the overall allowance, including the unallocated portion, the unallocated portion may

fluctuate from period to period based on management's evaluation of the factors affecting the assumptions used in calculating the allowance.

There were no significant changes in the estimation methods or fundamental assumptions used in the evaluation of the allowance for loan losses for the year ended December 31, 2016 as compared to the year ended December 31, 2015. Revisions, estimates and assumptions may be made in any period in which the supporting factors indicate that loss levels may vary from the previous estimates.

Effective December 31, 2012, stated income mortgage loans from the Banco de la Gente division of the Bank were analyzed separately from other single family residential loans in the Bank's loan portfolio. These loans are first mortgage loans
made to the Latino market, primarily in Mecklenburg and surrounding counties. These loans are non-traditional mortgages in that the customer normally did not have a credit history, so all credit information was accumulated by the loan officers. These loans were made as stated income loans rather than full documentation loans because the customer may not have had complete documentation on the income supporting the loan.

Various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require adjustments to the allowance based on their judgments of information available to them at the time of their examinations. Management believes it has established the allowance for credit losses pursuant to GAAP, and has taken into account the views of its regulators and the current economic environment. Management considers the allowance for loan losses adequate to cover the estimated losses inherent in the Bank's loan portfolio as of the date of the financial statements. Although management uses the best information available to make evaluations, significant future additions to the allowance may be necessary based on changes in economic and other conditions, thus adversely affecting the operating results of the Company.

Mortgage Banking Activities
Mortgage banking income represents net gains from the sale of mortgage loans and fees received from borrowers and loan investors related to the Bank's origination of single-family residential mortgage loans.

Mortgage loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of mortgage loans serviced for others was approximately $1.4 million, $1.6 million and $2.1 million at December 31, 2016, 2015 and 2014, respectively.

The Bank originates certain fixed rate mortgage loans and commits these loans for sale. The commitments to originate fixed rate mortgage loans and the commitments to sell these loans to a third party are both derivative contracts. The fair value of these derivative contracts is immaterial and has no effect on the recorded amounts in the financial statements.

Premises and Equipment
Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily using the straight-line method over the estimated useful lives of the assets. When assets are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is reflected in earnings for that period. The cost of maintenance and repairs that do not improve or extend the useful life of the respective asset is charged to earnings as incurred, whereas significant renewals and improvements are capitalized. The range of estimated useful lives for premises and equipment are generally as follows:

Buildings and improvements	10 - 50 years
Furniture and equipment	3 - 10 years

Other Real Estate
Foreclosed assets include all assets received in full or partial satisfaction of a loan. Foreclosed assets are reported at fair value less estimated selling costs. Any write-downs at the time of foreclosure are charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management, and a valuation allowance is established if fair value less estimated selling costs declines below carrying value. Costs relating to the development and improvement of the property are capitalized. Revenues and expenses from operations are included

in other expenses. Changes in the valuation allowance are included in loss on sale and write-down of other real estate.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Additionally, the recognition of future tax benefits, such as net operating loss carryforwards, is required to the extent that the realization of such benefits is more likely than not to occur. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

A-38

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of the Company's assets and liabilities results in a deferred tax asset, an evaluation of the probability of being able to realize the future benefits indicated by such asset is required. A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the realizability of a deferred tax asset, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies.

Tax effects from an uncertain tax position can be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more likely than not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Previously recognized tax positions that no longer meet the more likely than not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. The Company assessed the impact of this guidance and determined that it did not have a material impact on the Company's financial position, results of operations or disclosures.

Derivative Financial Instruments and Hedging Activities

In the normal course of business, the Company enters into derivative contracts to manage interest rate risk by modifying the characteristics of the related balance sheet instruments in order to reduce the adverse effect of changes in interest rates. All material derivative financial instruments are recorded at fair value in the financial statements. The fair value of derivative contracts related to the origination of fixed rate mortgage loans and the commitments to sell these loans to a third party is immaterial and has no effect on the recorded amounts in the financial statements.

The disclosure requirements for derivatives and hedging activities have the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The disclosure requirements include qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value of, and gains and losses on, derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

On the date a derivative contract is entered into, the Company designates the derivative as a fair value hedge, a cash flow hedge, or a trading instrument. Changes in the fair value of instruments used as fair value hedges are accounted for in the earnings of the period simultaneous with accounting for the fair value change of the item being hedged. Changes in the fair value of the effective portion of cash flow hedges are accounted for in other comprehensive income rather than earnings. Changes in fair value of instruments that are not intended as a hedge are accounted for in the earnings of the period of the change.

If a derivative instrument designated as a fair value hedge is terminated or the hedge designation removed, the difference between a hedged item's then carrying amount and its face amount is recognized into income over the original hedge period. Likewise, if a derivative instrument designated as a cash flow hedge is terminated or the hedge designation removed, related amounts accumulated in other accumulated comprehensive income are reclassified into earnings over the original hedge period during which the hedged item affects income.

The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are

considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

The Company formally documents all hedging relationships, including an assessment that the derivative instruments are expected to be highly effective in offsetting the changes in fair values or cash flows of the hedged items.

Advertising Costs
Advertising costs are expensed as incurred.

Stock-Based Compensation
The Company has an Omnibus Stock Ownership and Long Term Incentive Plan that was approved by shareholders on May 7, 2009 (the "Plan") whereby certain stock-based rights, such as stock options, restricted stock, restricted stock units, performance units, stock appreciation rights or book value shares, may be granted to eligible directors and employees. A total of 262,520 shares are currently reserved for possible issuance under the Plan. All stock-based rights under the Plan must be granted or awarded by May 7, 2019 (i.e. ten years from the Plan effective date).

The Company granted 29,514 restricted stock units under the Plan at a grant date fair value of $7.90 per share during the first quarter of 2012, of which 5,355 restricted stock units were forfeited by the executive officers of the Company as required by the agreement with the U.S. Department of the Treasury ("UST") in conjunction with the Company's participation in the Capital Purchase Program ("CPP") under the Troubled Asset Relief Program ("TARP"). In July 2012, the Company granted 5,355 restricted stock units at a grant date fair value of $8.25 per share. The Company granted 26,795 restricted stock units under the Plan at a grant date fair value of $11.90 per share during the second quarter of 2013. The Company granted 21,056 restricted stock units under the Plan at a grant date fair value of $15.70 per share during the first quarter of 2014. The Company granted 15,075 restricted stock units under the Plan at a grant date fair value of $17.97 per share during the first quarter of 2015. The Company granted 5,040 restricted stock units under the Plan at a grant date fair value of $18.60 per share during the first quarter of 2016. The Company recognizes compensation expense on the restricted stock units over the period of time the restrictions are in place (five years from the grant date for the 2012 grants, four years from the grant date for the 2013, 2015 and 2016 grants and three years from the grant date for the 2014 grants). The amount of expense recorded each period reflects the changes in the Company's stock price during such period. As of December 31, 2016, the total unrecognized compensation expense related to the restricted stock unit grants under the Plan was $396,000.

The Company recognized compensation expense for restricted stock units granted under the Plan of $932,000, $487,000 and $389,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

Net Earnings Per Share
Net earnings per common share is based on the weighted average number of common shares outstanding during the period while the effects of potential common shares outstanding during the period are included in diluted earnings per common share. The average market price during the year is used to compute equivalent shares.

The reconciliations of the amounts used in the computation of both "basic earnings per common share" and "diluted earnings per common share" for the years ended December 31, 2016, 2015 and 2014 are as follows:

For the year ended December 31, 2016

	Net Earnings (Dollars in thousands)	Weighted Average Number of Shares	Per Share Amount
Basic earnings per share	$ 9,177	5,477,245	$ 1.68
Effect of dilutive securities:			
Restricted stock units	-	70,734	
Diluted earnings per share	$ 9,177	5,547,979	$ 1.65

For the year ended December 31, 2015

Weighted

	Net Earnings (Dollars in thousands)	Average Number of Shares	Per Share Amount
Basic earnings per share	$ 9,633	5,559,235	$ 1.73
Effect of dilutive securities:			
Restricted stock units	-	47,954	
Diluted earnings per share	$ 9,633	5,607,189	$ 1.72

A-40

For the year ended December 31, 2014

	Net Earnings (Dollars in thousands)	Weighted Average Number of Shares	Per Share Amount
Basic earnings per share	$ 9,388	5,615,666	$ 1.67
Effect of dilutive securities:			
Restricted stock units	-	26,326	
Diluted earnings per share	$ 9,388	5,641,992	$ 1.66

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, (Topic 842): Leases. ASU No. 2016-02 increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU No. 2016-02 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. The adoption of this guidance is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

In June 2016, FASB issued ASU No. 2016-13, (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU No. 2016-13 provides guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. ASU No. 2016-13 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019. The Company is currently evaluating the effect that implementation of the new standard will have on its results of operations, financial position and disclosures.

In October 2016, FASB issued ASU No. 2016-16, (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. ASU No. 2016-16 eliminates the exception for all intra-entity sales of assets other than inventory. ASU No. 2016-16 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The adoption of this guidance is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

In October 2016, FASB issued ASU No. 2016-17, (Topic 810): Interests Held through Related Parties That Are under Common Control. ASU No. 2016-17 amends the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that variable interest entity. ASU No. 2016-17 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. The adoption of this guidance is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

In November 2016, FASB issued ASU No. 2016-18, (Topic 230): Restricted Cash. ASU No. 2016-18 clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows. ASU No. 2016-18 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The adoption of this guidance is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

In December 2016, FASB issued ASU No. 2016-20, (Topic 606): Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. ASU No. 2016-20 make a limited number of revisions to several pieces of the revenue recognition standard issued in 2014. ASU No. 2016-20 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The adoption of this guidance is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

Other accounting standards that have been issued or proposed by FASB or other standards-setting bodies are not expected to have a material impact on the Company's results of operations, financial position or disclosures.

Reclassification

Certain amounts in the 2014 and 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation.

A-41

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(2) Investment Securities

Investment securities available for sale at December 31, 2016 and 2015 are as follows:

(Dollars in thousands)

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$66,654	1,221	290	67,585
U.S. Government sponsored enterprises	38,188	308	274	38,222
State and political subdivisions	137,832	4,176	152	141,856
Corporate bonds	1,500	33	-	1,533
Trust preferred securities	750	-	-	750
Total	$244,924	5,738	716	249,946

(Dollars in thousands)

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$76,406	1,526	45	77,887
U.S. Government sponsored enterprises	38,173	399	155	38,417
State and political subdivisions	141,500	6,817	72	148,245
Corporate bonds	1,928	-	22	1,906
Trust preferred securities	750	-	-	750
Equity securities	748	577	-	1,325
Total	$259,505	9,319	294	268,530

The current fair value and associated unrealized losses on investments in debt securities with unrealized losses at December 31, 2016 and 2015 are summarized in the tables below, with the length of time the individual securities have been in a continuous loss position.

(Dollars in thousands)

	December 31, 2016					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$15,594	290	-	-	15,594	290
U.S. Government sponsored enterprises	10,120	94	9,562	180	19,682	274
State and political subdivisions	10,441	123	561	29	11,002	152
Total	$36,155	507	10,123	209	46,278	716

(Dollars in thousands)

	December 31, 2015					
	Less than 12 Months		12 Months or More		Total	
		Unrealized		Unrealized		Unrealized

	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Mortgage-backed securities	$7,891	45	-	-	7,891	45
U.S. Government sponsored enterprises	3,074	13	10,828	142	13,902	155
State and political subdivisions	2,198	4	3,930	68	6,128	72
Corporate bonds	1,500	22	-	-	1,500	22
Total	$14,663	84	14,758	210	29,421	294

A-42

At December 31, 2016, unrealized losses in the investment securities portfolio relating to debt securities totaled $716,000. The unrealized losses on these debt securities arose due to changing interest rates and are considered to be temporary. From the December 31, 2016 tables above, one out of 168 securities issued by state and political subdivisions contained unrealized losses and five out of 80 securities issued by U.S. Government sponsored enterprises, including mortgage-backed securities, contained unrealized losses. These unrealized losses are considered temporary because of acceptable financial condition and results of operations on each security and the repayment sources of principal and interest on U.S. Government sponsored enterprises, including mortgage-backed securities, are government backed.

The Company periodically evaluates its investments for any impairment which would be deemed other-than-temporary. No investment impairments were deemed other-than-temporary in 2016, 2015 or 2014.

The amortized cost and estimated fair value of investment securities available for sale at December 31, 2016, by contractual maturity, are shown below. Expected maturities of mortgage-backed securities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

December 31, 2016
(Dollars in thousands)

	Amortized Cost	Estimated Fair Value
Due within one year	$ 7,304	7,341
Due from one to five years	81,366	84,100
Due from five to ten years	77,498	78,751
Due after ten years	12,102	12,169
Mortgage-backed securities	66,654	67,585
Equity securities	-	-
Total	$ 244,924	249,946

During 2016, proceeds from sales of securities available for sale were $1.5 million and resulted in gross gains of $729,000. No securities available for sale were sold during the year ended December 31, 2015. During 2014, proceeds from sales of securities available for sale were $20.2 million and resulted in gross gains of $291,000 and gross losses of $25,000.

Securities with a fair value of approximately $95.6 million and $91.0 million at December 31, 2016 and 2015, respectively, were pledged to secure public deposits, Federal Home Loan Bank of Atlanta ("FHLB") borrowings and for other purposes as required by law.

GAAP establishes a framework for measuring fair value and expands disclosures about fair value measurements. There is a three-level fair value hierarchy for fair value measurements. Level 1 inputs are quoted prices in active markets for identical assets or liabilities that a company has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. The table below presents the balance of securities available for sale, which are measured at fair value on a recurring basis by level within the fair value hierarchy as of December 31, 2016 and 2015.

(Dollars in thousands)

	December 31, 2016			
	Fair Value	Level 1 Valuation	Level 2 Valuation	Level 3 Valuation

	Measurements			
Mortgage-backed securities	$67,585	-	67,585	-
U.S. Government sponsored enterprises	$38,222	-	38,222	-
State and political subdivisions	$141,856	-	141,856	-
Corporate bonds	$1,533	-	1,533	-
Trust preferred securities	$750	-	-	750

A-43

(Dollars in thousands)

	December 31, 2015			
	Fair Value Measurements	Level 1 Valuation	Level 2 Valuation	Level 3 Valuation
Mortgage-backed securities	$77,887	-	77,887	-
U.S. Government sponsored enterprises	$38,417	-	38,417	-
State and political subdivisions	$148,245	-	148,245	-
Corporate bonds	$1,906	-	1,906	-
Trust preferred securities	$750	-	-	750
Equity securities	$1,325	1,325	-	-

Fair values of investment securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges when available. If quoted prices are not available, fair value is determined using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities.

The following is an analysis of fair value measurements of investment securities available for sale using Level 3, significant unobservable inputs, for the year ended December 31, 2016.

(Dollars in thousands)

	Investment Securities Available for Sale Level 3 Valuation
Balance, beginning of period	$ 750
Change in book value	-
Change in gain/(loss) realized and unrealized	-
Purchases/(sales and calls)	-
Transfers in and/or (out) of Level 3	-
Balance, end of period	$ 750
Change in unrealized gain/(loss) for assets still held in Level 3	$ -

(3) Loans

Major classifications of loans at December 31, 2016 and 2015 are summarized as follows:

A-44

(Dollars in thousands)

	December 31, 2016	December 31, 2015
Real estate loans:		
Construction and land development	$61,749	65,791
Single-family residential	240,700	220,690
Single-family residential - Banco de la Gente stated income	40,189	43,733
Commercial	247,521	228,526
Multifamily and farmland	21,047	18,080
Total real estate loans	611,206	576,820
Loans not secured by real estate:		
Commercial loans	87,596	91,010
Farm loans	-	3
Consumer loans	9,832	10,027
All other loans	15,177	11,231
Total loans	723,811	689,091
Less allowance for loan losses	7,550	9,589
Total net loans	$716,261	679,502

The above table includes deferred costs, net of deferred fees, totaling $1.4 million and $488,000 at December 31, 2016 and 2015, respectively.

The Bank grants loans and extensions of credit primarily within the Catawba Valley region of North Carolina, which encompasses Catawba, Alexander, Iredell and Lincoln counties and also in Mecklenburg, Union, Wake, Durham and Forsyth counties of North Carolina. Although the Bank has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate, the value of which is dependent upon the real estate market. Risk characteristics of the major components of the Bank's loan portfolio are discussed below:

- Construction and land development loans – The risk of loss is largely dependent on the initial estimate of whether the property's value at completion equals or exceeds the cost of property construction and the availability of take-out financing. During the construction phase, a number of factors can result in delays or cost overruns. If the estimate is inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan, sale of the property, or by seizure of collateral. As of December 31, 2016, construction and land development loans comprised approximately 9% of the Bank's total loan portfolio.

- Single-family residential loans – Declining home sales volumes, decreased real estate values and higher than normal levels of unemployment could contribute to losses on these loans. As of December 31, 2016, single-family residential loans comprised approximately 39% of the Bank's total loan portfolio, including Banco de la Gente single-family residential stated income loans which were approximately 6% of the Bank's total loan portfolio.

- Commercial real estate loans – Repayment is dependent on income being generated in amounts sufficient to cover operating expenses and debt service. These loans also involve greater risk because they are generally not fully amortizing over a loan period, but rather have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or timely sell the underlying

property. As of December 31, 2016, commercial real estate loans comprised approximately 34% of the Bank's total loan portfolio.

- Commercial loans – Repayment is generally dependent upon the successful operation of the borrower's business. In addition, the collateral securing the loans may depreciate over time, be difficult to appraise, be illiquid, or fluctuate in value based on the success of the business. As of December 31, 2016, commercial loans comprised approximately 12% of the Bank's total loan portfolio.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The following tables present an age analysis of past due loans, by loan type, as of December 31, 2016 and 2015:

December 31, 2016
(Dollars in thousands)

	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Total Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Real estate loans:						
Construction and land development	$-	10	10	61,739	61,749	-
Single-family residential	4,890	80	4,970	235,730	240,700	-
Single-family residential -						
Banco de la Gente stated income	5,250	249	5,499	34,690	40,189	-
Commercial	342	126	468	247,053	247,521	-
Multifamily and farmland	471	-	471	20,576	21,047	-
Total real estate loans	10,953	465	11,418	599,788	611,206	-
Loans not secured by real estate:						
Commercial loans	273	-	273	87,323	87,596	-
Farm loans	-	-	-	-	-	-
Consumer loans	68	6	74	9,758	9,832	-
All other loans	3	-	3	15,174	15,177	-
Total loans	$11,297	471	11,768	712,043	723,811	-

December 31, 2015
(Dollars in thousands)

	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Total Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Real estate loans:						
Construction and land development	$330	17	347	65,444	65,791	-
Single-family residential	2,822	1,385	4,207	216,483	220,690	-
Single-family residential -						
Banco de la Gente stated income	7,021	114	7,135	36,598	43,733	-
Commercial	2,619	157	2,776	225,750	228,526	-
Multifamily and farmland	-	-	-	18,080	18,080	-
Total real estate loans	12,792	1,673	14,465	562,355	576,820	-

Loans not secured by real estate:						
Commercial loans	185	40	225	90,785	91,010	17
Farm loans	-	-	-	3	3	-
Consumer loans	136	8	144	9,883	10,027	-
All other loans	-	-	-	11,231	11,231	-
Total loans	$13,113	1,721	14,834	674,257	689,091	17

The following table presents the Bank's non-accrual loans as of December 31, 2016 and 2015:

(Dollars in thousands)

	December 31, 2016	December 31, 2015
Real estate loans:		
Construction and land development	$ 22	146
Single-family residential	1,662	4,023
Single-family residential - Banco de la Gente stated income	1,340	1,106
Commercial	669	2,992
Multifamily and farmland	78	-
Total real estate loans	3,771	8,267
Loans not secured by real estate:		
Commercial loans	21	113
Consumer loans	33	52
Total	$ 3,825	8,432

At each reporting period, the Bank determines which loans are impaired. Accordingly, the Bank's impaired loans are reported at their estimated fair value on a non-recurring basis. An allowance for each impaired loan that is collateral-dependent is calculated based on the fair value of its collateral. The fair value of the collateral is based on appraisals performed by REAS, a subsidiary of the Bank. REAS is staffed by certified appraisers that also perform appraisals for other companies. Factors, including the assumptions and techniques utilized by the appraiser, are considered by management. If the recorded investment in the impaired loan exceeds the measure of fair value of the collateral, a valuation allowance is recorded as a component of the allowance for loan losses. An allowance for each impaired loan that is not collateral dependent is calculated based on the present value of projected cash flows. If the recorded investment in the impaired loan exceeds the present value of projected cash flows, a valuation allowance is recorded as a component of the allowance for loan losses. Impaired loans under $250,000 are not individually evaluated for impairment with the exception of the Bank's troubled debt restructured ("TDR") loans in the residential mortgage loan portfolio, which are individually evaluated for impairment. Impaired loans collectively evaluated for impairment totaled $5.9 million and $8.4 million at December 31, 2016 and 2015, respectively. Accruing impaired loans were $23.5 million and $25.0 million at December 31, 2016 and December 31, 2015, respectively. Interest income recognized on accruing impaired loans was $1.2 million and $1.3 million for the years ended December 31, 2016 and 2015, respectively. No interest income is recognized on non-accrual impaired loans subsequent to their classification as non-accrual.

The following tables present the Bank's impaired loans as of December 31, 2016, 2015 and 2014:

December 31, 2016
(Dollars in thousands)

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Recorded Investment in Impaired Loans	Related Allowance	Average Outstanding Impaired Loans	YTD Interest Income Recognized
Real estate loans:							
Construction and land development	$ 282	-	278	278	11	330	13

Single-family residential	5,354	703	4,323	5,026	47	7,247	164
Single-family residential - Banco de la Gente stated income	18,611	-	18,074	18,074	1,182	17,673	861
Commercial	3,750	1,299	2,197	3,496	166	4,657	152
Multifamily and farmland	78	-	78	78	-	78	-
Total impaired real estate loans	28,075	2,002	24,950	26,952	1,406	29,985	1,190
Loans not secured by real estate:							
Commercial loans	27	-	27	27	-	95	-
Consumer loans	211	-	202	202	3	222	8
Total impaired loans	$ 28,313	2,002	25,179	27,181	1,409	30,302	1,198

A-47

December 31, 2015
(Dollars in thousands)

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Recorded Investment in Impaired Loans	Related Allowance	Average Outstanding Impaired Loans	YTD Interest Income Recognized
Real estate loans:							
Construction and land development	$ 643	216	226	442	12	705	18
Single-family residential	8,828	1,489	6,805	8,294	189	10,852	224
Single-family residential - Banco de la Gente stated income	20,375	-	19,215	19,215	1,143	18,414	921
Commercial	4,556	-	4,893	4,893	179	5,497	89
Multifamily and farmland	96	-	83	83	-	93	6
Total impaired real estate loans	34,498	1,705	31,222	32,927	1,523	35,561	1,258
Loans not secured by real estate:							
Commercial loans	180	-	161	161	3	132	5
Consumer loans	286	-	260	260	4	283	11
Total impaired loans	$ 34,964	1,705	31,643	33,348	1,530	35,976	1,274

December 31, 2014
(Dollars in thousands)

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Recorded Investment in Impaired Loans	Related Allowance	Average Outstanding Impaired Loans	YTD Interest Income Recognized
Real estate loans:							
Construction and land development	$ 5,481	3,639	555	4,194	31	5,248	20
Single-family residential	6,717	933	5,540	6,473	154	7,430	214
Single-family residential - Banco de la Gente stated income	21,243	-	20,649	20,649	1,191	19,964	952
Commercial	4,752	1,485	2,866	4,351	272	4,399	76
Multifamily and farmland	111	-	110	110	1	154	-
Total impaired real estate loans	38,304	6,057	29,720	35,777	1,649	37,195	1,262
Loans not secured by real estate:							
Commercial loans	218	-	201	201	4	641	2
Farm loans (non RE)			-				
Consumer loans	318	-	313	313	5	309	12
Total impaired loans	$ 38,840	6,057	30,234	36,291	1,658	38,145	1,276

The fair value measurements for mortgage loans held for sale, impaired loans and other real estate on a non-recurring basis at December 31, 2016 and 2015 are presented below. The Company's valuation methodology is discussed in Note 15.

(Dollars in thousands)

	Fair Value Measurements December 31, 2016	Level 1 Valuation	Level 2 Valuation	Level 3 Valuation
Mortgage loans held for sale	$ 5,709	-	-	5,709
Impaired loans	$ 25,931	-	-	25,931
Other real estate	$ 283	-	-	283

(Dollars in thousands)

	Fair Value Measurements December 31, 2015	Level 1 Valuation	Level 2 Valuation	Level 3 Valuation
Mortgage loans held for sale	$ 4,149	-	-	4,149
Impaired loans	$ 31,818	-	-	31,818
Other real estate	$ 739	-	-	739

A-48

(Dollars in thousands)

	Fair Value December 31, 2016	Fair Value December 31, 2015	Valuation Technique	Significant Unobservable Inputs	General Range of Significant Unobservable Input Values
Mortgage loans held for sale	$ 5,709	4,149	Rate lock commitment	N/A	N/A
Impaired loans	$ 25,931	31,818	Appraised value and discounted cash flows	Discounts to reflect current market conditions and ultimate collectability	0 - 25%
Other real estate	$ 283	739	Appraised value	Discounts to reflect current market conditions and estimated costs to sell	0 - 25%

Changes in the allowance for loan losses for the year ended December 31, 2016 were as follows:

(Dollars in thousands)

	Real Estate Loans									
	Construction and Land Development	Single-Family Residential	Single-Family Residential - Banco de la Gente Stated Income	Commercial	Multifamily and Farmland	Commercial	Farm	Consumer and All Other	Unallocated	Total
Allowance for loan losses:										
Beginning balance	$2,185	2,534	1,460	1,917	-	842	-	172	479	9,589
Charge-offs	(7)	(275)	-	(318)	-	(146)	-	(492)	-	(1,238
Recoveries	10	55	-	19	-	170	-	151	-	405
Provision	(1,036)	(188)	(83)	(25)	52	(191)	-	373	(108)	(1,206
Ending balance	$1,152	2,126	1,377	1,593	52	675	-	204	371	7,550
Ending balance: individually evaluated for impairment	$-	-	1,160	159	-	-	-	-	-	1,319

Ending balance: collectively evaluated for impairment	1,152	2,126	217	1,434	52	675	-	204	371	6,231
Ending balance	$1,152	2,126	1,377	1,593	52	675	-	204	371	7,550
Loans:										
Ending balance	$61,749	240,700	40,189	247,521	21,047	87,596	-	25,009	-	723,811
Ending balance: individually evaluated for impairment	$-	935	16,718	3,648	-	-	-	-	-	21,301
Ending balance: collectively evaluated for impairment	$61,749	239,765	23,471	243,873	21,047	87,596	-	25,009	-	702,510

A-49

Changes in the allowance for loan losses for the year ended December 31, 2015 were as follows:

(Dollars in thousands)	Real Estate Loans									
	Construction and Land Development	Single-Family Residential	Single-Family Residential - Banco de la Gente Stated Income	Commercial	Multifamily and Farmland	Commercial	Farm	Consumer and All Other	Unallocated	Total
Allowance for loan losses:										
Beginning balance	$2,785	2,566	1,610	1,902	7	1,098	-	233	881	11,082
Charge-offs	(198)	(618)	(117)	(329)	-	(37)	-	(545)	-	(1,844
Recoveries	45	34	22	21	-	101	-	145	-	368
Provision	(447)	552	(55)	323	(7)	(320)	-	339	(402)	(17
Ending balance	$2,185	2,534	1,460	1,917	-	842	-	172	479	9,589
Ending balance: individually evaluated for impairment	$-	96	1,115	171	-	-	-	-	-	1,382
Ending balance: collectively evaluated for impairment	2,185	2,438	345	1,746	-	842	-	172	479	8,207
Ending balance	$2,185	2,534	1,460	1,917	-	842	-	172	479	9,589
Loans: Ending balance	$65,791	220,690	43,733	228,526	18,080	91,010	3	21,258	-	689,091
Ending balance: individually evaluated for impairment	$216	2,636	17,850	4,212	-	-	-	-	-	24,914

Explanation of Responses:

Ending balance: collectively evaluated for impairment	$65,575	218,054	25,883	224,314	18,080	91,010	3	21,258	-	664,177

Changes in the allowance for loan losses for the year ended December 31, 2014 were as follows:

(Dollars in thousands)	Real Estate Loans									
	Construction and Land Development	Single-Family Residential	Single-Family Residential - Banco de la Gente Stated Income	Commercial	Multifamily and Farmland	Commercial	Farm	Consumer and All Other	Unallocated	Total
Allowance for loan losses:										
Beginning balance	$3,218	3,123	1,863	2,219	37	1,069	-	245	1,727	13,501
Charge-offs	(884)	(309)	(190)	(290)	-	(430)	-	(534)	-	(2,637
Recoveries	428	72	16	171	-	54	-	176	-	917
Provision	23	(320)	(79)	(198)	(30)	405	-	346	(846)	(699
Ending balance	$2,785	2,566	1,610	1,902	7	1,098	-	233	881	11,082
Ending balance: individually evaluated for impairment	$-	82	1,155	260	-	-	-	-	-	1,497
Ending balance: collectively evaluated for impairment	2,785	2,484	455	1,642	7	1,098	-	233	881	9,585
Ending balance	$2,785	2,566	1,610	1,902	7	1,098	-	233	881	11,082
Loans: Ending balance	$57,617	206,417	47,015	228,558	12,400	76,262	7	23,615	-	651,891

Ending balance: individually evaluated for impairment	$3,639	2,298	18,884	3,345	-	-	-	-	-	28,166
Ending balance: collectively evaluated for impairment	$53,978	204,119	28,131	225,213	12,400	76,262	7	23,615	-	623,725

The Bank utilizes an internal risk grading matrix to assign a risk grade to each of its loans. Loans are graded on a scale of 1 to 8. These risk grades are evaluated on an ongoing basis. A description of the general characteristics of the eight risk grades is as follows:

- Risk Grade 1 – Excellent Quality: Loans are well above average quality and a minimal amount of credit risk exists. CD or cash secured loans or properly margined actively traded stock or bond secured loans would fall in this grade.
- Risk Grade 2 – High Quality: Loans are of good quality with risk levels well within the Company's range of acceptability. The organization or individual is established with a history of successful performance though somewhat susceptible to economic changes.

A-50

- Risk Grade 3 – Good Quality: Loans of average quality with risk levels within the Company's range of acceptability but higher than normal. This may be a new organization or an existing organization in a transitional phase (e.g. expansion, acquisition, market change).
- Risk Grade 4 – Management Attention: These loans have higher risk and servicing needs but still are acceptable. Evidence of marginal performance or deteriorating trends is observed. These are not problem credits presently, but may be in the future if the borrower is unable to change its present course.
- Risk Grade 5 – Watch: These loans are currently performing satisfactorily, but there has been some recent past due history on repayment and there are potential weaknesses that may, if not corrected, weaken the asset or inadequately protect the Company's position at some future date.
- Risk Grade 6 – Substandard: A Substandard loan is inadequately protected by the current sound net worth and paying capacity of the obligor or the collateral pledged (if there is any). There is a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. There is a distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.
- Risk Grade 7 – Doubtful: Loans classified as Doubtful have all the weaknesses inherent in loans classified Substandard, plus the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable and improbable. Doubtful is a temporary grade where a loss is expected but is presently not quantified with any degree of accuracy. Once the loss position is determined, the amount is charged off.
- Risk Grade 8 – Loss: Loans classified as Loss are considered uncollectable and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this worthless loan even though partial recovery may be realized in the future. Loss is a temporary grade until the appropriate authority is obtained to charge the loan off.

The following tables present the credit risk profile of each loan type based on internally assigned risk grades as of December 31, 2016 and 2015.

December 31, 2016 (Dollars in thousands)	Real Estate Loans									
	Construction and Land Development	Single-Family Residential	Single-Family Residential - Banco de la Gente Stated Income	Commercial	Multifamily and Farmland	Commercial	Farm	Consumer	All Other	Total
1- Excellent Quality	$-	14,996	-	-	-	541	-	959	-	16,496
2- High Quality	9,784	109,809	-	39,769	2,884	26,006	-	3,335	2,507	194,094
3- Good Quality	33,633	82,147	16,703	176,109	14,529	55,155	-	4,842	10,921	394,039
4- Management Attention	10,892	25,219	15,580	24,753	2,355	5,586	-	619	1,749	86,753
5- Watch	7,229	4,682	3,943	4,906	1,201	246	-	31	-	22,238

6- Substandard	211	3,847	3,963	1,984	78	62	-	42	-	10,187
7- Doubtful	-	-	-	-	-	-	-	-	-	-
8- Loss	-	-	-	-	-	-	-	4	-	4
Total	$61,749	240,700	40,189	247,521	21,047	87,596	-	9,832	15,177	723,811

December 31, 2015 (Dollars in thousands)	Real Estate Loans									
	Construction and Land Development	Single-Family Residential	Single-Family Residential - Banco de la Gente Stated Income	Commercial	Multifamily and Farmland	Commercial	Farm	Consumer	All Other	Total
1- Excellent Quality	$-	15,189	-	-	-	700	-	1,091	-	16,980
2- High Quality	10,144	86,061	-	38,647	2,998	24,955	-	3,647	1,665	168,117
3- Good Quality	35,535	78,843	19,223	148,805	12,058	58,936	3	4,571	7,828	365,802
4- Management Attention	12,544	30,259	15,029	31,824	335	5,905	-	620	1,738	98,254
5- Watch	7,265	4,322	3,308	4,561	2,689	332	-	43	-	22,520
6- Substandard	303	6,016	6,173	4,689	-	182	-	55	-	17,418
7- Doubtful	-	-	-	-	-	-	-	-	-	-
8- Loss	-	-	-	-	-	-	-	-	-	-
Total	$65,791	220,690	43,733	228,526	18,080	91,010	3	10,027	11,231	689,091

A-51

TDR loans modified in 2016, past due TDR loans and non-accrual TDR loans totaled $5.9 million and $8.8 million at December 31, 2016 and December 31, 2015, respectively. The terms of these loans have been renegotiated to provide a concession to original terms, including a reduction in principal or interest as a result of the deteriorating financial position of the borrower. There were $81,000 and $354,000 in performing loans classified as TDR loans at December 31, 2016 and December 31, 2015, respectively.

The following table presents an analysis of loan modifications during the year ended December 31, 2016:

Year ended December 31, 2016
(Dollars in thousands)

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate loans:			
Single-family residential	3	$ 124	121
Total TDR loans	3	$ 124	121

During the year ended December 31, 2016, three loans were modified that were considered to be new TDR loans. The interest rate was modified on these TDR loans.

The following table presents an analysis of loan modifications during the year ended December 31, 2015:

Year ended December 31, 2015
(Dollars in thousands)

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate loans:			
Construction and land development	1	$ 216	216
Single-family residential	3	288	271
Total TDR loans	4	$ 504	487

During the year ended December 31, 2015, four loans were modified that were considered to be new TDR loans. The interest rate was modified on these TDR loans.

There were no TDR loans with a payment default occurring within 12 months of the restructure date, and the payment default occurring during the years ended December 31, 2016 and 2015. TDR loans are deemed to be in default if they become past due by 90 days or more.

(4) Premises and Equipment

Major classifications of premises and equipment at December 31, 2016 and 2015 are summarized as follows:

(Dollars in thousands)

	2016	2015
Land	$3,670	3,669

Buildings and improvements	16,398	15,889
Furniture and equipment	19,996	19,462
Total premises and equipment	40,064	39,020
Less accumulated depreciation	23,612	22,044
Total net premises and equipment	$16,452	16,976

A-52

The Company recognized approximately $2.1 million in depreciation expense for the year ended December 31, 2016. Depreciation expense was approximately $2.4 million and $2.5 million for the years ended December 31, 2015 and 2014, respectively.

(5) Time Deposits

At December 31, 2016, the scheduled maturities of time deposits are as follows:

(Dollars in thousands)

2017	$86,817
2018	33,184
2019	15,207
2020	5,287
2021 and thereafter	3,518
Total	$144,013

At December 31, 2016 and 2015, the Bank had approximately $7.2 million and $4.3 million, respectively, in time deposits purchased through third party brokers, including certificates of deposit participated through the Certificate of Deposit Account Registry Service ("CDARS") on behalf of local customers. CDARS balances totaled $7.2 million and $4.1 million as of December 31, 2016 and 2015, respectively. The weighted average rate of brokered deposits as of December 31, 2016 and 2015 was 0.05% and 0.10%, respectively.

(6) Federal Home Loan Bank and Federal Reserve Bank Borrowings

The Bank has borrowings from the FHLB with monthly or quarterly interest payments at December 31, 2016. The FHLB borrowings are collateralized by a blanket assignment on all residential first mortgage loans, home equity lines of credit and loans secured by multi-family real estate that the Bank owns. At December 31, 2016, the carrying value of loans pledged as collateral totaled approximately $128.3 million. The remaining availability under the line of credit with the FHLB was $66.8 million at December 31, 2016.

Borrowings from the FHLB outstanding at December 31, 2016 and 2015 consist of the following:

December 31, 2016
(Dollars in thousands)

Maturity Date	Call Date	Rate	Rate Type	Amount
October 17, 2018	N/A	4.050%	Adjustable Rate Hybrid	$5,000
October 17, 2018	N/A	4.065%	Adjustable Rate Hybrid	5,000
October 17, 2018	N/A	4.120%	Adjustable Rate Hybrid	5,000
May 8, 2018	N/A	2.683%	Adjustable Rate Hybrid	5,000
				$20,000

December 31, 2015

(Dollars in thousands)

Maturity Date	Call Date	Rate	Rate Type	Amount
October 17, 2018	N/A	3.485%	Adjustable Rate Hybrid	$5,000
October 17, 2018	N/A	3.725%	Adjustable Rate Hybrid	15,000
October 17, 2018	N/A	3.500%	Adjustable Rate Hybrid	5,000
October 17, 2018	N/A	3.555%	Adjustable Rate Hybrid	5,000
May 8, 2018	N/A	2.144%	Adjustable Rate Hybrid	5,000
May 8, 2018	N/A	3.734%	Floating to Fixed	8,500
				$43,500

The Bank is required to purchase and hold certain amounts of FHLB stock in order to obtain FHLB borrowings. No ready market exists for the FHLB stock, and it has no quoted market value. The stock is redeemable at $100 per share subject to certain limitations set by the FHLB. The Bank owned $1.8 million and $2.8 million of FHLB stock, included in other investments, at December 31, 2016 and 2015, respectively.

The Bank prepaid FHLB borrowings totaling $23.5 million in 2016 with prepayment penalties totaling $1.3 million. The Bank prepaid FHLB borrowings totaling $6.5 million in 2015 with prepayment penalties totaling $504,000.

As of December 31, 2016 and 2015, the Bank had no borrowings from the Federal Reserve Bank ("FRB"). FRB borrowings are collateralized by a blanket assignment on all qualifying loans that the Bank owns which are not pledged to the FHLB. At December 31, 2016, the carrying value of loans pledged as collateral totaled approximately $374.5 million. Availability under the line of credit with the FRB was $289.7 million at December 31, 2016.

(7) Junior Subordinated Debentures

In June 2006, the Company formed a second wholly owned Delaware statutory trust, PEBK Capital Trust II ("PEBK Trust II"), which issued $20.0 million of guaranteed preferred beneficial interests in the Company's junior subordinated deferrable interest debentures. All of the common securities of PEBK Trust II are owned by the Company. The proceeds from the issuance of the common securities and the trust preferred securities were used by PEBK Trust II to purchase $20.6 million of junior subordinated debentures of the Company. The proceeds received by the Company from the sale of the junior subordinated debentures were used to repay in December 2006 the trust preferred securities issued in December 2001 by PEBK Capital Trust, a wholly owned Delaware statutory trust of the Company, and for general purposes. The debentures represent the sole assets of PEBK Trust II. PEBK Trust II is not included in the consolidated financial statements.

The trust preferred securities issued by PEBK Trust II accrue and pay interest quarterly at a floating rate of three-month LIBOR plus 163 basis points. The Company has guaranteed distributions and other payments due on the trust preferred securities to the extent PEBK Trust II does not have funds with which to make the distributions and other payments. The net combined effect of all the documents entered into in connection with the trust preferred securities is that the Company is liable to make the distributions and other payments required on the trust preferred securities.

These trust preferred securities are mandatorily redeemable upon maturity of the debentures on June 28, 2036, or upon earlier redemption as provided in the indenture. The Company has the right to redeem the debentures purchased by PEBK Trust II, in whole or in part, which became effective on June 28, 2011. As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will be the principal amount plus any accrued but unpaid interest.

(8) Income Taxes

The provision for income taxes is summarized as follows:

(Dollars in thousands)

	2016	2015	2014
Current expense	$1,464	2,427	1,759
Deferred income tax expense	1,097	673	178
Total income tax	$2,561	3,100	1,937

A-54

The differences between the provision for income taxes and the amount computed by applying the statutory federal income tax rate to earnings before income taxes are as follows:

(Dollars in thousands)

	2016	2015	2014
Tax expense at statutory rate (34%)	$3,991	4,329	3,851
State income tax, net of federal income tax effect	339	494	(283)
Tax-exempt interest income	(1,681)	(1,682)	(1,630)
Increase in cash surrender value of life insurance	(138)	(143)	(143)
Nondeductible interest and other expense	78	103	119
Other	(28)	(1)	23
Total	$2,561	3,100	1,937

The following summarizes the tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities. The net deferred tax asset is included as a component of other assets at December 31, 2016 and 2015.

(Dollars in thousands)

	2016	2015
Deferred tax assets:		
Allowance for loan losses	$2,717	3,513
Accrued retirement expense	1,616	1,574
Other real estate	-	33
Federal credit carryforward	326	-
State credit carryforward	14	-
Restricted stock	745	417
Accrued bonuses	216	238
Interest income on nonaccrual loans	27	88
Other than temporary impairment	14	374
Other	23	16
Total gross deferred tax assets	5,698	6,253
Deferred tax liabilities:		
Deferred loan fees	797	588
Accumulated depreciation	532	172
Prepaid expenses	78	59
Other	23	70
Unrealized gain on available for sale securities	1,807	3,308
Total gross deferred tax liabilities	3,237	4,197
Net deferred tax asset	$2,461	2,056

The Company has analyzed the tax positions taken or expected to be taken in its tax returns and has concluded that it has no liability related to uncertain tax positions.

The Company's tax filings for years 2013 through 2016 were at year end 2016 open to audit under statutes of limitations by the Internal Revenue Service and State taxing authorities.

(9) Related Party Transactions

The Company conducts transactions with its directors and executive officers, including companies in which they have beneficial interests, in the normal course of business. It is the policy of the Company that loan transactions with directors and officers are made on substantially the same terms as those prevailing at the time made for comparable loans to other persons. The following is a summary of activity for related party loans for 2016 and 2015:

A-55

(Dollars in thousands)

	2016	2015
Beginning balance	$5,674	6,055
New loans	6,048	7,857
Repayments	(7,219)	(8,238)
Ending balance	$4,503	5,674

At December 31, 2016 and 2015, the Company had deposit relationships with related parties of approximately $27.8 million and $22.1 million, respectively.

A Director of the Company is an officer and partial owner of the construction company engaged to renovate the Bank's Corporate Center located at 518 West C Street, Newton, North Carolina. During 2016 the Company paid a total of approximately $209,000 to this construction company for such renovation work. At December 31, 2016, the remaining commitment to this construction company for renovation work not yet completed was approximately $2.2 million.

(10) Commitments and Contingencies

The Company leases various office spaces for banking and operational facilities and equipment under operating lease arrangements. Future minimum lease payments required for all operating leases having a remaining term in excess of one year at December 31, 2016 are as follows:

(Dollars in thousands)

Year ending December 31,	
2017	$632
2018	611
2019	601
2020	602
2021	591
Thereafter	1,611
Total minimum obligation	$4,648

Total rent expense was approximately $752,000, $702,000 and $691,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

In most cases, the Bank requires collateral or other security to support financial instruments with credit risk.

(Dollars in thousands)

	Contractual Amount	
	2016	2015
Financial instruments whose contract amount represent credit risk:		
Commitments to extend credit	$195,528	189,351
Standby letters of credit and financial guarantees written	$3,728	3,872

A-56

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates and because they may expire without being drawn upon, the total commitment amount of $199.3 million does not necessarily represent future cash requirements.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to businesses in the Bank's delineated market area. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds real estate, equipment, automobiles and customer deposits as collateral supporting those commitments for which collateral is deemed necessary.

In the normal course of business, the Company is a party (both as plaintiff and defendant) to a number of lawsuits. In the opinion of management and counsel, none of these cases should have a material adverse effect on the financial position of the Company.

Bancorp and the Bank have employment agreements with certain key employees. The agreements, among other things, include salary, bonus, incentive compensation, and change in control provisions.

The Company has $59.5 million available for the purchase of overnight federal funds from five correspondent financial institutions as of December 31, 2016.

At December 31, 2016, the Bank has a commitment to invest $3 million in an income tax credit partnership owning and developing two multifamily housing developments in Charlotte, North Carolina, with $1.5 million allocated to each property. The Bank funded $136,000 of this commitment in 2016.

(11) Employee and Director Benefit Programs

The Company has a profit sharing and 401(k) plan for the benefit of substantially all employees subject to certain minimum age and service requirements. Under the 401(k) plan, the Company matched employee contributions to a maximum of 4.00% of annual compensation in 2014, 2015 and 2016. The Company's contribution pursuant to this formula was approximately $565,000, $539,000 and $439,000 for the years 2016, 2015 and 2014, respectively. Investments of the 401(k) plan are determined by a committee comprised of senior management. No investments in Company stock have been made by the 401(k) plan. Prior to January 1, 2015, the vesting schedule for the 401(k) plan began at 20 percent after two years of employment and graduated 20 percent each year until reaching 100 percent after six years of employment. Effective January 1, 2015, contributions to the 401(k) plan are vested immediately.

In December 2001, the Company initiated a postretirement benefit plan to provide retirement benefits to key officers and its Board of Directors and to provide death benefits for their designated beneficiaries. Under the postretirement benefit plan, the Company purchased life insurance contracts on the lives of the key officers and each director. The increase in cash surrender value of the contracts constitutes the Company's contribution to the postretirement benefit plan each year. Postretirement benefit plan participants are to be paid annual benefits for a specified number of years commencing upon retirement. Expenses incurred for benefits relating to the postretirement benefit plan were approximately $428,000, $413,000 and $422,000 for the years 2016, 2015 and 2014, respectively.

The Company is currently paying medical benefits for certain retired employees. The Company did not incur any postretirement medical benefits expense in 2016, 2015 and 2014 due to an excess accrual balance.

The following table sets forth the change in the accumulated benefit obligation for the Company's two postretirement benefit plans described above:

(Dollars in thousands)

	2016	2015
Benefit obligation at beginning of period	$3,993	3,812
Service cost	346	334
Interest cost	67	65
Benefits paid	(232)	(218)
Benefit obligation at end of period	$4,174	3,993

A-57

The amounts recognized in the Company's Consolidated Balance Sheet as of December 31, 2016 and 2015 are shown in the following two tables:

(Dollars in thousands)

	2016	2015
Benefit obligation	$4,174	3,993
Fair value of plan assets	-	-

(Dollars in thousands)

	2016	2015
Funded status	$(4,174)	(3,993)
Unrecognized prior service cost/benefit	-	-
Unrecognized net actuarial loss	-	-
Net amount recognized	$(4,174)	(3,993)
Unfunded accrued liability	$(4,174)	(3,993)
Intangible assets	-	-
Net amount recognized	$(4,174)	(3,993)

Net periodic benefit cost of the Company's postretirement benefit plans for the years ended December 31, 2016, 2015 and 2014 consisted of the following:

(Dollars in thousands)

	2016	2015	2014
Service cost	$346	334	348
Interest cost	67	65	67
Net periodic cost	$413	399	415
Weighted average discount rate assumption used to determine benefit obligation	5.47%	5.47%	5.47%

The Company paid benefits under the two postretirement plans totaling $232,000 and $218,000 during the years ended December 31, 2016 and 2015, respectively. Information about the expected benefit payments for the Company's two postretirement benefit plans is as follows:

(Dollars in thousands)

Year ending December 31,	
2017	$263
2018	$275
2019	$310
2020	$363
2021	$364
Thereafter	$9,077

(12) Regulatory Matters

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of capital in relation to both on- and off-balance sheet items at various risk weights. Total capital consists of two tiers of capital. Tier 1 Capital includes common shareholders' equity and trust preferred securities less adjustments for intangible assets. Tier 2 Capital consists of the allowance for loan losses, up to 1.25% of risk-weighted assets and other adjustments. Management believes, as of December 31, 2016, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2016, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There have been no conditions or events since that notification that management believes have changed the Bank's category.

In 2013, the Federal Reserve Board approved its final rule on the Basel III capital standards, which implement changes to the regulatory capital framework for banking organizations. The Basel III capital standards, which became effective January 1, 2015, include new risk-based capital and leverage ratios, which will be phased in from 2015 to 2019. The new minimum capital level requirements applicable to the Company and the Bank under the final rules are as follows: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total risk based capital ratio of 8% (unchanged from previous rules); and (iv) a Tier 1 leverage ratio of 4% (unchanged from previous rules). An additional capital conservation buffer will be added to the minimum requirements for capital adequacy purposes beginning on January 1, 2016 at 0.625% and will be phased in through 2019 (increasing by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019). This will result in the following minimum ratios beginning in 2019: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. Under the final rules, institutions would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained earnings that could be utilized for such actions.

The Company's and the Bank's actual capital amounts and ratios are presented below:

(Dollars in thousands)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016:						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$131,991	16.12%	65,508	8.00%	N/A	N/A
Bank	$129,035	15.78%	65,426	8.00%	81,782	10.00%
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	$124,441	15.20%	49,131	6.00%	N/A	N/A
Bank	$121,485	14.85%	49,069	6.00%	65,426	8.00%
Tier 1 Capital (to Average Assets)						
Consolidated	$124,441	11.19%	44,488	4.00%	N/A	N/A
Bank	$121,485	10.88%	44,677	4.00%	55,846	5.00%
Common Equity Tier 1 (to Risk-Weighted Assets)						
Consolidated	$104,441	12.75%	36,848	4.50%	N/A	N/A
Bank	$121,485	14.85%	36,802	4.50%	53,158	6.50%
As of December 31, 2015:						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$129,203	16.63%	62,137	8.00%	N/A	N/A
Bank	$124,910	16.11%	62,026	8.00%	77,532	10.00%
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	$119,354	15.37%	46,603	6.00%	N/A	N/A
Bank	$115,160	14.85%	46,519	6.00%	62,026	8.00%
Tier 1 Capital (to Average Assets)						
Consolidated	$119,354	11.44%	41,743	4.00%	N/A	N/A
Bank	$115,160	11.03%	41,776	4.00%	52,220	5.00%
Common Equity Tier 1 (to Risk-Weighted Assets)						
Consolidated	$99,354	12.79%	34,952	4.50%	N/A	N/A
Bank	$115,160	14.85%	34,890	4.50%	50,396	6.50%

On August 31, 2015, the FDIC and the Commissioner issued a Consent Order (the "Order") in connection with compliance by the Bank with the Bank Secrecy Act and its implementing regulations (collectively, the "BSA"). The Order was issued pursuant to the consent of the Bank. In consenting to the issuance of the Order, the Bank did not admit or deny any unsafe or unsound banking practices or violations of law or regulation.

The Order requires the Bank to take certain affirmative actions to comply with its obligations under the BSA, including, without limitation, strengthening its Board of Directors' oversight of BSA activities; reviewing, enhancing, adopting and implementing a revised BSA compliance program; completing a BSA risk assessment; developing a

revised system of internal controls designed to ensure full compliance with the BSA; reviewing and revising customer due diligence and risk assessment processes, policies and procedures; developing, adopting and implementing effective BSA training programs; assessing BSA staffing needs and resources and appointing a qualified BSA officer; establishing an independent BSA testing program; ensuring that all reports required by the BSA are accurately and properly filed and engaging an independent firm to review past account activity to determine whether suspicious activity was properly identified and reported.

Prior to implementation, certain of the actions described above are subject to review by and approval or non-objection from the FDIC and the Commissioner. The Order will remain in effect and be enforceable until it is modified, terminated, suspended or set aside by the FDIC and the Commissioner.

The Bank continues to make progress in addressing the issues identified in the Order and expects that it will be able to undertake and implement all required actions within the time period specified in the Order. The Bank has incurred and will continue to incur additional non-interest expenses associated with the implementation of corrective actions; however, these expenses are not expected to have a significant impact on the results of operations or financial position of the Company. Operating under the Order will limit the Company's ability to participate in acquisitions, to open new branches, and to allocate funds to its stock repurchase plan until such time as the Order has been modified, terminated, suspended or set aside by the FDIC and the Commissioner.

A-60

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(13) Shareholders' Equity

Shareholders' equity was $107.4 million, or 9.9% of total assets, as of December 31, 2016, compared to $104.9 million, or 10.1% of total assets, as of December 31, 2015. The increase in shareholders' equity is primarily due to an increase in retained earnings due to net income, which was partially offset by a decrease in accumulated other comprehensive income resulting from a decrease in the unrealized gain on investment securities and a $2.0 million decrease in common stock due to 92,738 shares of common stock being repurchased under the Company's stock repurchase program implemented during the second quarter of 2016.

Annualized return on average equity for the year ended December 31, 2016 was 8.11% compared to 9.03% for the year ended December 31, 2015. Total cash dividends paid on common stock were $2.1 million and $1.6 million for the years ended December 31, 2016 and 2015, respectively.

The Board of Directors, at its discretion, can issue shares of preferred stock up to a maximum of 5,000,000 shares. The Board is authorized to determine the number of shares, voting powers, designations, preferences, limitations and relative rights. The Board of Directors does not currently anticipate issuing any additional series of preferred stock.

In 2014, the Company's Board of Directors authorized a stock repurchase program ("the 2014 Stock Repurchase Program"), pursuant to which up to $2 million was allocated to repurchase the Company's common stock. All purchases under the 2014 Stock Repurchase Program were made periodically as permitted by securities laws and other legal requirements in the open market or in privately negotiated transactions. The timing and amount of the repurchase of shares was determined by the Company's management, based on its evaluation of market conditions and other factors. The Company had repurchased approximately $2.0 million, or 106,587 shares of its common stock, under the 2014 Stock Repurchase Program as of December 31, 2015.

In the second quarter of 2016, the Company's Board of Directors authorized another stock repurchase program ("the 2016 Stock Repurchase Program"), pursuant to which up to $2 million was allocated to repurchase the Company's common stock. All purchases under the 2016 Stock Repurchase Program were made periodically as permitted by securities laws and other legal requirements in the open market or in privately negotiated transactions. The timing and amount of any repurchase of shares was determined by the Company's management, based on its evaluation of market conditions and other factors. The Company repurchased approximately $2.0 million, or 92,738 shares of its common stock, under the 2016 Stock Repurchase Program during 2016.

(14) Other Operating Income and Expense

Miscellaneous non-interest income for the years ended December 31, 2016, 2015 and 2014 included the following items that exceeded one percent of total revenues at some point during the following three-year period:

(Dollars in thousands)

	2016	2015	2014
Visa debit card income	$3,589	3,452	3,170
Net appraisal management fee income	$886	635	525
Insurance and brokerage commissions	$631	713	701

Other non-interest expense for the years ended December 31, 2016, 2015 and 2014 included the following items that exceeded one percent of total revenues at some point during the following three-year period:

(Dollars in thousands)

	2016	2015	2014
Advertising	$1,136	784	804

FDIC insurance	$494	681	739
Visa debit card expense	$1,140	988	905
Telephone	$754	588	574
Foreclosure/OREO expense	$120	398	317
Internet banking expense	$710	671	644
FHLB advance prepayment penalty	$1,260	504	869
Consulting	$2,257	904	609
NC Tax Credit Amortization	$-	-	870

A-61

(15) Fair Value of Financial Instruments

The Company is required to disclose fair value information about financial instruments, whether or not recognized on the face of the balance sheet, for which it is practicable to estimate that value. The assumptions used in the estimation of the fair value of the Company's financial instruments are detailed below. Where quoted prices are not available, fair values are based on estimates using discounted cash flows and other valuation techniques. The use of discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following disclosures should not be considered a surrogate of the liquidation value of the Company, but rather a good faith estimate of the increase or decrease in the value of financial instruments held by the Company since purchase, origination, or issuance.

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Cash and Cash Equivalents
For cash, due from banks and interest-bearing deposits, the carrying amount is a reasonable estimate of fair value. Cash and cash equivalents are reported in the Level 1 fair value category.

Investment Securities Available for Sale
Fair values of investment securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges when available. If quoted prices are not available, fair value is determined using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Fair values for investment securities with quoted market prices are reported in the Level 1 fair value category. Fair value measurements obtained from independent pricing services are reported in the Level 2 fair value category. All other fair value measurements are reported in the Level 3 fair value category.

Other Investments
For other investments, the carrying value is a reasonable estimate of fair value. Other investments are reported in the Level 3 fair value category.

Mortgage Loans Held for Sale
Mortgage loans held for sale are carried at lower of aggregate cost or market value. The cost of mortgage loans held for sale approximates the market value. Mortgage loans held for sale are reported in the Level 3 fair value category.

Loans
The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. For variable rate loans, the carrying amount is a reasonable estimate of fair value. Loans are reported in the Level 3 fair value category, as the pricing of loans is more subjective than the pricing of other financial instruments.

Cash Surrender Value of Life Insurance
For cash surrender value of life insurance, the carrying value is a reasonable estimate of fair value. Cash surrender value of life insurance is reported in the Level 2 fair value category.

Other Real Estate
The fair value of other real estate is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. Other real estate is reported in the Level 3 fair value category.

A-62

Deposits
The fair value of demand deposits, interest-bearing demand deposits and savings is the amount payable on demand at the reporting date. The fair value of certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities. Deposits are reported in the Level 2 fair value category.

Securities Sold Under Agreements to Repurchase
For securities sold under agreements to repurchase, the carrying value is a reasonable estimate of fair value. Securities sold under agreements to repurchase are reported in the Level 2 fair value category.

FHLB Borrowings
The fair value of FHLB borrowings is estimated based upon discounted future cash flows using a discount rate comparable to the current market rate for such borrowings. FHLB borrowings are reported in the Level 2 fair value category.

Junior Subordinated Debentures
Because the Company's junior subordinated debentures were issued at a floating rate, the carrying amount is a reasonable estimate of fair value. Junior subordinated debentures are reported in the Level 2 fair value category.

Commitments to Extend Credit and Standby Letters of Credit
Commitments to extend credit and standby letters of credit are generally short-term and at variable interest rates. Therefore, both the carrying value and estimated fair value associated with these instruments are immaterial.

Limitations
Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred income taxes and premises and equipment. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

The fair value presentation for recurring assets is presented in Note 2. There were no recurring liabilities at December 31, 2016 and 2015. The fair value presentation for non-recurring assets is presented in Note 3. There were no non-recurring liabilities at December 31, 2016 and 2015. The carrying amount and estimated fair value of the Company's financial instruments at December 31, 2016 and 2015 are as follows:

(Dollars in thousands)

	Carrying Amount	Fair Value Measurements at December 31, 2016			
		Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$70,094	70,094	-	-	70,094
Investment securities available for sale	$249,946	-	249,196	750	249,946
Other investments	$2,635	-	-	2,635	2,635
Mortgage loans held for sale	$5,709	-	-	5,709	5,709
Loans, net	$716,261	-	-	720,675	720,675
Cash surrender value of life insurance	$14,952	-	14,952	-	14,952
Liabilities:					
Deposits	$892,918	-	-	884,510	884,510
Securities sold under agreements to repurchase	$36,434	-	36,434	-	36,434
FHLB borrowings	$20,000	-	18,864	-	18,864
Junior subordinated debentures	$20,619	-	20,619	-	20,619

(Dollars in thousands)

	Carrying Amount	Fair Value Measurements at December 31, 2015			
		Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$39,763	39,763	-	-	39,763
Investment securities available for sale	$268,530	1,325	266,455	750	268,530
Other investments	$3,636	-	-	3,636	3,636
Mortgage loans held for sale	$4,149	-	-	4,149	4,149
Loans, net	$679,502	-	-	683,540	683,540
Cash surrender value of life insurance	$14,546	-	14,546	-	14,546
Liabilities:					
Deposits	$832,175	-	-	827,874	827,874
Securities sold under agreements to repurchase	$27,874	-	27,874	-	27,874
FHLB borrowings	$43,500	-	43,144	-	43,144
Junior subordinated debentures	$20,619	-	20,619	-	20,619

(16) Peoples Bancorp of North Carolina, Inc. (Parent Company Only) Condensed Financial Statements

Balance Sheets

December 31, 2016 and 2015
(Dollars in thousands)

Assets	2016	2015
Cash	$957	553
Interest-bearing time deposit	1,000	1,000
Investment in subsidiaries	124,471	121,848
Investment in PEBK Capital Trust II	619	619
Investment securities available for sale	750	1,234
Other assets	275	249
Total assets	$128,072	125,503
Liabilities and Shareholders' Equity		
Junior subordinated debentures	$20,619	20,619
Liabilities	25	20
Shareholders' equity	107,428	104,864
Total liabilities and shareholders' equity	$128,072	125,503

Statements of Earnings

For the Years Ended December 31, 2016, 2015 and 2014
(Dollars in thousands)

Revenues:	2016	2015	2014
Interest and dividend income	$4,569	3,979	2,718
Gain on sale of securities	405	-	-
Total revenues	4,974	3,979	2,718
Expenses:			
Interest	485	403	389
Other operating expenses	513	538	527
Total expenses	998	941	916
Income before income tax benefit and equity in undistributed earnings of subsidiaries	3,976	3,038	1,802
Income tax benefit	178	262	239

Income before equity in undistributed earnings of subsidiaries	4,154	3,300	2,041
Equity in undistributed earnings of subsidiaries	5,023	6,333	7,347
Net earnings	$9,177	9,633	9,388

A-65

Statements of Cash Flows

For the Years Ended December 31, 2016, 2015 and 2014
(Dollars in thousands)

	2016	2015	2014
Cash flows from operating activities:			
Net earnings	$9,177	9,633	9,388
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:			
Equity in undistributed earnings of subsidiaries	(5,023)	(6,333)	(7,347)
Gain on sale of investment securities	(405)	-	-
Change in:			
Other assets	61	(4)	28
Accrued income	-	-	(5)
Accrued expense	5	3	1
Other liabilities	-	-	(12,632)
Net cash provided by operating activities	3,815	3,299	(10,567)
Cash flows from investing activities:			
Proceeds from maturities of investment securities available for sale	669	-	500
In kind transfer from parent to Bank	10	-	-
Net change in interest-bearing time deposit	-	-	(1,000)
Net cash provided (used) by investing activities	679	-	(500)
Cash flows from financing activities:			
Cash dividends paid on common stock	(2,106)	(1,574)	(1,022)
Stock repurchase	(1,984)	(1,917)	(82)
Proceeds from exercise of stock options	-	-	37
Net cash used by financing activities	(4,090)	(3,491)	(1,067)
Net change in cash	404	(192)	(12,134)
Cash at beginning of year	553	745	12,879
Cash at end of year	$957	553	745
Noncash investing and financing activities:			
Change in unrealized gain on investment securities available for sale, net	$(2,523)	57	6,625
Accrued redemption of Series A Preferred Stock	-	-	(12,524)

A-66

(17) Quarterly Data

	2016				2015			
(Dollars in thousands, except per share amounts)	First	Second	Third	Fourth	First	Second	Third	Fourth
Total interest income	$9,905	9,815	9,982	10,107	$9,567	9,191	9,947	9,961
Total interest expense	809	813	828	821	884	875	874	851
Net interest income	9,096	9,002	9,154	9,286	8,683	8,316	9,073	9,110
(Reduction of) provision for loan losses	(216)	(531)	(360)	(99)	173	(214)	235	(211)
Other income	3,324	3,572	3,414	3,666	3,245	3,297	3,266	3,504
Other expense	9,492	9,109	9,598	11,783	8,748	8,337	8,669	10,024
Income before income taxes	3,144	3,996	3,330	1,268	3,007	3,490	3,435	2,801
Income taxes (benefit)	691	1,032	872	(34)	679	866	942	613
Net earnings	2,453	2,964	2,458	1,302	2,328	2,624	2,493	2,188
Basic net earnings per share	0.45	0.54	0.45	0.24	$0.41	0.47	0.45	0.40
Diluted net earnings per share	$0.44	0.53	0.44	0.24	$0.41	0.47	0.45	0.39

DIRECTORS AND OFFICERS OF THE COMPANY

DIRECTORS

Robert C. Abernethy – Chairman
Chairman of the Board, Peoples Bancorp of North Carolina, Inc. and Peoples Bank;
President, Secretary and Treasurer, Carolina Glove Company, Inc. (glove manufacturer)
Secretary and Assistant Treasurer, Midstate Contractors, Inc. (paving company)

James S. Abernethy
Vice President, Carolina Glove Company, Inc. (glove manufacturer)
President and Assistant Secretary, Midstate Contractors, Inc. (paving company)
Vice President, Secretary and Chairman of the Board of Directors, Alexander Railroad Company

Douglas S. Howard
Vice President, Secretary and Treasurer, Denver Equipment of Charlotte, Inc.

John W. Lineberger, Jr.
President, Lincoln Bonded Warehouse Company (commercial warehousing facility)

Gary E. Matthews
President and Director, Matthews Construction Company, Inc. (general contractor)

Billy L. Price, Jr. MD
Practitioner of Internal Medicine, BL Price Medical Consultants, PLLC

Larry E. Robinson
Shareholder, Director, Chairman of the Board and Chief Executive Officer, The Blue Ridge Distributing Co., Inc. (beer and wine distributor)
Director and member of the Board of Directors, United Beverages of North Carolina, LLC (beer distributor)

William Gregory (Greg) Terry
President, DFH Holdings
Operator/General Manager, Drum & Willis-Reynolds Funeral Homes and Crematory

Dan Ray Timmerman, Sr.
Chairman of the Board and Chief Executive Officer, Timmerman Manufacturing, Inc. (wrought iron furniture, railings and gates manufacturer)

Benjamin I. Zachary
President, Treasurer, General Manager and Director, Alexander Railroad Company

OFFICERS

Lance A. Sellers
President and Chief Executive Officer

A. Joseph Lampron, Jr.

Executive Vice President, Chief Financial Officer, Corporate Treasurer and Assistant Corporate Secretary

William D. Cable, Sr.
Executive Vice President, Corporate Secretary and Assistant Corporate Treasurer

A-68

Explanation of Responses:

Explanation of Responses: