

PEOPLES BANCORP OF NORTH CAROLINA INC  
Form DEF 14A  
April 02, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

Proxy Statement Pursuant to Section 14(a)  
of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

<input type="checkbox"/> Preliminary Proxy Statement	<input type="checkbox"/> Confidential, for Use of the Commission
<input checked="" type="checkbox"/> Definitive Proxy Statement	<input type="checkbox"/> Only (as permitted by Rule 14a-6(e)(2))
<input type="checkbox"/> Definitive Additional Materials	
<input type="checkbox"/> Soliciting Material Pursuant to §240.14a-12	

Peoples Bancorp of North Carolina, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:  
(2) Aggregate number of securities to which transaction applies:  
(3)

Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

- (4) Proposed maximum aggregate value of transaction:
- (5) Total fee paid:

[ ]

Fee paid previously with preliminary materials:

[ ]

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:
  - (2) Form, Schedule or Registration Statement No.:
  - (3) Filing Party:
  - (4) Date Filed:
-

PEOPLES BANCORP  
OF NORTH CAROLINA, INC.

Notice of 2012 Annual Meeting,  
Proxy Statement and  
Annual Report

---

PEOPLES BANCORP OF NORTH CAROLINA, INC.

PROXY STATEMENT

Table of Contents

	Page
NOTICE OF 2012 ANNUAL MEETING OF SHAREHOLDERS	ii
PROXY STATEMENT	1
Security Ownership of Certain Beneficial Owners and Management	5
Section 16(a) Beneficial Ownership Reporting Compliance	8
Proposal 1 - Election of Directors	8
Director Nominees	8
Our Board of Directors and Its Committees	10
Executive Committee	10
Governance Committee	10
Audit and Enterprise Risk Committee	11
Report of Audit and Enterprise Risk Committee	11
Compensation Committee	12
Compensation Committee Interlocks and Insider Participation	16
Board Leadership Structure and Risk Oversight	16
Director and Executive Compensation and Benefits	17
Director Compensation	17
Executive Officers	19
Management Compensation	19
Employment Agreements	21
Omnibus Stock Option and Long Term Incentive Plan	22
Incentive Compensation Plans	25
Deferred Compensation Plan	27
Supplemental Retirement Plan	27
Discretionary Bonuses and Service Awards	27
Profit Sharing Plan and 401(k) Plan	27
Indebtedness of and Transactions with Management and Directors	27

Proposal 2 - Advisory (Non-Binding) Proposal to Approve the Compensation of the Company's Named		
	Executive Officers	28
Proposal 3 - Ratification of Selection of Independent Auditor		29
	Audit Fees	29
	Audit Related Fees	29
	Tax Fees	29
	All Other Fees	29
Date for Receipt of Shareholder Proposals		30
Other Matters		30
Miscellaneous		30
APPENDIX A		31

PEOPLES BANCORP OF NORTH CAROLINA, INC.

Post Office Box 467  
518 West C Street  
Newton, North Carolina 28658-0467  
(828) 464-5620

NOTICE OF 2012 ANNUAL MEETING OF  
SHAREHOLDERS

To Be Held on May 3, 2012

NOTICE IS HEREBY GIVEN that the 2012 Annual Meeting of Shareholders of Peoples Bancorp of North Carolina, Inc. (the "Company") will be held as follows:

Place:	Catawba Country Club 1154 Country Club Road Newton, North Carolina
Date:	May 3, 2012
Time:	11:00 a.m., Eastern Time

The purposes of the Annual Meeting are to consider and vote upon the following matters:

- To elect ten persons who will serve as members of the Board of Directors until the 2013 Annual Meeting of Shareholders or until their successors are duly elected and qualified;
- To participate in an advisory (non-binding) vote to approve the compensation of the Company's executive officers, as disclosed in the Proxy Statement;
  - To ratify the appointment of Porter Keadle Moore, LLC ("PKM") as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2012; and
- To consider and act on any other matters that may properly come before the Annual Meeting or any adjournment.

The Board of Directors has established March 16, 2012, as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting. If an insufficient number of shares is present in person or by proxy to constitute a quorum at the time of the Annual Meeting, the Annual Meeting may be adjourned in order to permit further solicitation of proxies by the Company.

Your vote is important. We urge you to vote as soon as possible so that your shares may be voted in accordance with your wishes. You may vote by executing and returning your proxy card in the accompanying envelope, or by voting electronically over the Internet or by telephone. Please refer to the proxy card enclosed for information on voting electronically. If you attend the Annual Meeting, you may vote in person and the proxy will not be used.

By Order of the Board of Directors,

/s/ Tony W. Wolfe  
Tony W. Wolfe  
President and Chief Executive Officer

Newton, North Carolina  
April 2, 2012

PEOPLES BANCORP OF NORTH CAROLINA, INC.

---

PROXY STATEMENT

---

Annual Meeting of Shareholders  
To Be Held On May 3, 2012

---

This Proxy Statement is being mailed to our shareholders on or about April 2, 2012, for solicitation of proxies by the Board of Directors of Peoples Bancorp of North Carolina, Inc. Our principal executive offices are located at 518 West C Street, Newton, North Carolina 28658. Our telephone number is (828) 464-5620.

In this Proxy Statement, the terms “we,” “us,” “our” and the “Company” refer to Peoples Bancorp of North Carolina, Inc. The term “Bank” means Peoples Bank, our wholly-owned, North Carolina-chartered bank subsidiary. The terms “you” and “your” refer to the shareholders of the Company.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on May 3, 2012. The Notice, Proxy Statement and the Annual Report to Shareholders for the year ended December 31, 2011 are also available at <https://www.snl.com/IRWebLinkX/GenPage.aspx?IID=4050385&GKP=202713>

You may also access the above off-site website by going to [www.peoplesbanknc.com](http://www.peoplesbanknc.com) and click on the link.

INFORMATION ABOUT THE ANNUAL MEETING

Your vote is very important. For this reason, our Board of Directors is requesting that you allow your common stock to be represented at the 2012 Annual Meeting of Shareholders by the proxies named on the enclosed proxy card.

When is the Annual Meeting? May 3, 2012, at 11 a.m., Eastern Time.

Where will the Annual Meeting be held? At the Catawba Country Club, 1154 Country Club Road, Newton, North Carolina.

What items will be voted on at the Annual Meeting?

1. ELECTION OF DIRECTORS. To elect ten directors to serve until the 2013 Annual Meeting of Shareholders;
2. PARTICIPATION IN ADVISORY VOTE. To participate in an advisory (non-binding) vote to approve the compensation of the Company's executive officers, as disclosed in the Proxy Statement;
- 3.



RATIFICATION OF REGISTERED PUBLIC ACCOUNTING FIRM. To ratify the appointment of Porter Keadle Moore, LLC ("PKM") as the Company's independent registered public accounting firm for fiscal year 2012; and

4. OTHER BUSINESS. To consider any other business as may properly come before the Annual Meeting or any adjournment.

Who can vote?

Only holders of record of our common stock at the close of business on March 16, 2012 (the "Record Date") will be entitled to notice of and to vote at the Annual Meeting and any adjournment of the Annual Meeting. On the Record Date, there were 5,544,160 shares of our common stock outstanding and entitled to vote and 723 shareholders of record.

How do I vote by proxy?

You may vote your shares by marking, signing and dating the enclosed proxy card and returning it in the enclosed postage-paid envelope or by voting electronically over the Internet or by telephone using the information on the proxy card. If you return your signed proxy card before the Annual Meeting, the proxies will vote your shares as you direct. The Board of Directors has appointed proxies to represent shareholders who cannot attend the Annual Meeting in person.

For the election of directors, you may vote for (1) all of the nominees, (2) none of the nominees, or (3) all of the nominees except those you designate. If a nominee for election as a director becomes unavailable for election at any time at or before the Annual Meeting, the proxies will vote your shares for a substitute nominee. For each other item of business, you may vote "FOR" or "AGAINST" or you may "ABSTAIN" from voting.

If you return your signed proxy card but do not specify how you want to vote your shares, the proxies will vote them "FOR" the election of all of our nominees for directors and "FOR" all other proposals presented in this Proxy Statement in accordance with recommendations from the Board of Directors.

If your shares are held in the name of a broker or other nominee (i.e., held in "street name"), you will need to obtain a proxy instruction card from the broker holding your shares and return the card as directed by your broker. Your broker is no longer permitted to vote on your behalf on the election of directors or on the advisory vote on executive compensation unless you provide specific instructions by following the instructions from your broker about voting your shares by telephone or Internet or completing and returning the voting instruction card provided by your broker. For your vote to be counted in the election of directors and the advisory vote on executive compensation, you now will need to communicate your voting decision to your bank, broker or other holder of

record before the date of the Annual Meeting.

We are not aware of any other matters to be brought before the Annual Meeting. If matters other than those discussed above are properly brought before the Annual Meeting, the proxies may vote your shares in accordance with their best judgment.

How do I change or revoke my proxy?

You can change or revoke your proxy at any time before it is voted at the Annual Meeting in any of three ways: (1) by delivering a written notice of revocation to the Secretary of the Company; (2) by delivering another properly signed proxy card to the Secretary of the Company with a more recent date than

your first proxy card or by changing your vote by telephone or the Internet; or (3) by attending the Annual Meeting and voting in person. You should deliver your written notice or superseding proxy to the Secretary of the Company at our principal executive offices listed above.

How many votes can I cast?

You are entitled to one vote for each share held as of the Record Date on each nominee for election and each other matter presented for a vote at the Annual Meeting. You may not vote your shares cumulatively in the election of directors.

How many votes are required to approve the proposals?

If a quorum is present at the Annual Meeting, each director nominee will be elected by a plurality of the votes cast in person or by proxy. If you withhold your vote on a nominee, your shares will not be counted as having voted for that nominee.

The proposal to approve the compensation of the Company's Named Executive Officers is advisory only; however, the Company's Compensation Committee will consider the outcome of the vote when evaluating compensation arrangements for executive compensation.

The proposal to ratify the appointment of the Company's independent registered public accounting firm for 2012 will be approved if the votes cast in favor exceed the votes cast in opposition.

Any other matters properly coming before the Annual Meeting for a vote will require the affirmative vote of the holders of a majority of the shares represented in person or by proxy at the Annual Meeting and entitled to vote on that matter.

Abstentions and broker non-votes are not treated as votes cast on any proposal. As a result, neither will have an effect on the vote for the election of any director, the non-binding advisory vote to approve executive compensation, or the ratification of our independent registered public accounting firm.

A broker non-vote occurs when a broker does not vote on a particular matter because the broker does not have discretionary authority on that matter and has not received instructions from the owner of the shares. Under new rules changes, brokers are no longer able to vote for directors without instructions from the record holder or on the

advisory vote on executive compensation.

In the event there are insufficient votes present at the Annual Meeting for a quorum or to approve or ratify any proposal, the Annual Meeting may be adjourned in order to permit the further solicitation of proxies.

What constitutes a "quorum" for the Annual Meeting?

A majority of the outstanding shares of our common stock entitled to vote at the Annual Meeting, present in person or represented by proxy, constitutes a quorum (a quorum is necessary to conduct business at the Annual Meeting).  
Your

shares will be considered part of the quorum if you have voted your shares by proxy or by telephone or Internet. Abstentions, broker non-votes and votes withheld from any director nominee count as shares present at the Annual Meeting for purposes of determining a quorum.

Who pays for the solicitation of proxies?

We will pay the cost of preparing, printing and mailing materials in connection with this solicitation of proxies. In addition to solicitation by mail, our officers, directors and regular employees, as well as those of the Bank, may make solicitations personally, by telephone or otherwise without additional compensation for doing so. We reserve the right to engage a proxy solicitation firm to assist in the solicitation of proxies for the Annual Meeting. We will, upon request, reimburse brokerage firms, banks and others for their reasonable out-of-pocket expenses in forwarding proxy materials to beneficial owners of stock or otherwise in connection with this solicitation of proxies.

When are proposals for the 2013 Annual Meeting due?

To be considered either for inclusion in the proxy materials solicited by the Board of Directors for the 2013 Annual Meeting, proposals must be received by the Secretary of the Company at our principal executive offices at 518 West C Street, Newton, North Carolina 28658 (or at P.O. Box 467, Newton, North Carolina 28658-0467) no later than December 6, 2012. To be included in the proxy materials, a proposal must comply with our Bylaws, Rule 14a-8 and all other applicable provisions of Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any proposal not intended to be included in the Company's proxy statement for the 2013 Annual Meeting, but intended to be presented at the 2013 Annual Meeting, must be received by us at our principal executive offices listed above no later than February 19, 2013.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS  
AND MANAGEMENT

The Exchange Act requires that any person who acquires the beneficial ownership of more than five percent of the Company's common stock notify the Securities and Exchange Commission (the "SEC") and the Company. Following is certain information, as of the Record Date, regarding those persons or groups who held of record, or who are known to the Company to own beneficially, more than five percent of the Company's outstanding common stock.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership <sup>1</sup>	Percent of Class
Christine S. Abernethy P.O. Box 386 Newton, NC 28658	659,495 <sup>2</sup>	11.90% <sup>3</sup>
Tontine Financial Partners, L.P. 55 Railroad Avenue, 3rd Floor Greenwich, CT 06830-6378	353,0764	6.37% <sup>3</sup>
Tontine Management, L.L.C. 55 Railroad Avenue Greenwich, CT 06830	353,0764	6.37% <sup>3</sup>
Jeffrey L. Gendell 55 Railroad Avenue Greenwich, CT 06830	508,5934	9.17% <sup>3</sup>
U.S. Department of the Treasury 1500 Pennsylvania Avenue, NW Washington, D.C. 20220	357,2345	6.05% <sup>6</sup>

<sup>1</sup> Unless otherwise noted, all shares are owned directly of record by the named individuals, by their spouses and minor children, or by other entities controlled by the named individuals. Voting and investment power is not shared unless otherwise indicated.

<sup>2</sup> Carolina Glove Company, Inc. owns 107,604 shares of common stock. These shares are included in the calculation of Ms. Abernethy's total beneficial ownership interest. Ms. Abernethy owns approximately 50% of the stock of Carolina Glove Company, Inc. The business is operated by a family committee. Ms. Abernethy has no active day-to-day participation in the business affairs of Carolina Glove Company, Inc.

<sup>3</sup> Based upon a total of 5,544,160 shares of common stock outstanding as of the Record Date.

<sup>4</sup> Based on a Schedule 13G/A (Amendment No. 4) filed by Tontine Financial Partners, L.P., Tontine Management, L.L.C., Tontine Overseas Associates, L.L.C., Tontine Asset Associates, LLC and Jeffrey L. Gendell with the SEC on February 10, 2012.

<sup>5</sup>The amount represents a warrant to purchase 357,234 shares of common stock issued to the U.S. Department of the Treasury on December 28, 2008. As of the Record Date, the U.S. Department of the Treasury had not exercised the warrant. A description of the Company's participation in the Troubled Asset Relief Program and Capital Purchase Program can be found on page 14.

<sup>6</sup>Based upon a total of 5,901,394 shares of common stock, which is the sum of the total number of shares of common stock outstanding as of the Record Date 5,544,160 and the shares of common stock underlying the warrant which is currently exercisable 357,234.



Set forth below is certain information, as of the Record Date, regarding those shares of common stock owned beneficially by each of the persons who currently serves as a member of the Board of Directors, is a nominee for election to the Board of Directors at the Annual Meeting, or is a named executive officer (“NEO”) of the Company. Also shown is the number of shares of common stock owned by the directors and executive officers of the Company as a group.

Name and Address	Amount and Nature of Beneficial Ownership <sup>1</sup>	Percentage of Class <sup>2</sup>
James S. Abernethy Post Office Box 327 Newton, NC 28658	171,4143	3.06%
Robert C. Abernethy Post Office Box 366 Newton, NC 28658	154,3524	2.76%
Joseph F. Beaman, Jr. Post Office Box 467 Newton, NC 28658	15,4605	*
William D. Cable, Sr. Post Office Box 467 Newton, NC 28658	28,0016	*
Douglas S. Howard Post Office Box 587 Denver, NC 28037	12,9657	*
A. Joseph Lampron, Jr. Post Office Box 467 Newton, NC 28658	15,9388	*
John W. Lineberger, Jr. Post Office Box 481 Lincolnton, NC 28092	2,299	*
Gary E. Matthews 210 First Avenue South Conover, NC 28613	21,540	*
Billy L. Price, Jr., M.D. 540 11th Ave. Place NW Hickory, NC 28601	5,206	*
Larry E. Robinson Post Office Box 723	49,6579	*

Newton, NC 28658		
Lance A. Sellers	19,94510	*
Post Office Box 467		
Newton, NC 28658		
William Gregory Terry	14,647	*
Post Office Box 395		
Conover, NC 28613		
Dan Ray Timmerman, Sr.	83,58911	1.49%
Post Office Box 1148		
Conover, NC 28613		
Tony W. Wolfe	14,65112	*
Post Office Box 467		
Newton, NC 28658		

Name and Address	Amount and Nature of Beneficial Ownership <sup>1</sup>	Percentage of Class <sup>2</sup>
Benjamin I. Zachary Post Office Box 277 Taylorsville, NC 28681	82,47713	1.47%
All current directors and nominees and executive officers as a group (15 people)	628,10314,15	11.33%
*Does not exceed one percent of the common stock outstanding.		

1 Unless otherwise noted, all shares are owned directly of record by the named individuals, by their spouses and minor children, or by other entities controlled by the named individuals. Voting and investment power is not shared unless otherwise indicated.

2 Based upon a total of 5,544,160 shares of common stock outstanding as of the Record Date and 50,820 stock options exercisable within 60 days with respect to the designated recipient(s).

3 Includes 64,038 shares of common stock owned by Alexander Railroad Company. Mr. J. Abernethy is Vice President, Secretary and Chairman of the Board of Directors of Alexander Railroad Company.

4 Includes 5,730 shares of common stock owned by Mr. R. Abernethy's spouse, for which Mr. R. Abernethy disclaims beneficial ownership.

5 Includes 7,260 shares of common stock in which Mr. Beaman has the right to acquire beneficial interest within 60 days by the exercise of stock options granted under the Omnibus Stock Ownership and Long Term Incentive Plan.

6 Includes 10,890 shares of common stock in which Mr. Cable has the right to acquire beneficial interest within 60 days by the exercise of stock options granted under the Omnibus Stock Ownership and Long Term Incentive Plan.

7 Includes 2,475 shares of common stock owned by Mr. Howard's mother over which Mr. Howard holds a power of attorney. Includes 450 shares of common stock owned by Mr. Howard's spouse, for which Mr. Howard disclaims beneficial ownership.

8 Includes 10,890 shares of common stock in which Mr. Lampron has the right to acquire beneficial interest within 60 days by the exercise of stock options granted under the Omnibus Stock Ownership and Long Term Incentive Plan.

9 Includes 8,835 shares of common stock owned by Mr. Robinson's spouse, for which Mr. Robinson disclaims beneficial ownership.

10 Includes 12,705 shares of common stock in which Mr. Sellers has the right to acquire beneficial interest within 60 days by the exercise of stock options granted under the Omnibus Stock Ownership and Long Term Incentive Plan.

11 Includes 2,722 shares of common stock owned by Timmerman Manufacturing, Inc. Mr. Timmerman is President and a Director of Timmerman Manufacturing, Inc.

12 Includes 9,075 shares of common stock in which Mr. Wolfe has the right to acquire beneficial interest within 60 days by the exercise of stock options granted under the Omnibus Stock Ownership and Long Term Incentive Plan.

13 Includes 64,038 shares of common stock owned by Alexander Railroad Company. Mr. Zachary is President, Treasurer, General Manager and a Director of Alexander Railroad Company.

14 The 64,038 shares owned by Alexander Railroad Company and attributed to Mr. J. Abernethy and Mr. Zachary are only included once in calculating this total.

15 Includes 50,820 shares of common stock in which the executive officers, as a group, have the right to acquire beneficial interest within 60 days by the exercise of stock options granted under the Omnibus Stock Ownership and Long Term Incentive Plan.

Directors James S. Abernethy and Robert C. Abernethy are brothers and are sons of Christine S. Abernethy, who owns in excess of 10% of the common stock.

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's executive officers and directors, and persons who own more than ten percent of the common stock, to file reports of ownership and changes in ownership with the SEC. Executive officers, directors and greater than ten percent beneficial owners are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of such forms furnished to the Company and written representations from the Company's executive officers and directors, the Company believes that during the fiscal year ended December 31, 2011, its executive officers and directors and greater than ten percent beneficial owners complied with all applicable Section 16(a) filing requirements.

### PROPOSAL 1

#### ELECTION OF DIRECTORS

Our Board of Directors has set its number at ten members. Our current Bylaws provide that in order to be eligible for consideration at the Annual Meeting of Shareholders, all nominations of directors, other than those made by the Governance Committee or the Board of Directors, must be in writing and must be delivered to the Secretary of the Company not less than 50 days nor more than 90 days prior to the meeting at which such nominations will be made; provided, however, that if less than 60 days' notice of the meeting is given to the shareholders, such nominations must be delivered to the Secretary of the Company not later than the close of business on the tenth day following the day on which the notice of meeting was mailed.

Information about the nominees for election to the Board of Directors for a one-year term until the 2013 Annual Meeting of Shareholders appears below. All of the nominees are currently serving on the Board of Directors.

#### Director Nominees

James S. Abernethy, age 57 (as of March 1, 2012), is employed by Carolina Glove Company, Inc., a glove manufacturing company as its Vice President. Mr. Abernethy continues to serve as President and Assistant Secretary of Midstate Contractors, Inc., a paving company and also as Vice President, Secretary and Chairman of the Board of Directors of Alexander Railroad Company. Mr. Abernethy is also a director of Burke Mills, a public company. He has served as a director of the Company since 1992. Mr. Abernethy has a total of 19 years of banking experience and is a graduate of the North Carolina Bank Directors' College and attended the initial Advanced Directors' Training session offered by the North Carolina Bank Directors' College in association with the College of Management at North Carolina State University. Mr. Abernethy earned a business administration degree from Gardner Webb University in North Carolina. Over his 19 years of service on the Board of Directors, Mr. Abernethy has served on all the Bank's and the Company's committees.

Robert C. Abernethy, age 61 (as of March 1, 2012), is employed by Carolina Glove Company, Inc., a glove manufacturing company, as its President, Secretary and Treasurer. Mr. Abernethy continues to serve as Secretary and Assistant Treasurer of Midstate Contractors, Inc., a paving company. He has served as a director of the Company since 1976 and as Chairman since 1991. Mr. Abernethy has a total of 35 years of banking experience and is a graduate of the North Carolina Bank Directors' College and attended the initial Advanced Directors' Training session offered by the North Carolina Bank Directors' College in association with the College of Management at North Carolina State University. Mr. Abernethy earned a B.S. degree from Gardner Webb University in North Carolina. He serves on the Finance Committee and Investment Committee of Grace United Church of Christ. Mr. Abernethy also

serves on the board of directors of Carolina Glove Company, Inc. and Midstate Contractors, Inc. both privately held companies.

Douglas S. Howard, age 53 (as of March 1, 2012), is the owner of Howard Ventures. He is also employed by Denver Equipment of Charlotte, Inc. as Secretary/Treasurer. Mr. Howard is currently serving as the President of Eastern Catawba Cooperative Christian Ministry. He has served as a director of the Company since 2004. Mr. Howard has a total of 13 years of banking experience and is a graduate of the North Carolina Bank Directors' College and attended the initial Advanced Directors' Training session offered by the NC Bank Directors' College in association with the College

of Management at North Carolina State University. He also serves on the Western NC Methodist Church Board of Finance. Mr. Howard also serves on the boards of other privately-held companies.

John W. Lineberger, Jr., age 61 (as of March 1, 2012), is employed by Lincoln Bonded Warehouse Company, a commercial warehousing facility, as President. He has served as a director of the Company since 2004. Mr. Lineberger has a total of seven years of banking experience and is a graduate of the North Carolina Bank Directors' College and attended the initial Advanced Directors' Training session offered by the NC Bank Directors' College in association with the College of Management at North Carolina State University. Mr. Lineberger earned a B.S. degree in business administration from Western Carolina University.

Gary E. Matthews, age 56 (as of March 1, 2012), is employed by Matthews Construction Company, Inc. as its President and a Director. He has served as a director of the Company since 2001. Mr. Matthews has a total of ten years of banking experience, is a graduate of the North Carolina Bank Directors' College, and attended the initial Advanced Directors' Training session offered by the NC Bank Directors' College in association with the College of Management at North Carolina State University. Mr. Matthews is also a director of Conover Metal Products, a privately held company. Mr. Matthews earned a B.S. degree in civil engineering/construction from North Carolina State University.

Billy L. Price, Jr., M.D., age 55 (as of March 1, 2012), is the Managing Partner and Practitioner of Internal Medicine at Catawba Valley Internal Medicine, PA. Dr. Price also serves on the Board of Trustees of Catawba Valley Medical Center. He has served as a director of the Company since 2004. Dr. Price has a total of seven years of banking experience and is a graduate of the North Carolina Bank Directors' College and attended the initial Advanced Directors' Training session offered by the NC Bank Directors' College in association with the College of Management at North Carolina State University. Dr. Price was previously the owner/pharmacist of Conover Drug Company. He is also a director of Primary Physician Care, a private company. Dr. Price earned a B.S. degree in pharmacy from the University of North Carolina at Chapel Hill and his MD from East Carolina University School of Medicine.

Larry E. Robinson, age 66 (as of March 1, 2012), is employed by The Blue Ridge Distributing Company, Inc., a beer and wine distributor, as the President and Chief Executive Officer. He is a partner and Chief Operating Officer of United Beverages of North Carolina, LLC, a beer distributor. He has served as a director of the Company since 1993. Mr. Robinson has a total of 18 years of banking experience and is a graduate of the North Carolina Bank Directors' College. Mr. Robinson attended Western Carolina University and received an Associate Degree in Business and Accounting from Catawba Valley Community College in North Carolina.

William Gregory Terry, age 44 (as of March 1, 2012), is employed by Drum & Willis-Reynolds Funeral Homes and Crematory as Executive Vice President. He has served as a director of the Company since 2004. Mr. Terry has a total of seven years of banking experience and is a graduate of the North Carolina Bank Directors' College and attended the initial Advanced Directors' Training session offered by the NC Bank Directors' College in association with the College of Management at North Carolina State University. Mr. Terry graduated with a B.S. degree in business management from Clemson University in South Carolina. Mr. Terry serves on numerous civic and community boards.

Dan Ray Timmerman, Sr., age 64 (as of March 1, 2012), is employed by Timmerman Manufacturing, Inc., a wrought iron furniture, railings and gates manufacturer, as its President and Chief Executive Officer. He has served as a director of the Company since 1995. Mr. Timmerman has a total of 16 years of banking experience and is a graduate of the North Carolina Bank Directors' College and attended the initial Advanced Directors' Training session offered by the NC Bank Directors' College in association with the College of Management at North Carolina State University. Mr. Timmerman earned a B.S. degree in business administration with a concentration in accounting from Lenoir-Rhyne University in North Carolina.

Benjamin I. Zachary, age 56 (as of March 1, 2012), is employed by Alexander Railroad Company as its President, Treasurer, General Manager and Director. He has served as a director of the Company since 1995. Mr. Zachary has a total of 16 years of banking experience and is a graduate of the North Carolina Bank Directors' College. Mr. Zachary earned a B.S. degree in business administration with a concentration in accounting from the University of North Carolina at Chapel Hill. He worked as a CPA for a national accounting firm for eight years following graduation where his assignments included financial statement audits of several banks. He formerly served as Treasurer and a



member of the Finance Committee of First United Methodist Church of Taylorsville for many years. Mr. Zachary is a member of the Taylorsville Rotary Club and also serves as Treasurer.

We have no reason to believe that any of the nominees for election will be unable or will decline to serve if elected. In the event of death or disqualification of any nominee or the refusal or inability of any nominee to serve as a director, however, the proxies will vote for the election of another person as they determine in their discretion or may allow the vacancy to remain open until filled by the Board of Directors. In no circumstance will any proxy be voted for more than two nominees who are not named in this proxy statement. Properly executed and returned proxies, unless revoked, will be voted as directed by you or, in the absence of direction, will be voted in favor of the election of the recommended nominees. An affirmative vote of a plurality of votes cast at the Annual Meeting is necessary to elect a nominee as a director.

THE BOARD OF DIRECTORS RECOMMENDS YOU VOTE "FOR" ALL OF THE NOMINEES NAMED ABOVE  
AS DIRECTORS

OUR BOARD OF DIRECTORS  
AND ITS COMMITTEES

How often did our Board of Directors meet during 2011?

Our Board of Directors held 14 meetings during 2011. All incumbent directors attended more than 75% of the total number of meetings of the Board of Directors and its committees on which they served during the year.

What committees does our Board of Directors have?

During 2011, our Board of Directors had five standing committees, the Audit and Enterprise Risk Committee, the Governance Committee, the Compensation Committee, the Loan Sub-Committee and the Executive Committee. In addition, in 2011, the Board of Directors upon the recommendation of the Governance Committee, created a Succession Committee to assist the Board of Directors in fulfilling a search for a successor to Mr. Wolfe as the President and Chief Executive Officer upon Mr. Wolfe's retirement in 2012. The voting members of these Committees are appointed by the Board of Directors annually from among its members. Certain of our executive officers also serve as non-voting, advisory members of these committees.

**Executive Committee.** The Executive Committee performs duties as assigned by the full Board of Directors. Actions taken by the Executive Committee must be approved by the full Board of Directors. The Executive Committee consists of Directors R. Abernethy, J. Abernethy, Lineberger, Matthews and Howard, as well as Mr. Wolfe, the President and Chief Executive Officer of the Company. It meets on an "as needed" basis and did not meet during 2011.

**Governance Committee.** The Governance Committee is comprised entirely of independent directors, as defined in Rule 4200(a)(15) of the NASDAQ's listing standards. During fiscal year 2011 the following persons served on the Committee: Directors R. Abernethy, J. Abernethy, Lineberger, Robinson, Terry, and Timmerman. The Governance Committee is responsible for developing and maintaining the corporate governance policy, as well as acting as the nominating committee for the Board of Directors.

The Governance Committee, serving as the nominating committee of the Board of Directors, interviews candidates for membership to the Board of Directors, recommends candidates to the full Board of Directors, slates candidates for shareholder votes, and fills any vacancies on the Board of Directors which occur between shareholder meetings. The Governance Committee's identification of candidates for director typically results from the business interactions of the members of the Governance Committee or from recommendations received by the committee from other directors or

from the Company's management.

If a shareholder recommends a director candidate to the Governance Committee in accordance with the Company's Bylaws, the Governance Committee will consider the candidate and apply the same considerations that it would to its own candidates. The recommendation of a candidate by a shareholder should be made in writing, addressed to the attention of the Governance Committee at the Company's corporate headquarters. The recommendation should

include a description of the candidate's background, his or her contact information, and any other information the shareholder considers useful and appropriate for the Governance Committee's consideration of the candidate. The criteria which have been established by the Governance Committee as bearing on the consideration of a candidate's qualification to serve as a director include the following: the candidate's ethics, integrity, involvement in the community, success in business, relationship with the Bank, investment in the Company, place of residence (i.e., proximity to the Bank's market area), and financial expertise.

The Governance Committee has no written diversity policy; however, the Governance Committee defines diversity broadly to include, in addition to race, gender, ethnicity and age, differences in professional experience, educational background, geographic mix within the Company's market area, skills and other individual qualities and attributes that foster board heterogeneity in order to encourage and maintain board effectiveness. While there are currently no women or minorities serving on the Board of Directors, any qualified candidate receives consideration regardless of race, gender or national origin.

The Governance Committee met four times during fiscal year 2011.

A copy of the Company's Governance Committee Charter, which contains the Company's and the Bank's governance policies and nomination policies, is reviewed annually and amended as needed, by the Governance Committee. Shareholders may obtain a copy of the Governance Committee Charter from the Bank's website ([www.peoplesbanknc.com](http://www.peoplesbanknc.com)) under Investor Relations.

**Audit and Enterprise Risk Committee.** The Company has a separately designated standing audit committee which was established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Audit and Enterprise Committee's responsibilities include oversight of enterprise risk. The Committee has a written charter which is reviewed annually, and amended as needed, by the Audit and Enterprise Risk Committee. A copy of the Audit and Enterprise Risk Committee Charter is available on the Bank's website ([www.peoplesbanknc.com](http://www.peoplesbanknc.com)) under Investor Relations. The Audit and Enterprise Risk Committee consists of Directors R. Abernethy, Howard, Matthews, Price, Timmerman and Zachary. The Board of Directors has determined that these members are independent as that term is defined in Rule 4200(a)(15) of the NASDAQ's listing standards and the SEC's regulations.

The Board of Directors has determined that each member of the Audit and Enterprise Risk Committee named above qualifies as an "audit committee financial expert" based on each of the member's educational background and business experience.

The Audit and Enterprise Risk Committee meets at least quarterly and, among other responsibilities, oversees (i) the independent auditing of the Company; (ii) the system of internal controls that management has established; and (iii) the quarterly and annual financial information to be provided to shareholders and the SEC. The Audit and Enterprise Risk Committee met ten times during the fiscal year ended December 31, 2011.

#### REPORT OF AUDIT AND ENTERPRISE RISK COMMITTEE

The Audit and Enterprise Risk Committee has reviewed and discussed the audited financial statements with management of the Company and has discussed with the independent auditors the matters required to be discussed by Auditing Standards No. 61 as amended (AICPA, Professional Standards, Vol. 1 AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. In addition, the Audit and Enterprise Risk Committee has received the written disclosures and the letter from the independent accountants required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence, and has discussed with the independent accountant the independent accountant's independence. Based upon these reviews and discussions, the Audit and

Enterprise Risk Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Robert C. Abernethy	Gary E. Matthews
Benjamin I. Zachary	Dan R. Timmerman, Sr.
Douglas S. Howard	Billy L Price, Jr. MD

Compensation Committee. The Company's Compensation Committee is responsible for developing, reviewing, implementing and maintaining the Bank's salary, bonus, and incentive award programs and for making recommendations to the Company's and the Bank's Board of Directors regarding compensation of the executive officers. Upon recommendation from the Compensation Committee, the Company's Board of Directors ultimately determines such compensation.

All of the members of the Compensation Committee are independent as defined in Section 4200(a)(15) of the NASDAQ's listing standards. The Board of Directors determines on an annual basis each director's independence. The members of the Compensation Committee in fiscal year 2011 were Directors R. Abernethy, J. Abernethy, Lineberger, Robinson, Terry and Timmerman. The Compensation Committee met four times during the fiscal year ended December 31, 2011.

A copy of the Company's Compensation Committee Charter, which contains the Company's and the Bank's compensation policies and nomination policies, is reviewed annually and amended as needed, by the Compensation Committee and is available on the Bank's website ([www.peoplesbanknc.com](http://www.peoplesbanknc.com)) under Investor Relations.

What follows below is a discussion of the Company's and the Bank's compensation policies and practices and the review process used by the Compensation Committee.

In 2011, the Committee engaged a compensation consultant, Matthews Young & Associates, Inc. ("Matthews Young"), to help evaluate the Company's compensation design, process and decisions. Fees paid to Matthews Young did not exceed \$120,000. Tony Wolfe, President and CEO of the Company and the Bank, makes recommendations to the Committee regarding the compensation of the executive officers other than his own. Mr. Wolfe participates in the deliberations, but not in the decisions, of the Compensation Committee regarding compensation of executive officers. He does not participate in the Compensation Committee's discussion or decisions regarding his own compensation. The Compensation Committee also considers the results of the shareholders' non-binding vote on executive compensation. Last year the Company's executive compensation as described in the 2011 Proxy Statement received a 67% approval rating from the shareholders.

The overall objective of our compensation program is to align total compensation so that the individual executive believes it is fair and equitable and provides the highest perceived value to our shareholders and to that individual. In order to accomplish this overall objective, our compensation program is designed to: (i) attract the qualified executives necessary to meet our needs as defined by the Company's strategic plans, and (ii) retain and motivate executives whose performance supports the achievement of our long-term plans and short-term goals.

The Compensation Committee considers a number of factors specific to each executive's role when determining the amount and mix of compensation to be paid. These factors are:

- Compensation of the comparable executives at comparable financial institutions;
- Financial performance of the Company (especially on a "net operating" basis, which excludes the effect of one-time gains and expenses) over the most recent fiscal year and the prior three years;
- Composition of earnings;
- Asset quality relative to the banking industry;
- Responsiveness to the economic environment;
- The Company's achievement compared to its corporate, financial, strategic and operational objectives and business plans; and
- Cumulative shareholder return.

The Company's and the Bank's compensation program consists of the following elements:

- (i) Base Salary. The salaries of our NEOs are designed to provide a reasonable level of compensation that is affordable to the Company and fair to the executive.

Salaries are reviewed annually, and adjustments, if any, are made based on the review of competitive salaries in our peer group, as well as an evaluation of the individual officer's responsibilities, job scope, and individual performance. For example, we assess each officer's success in achieving budgeted earnings and return ratios, business conduct and integrity, and leadership and team building skills.

- (ii) Annual Cash Incentive Awards. We believe that annual cash incentive awards encourage our NEOs to achieve short-term targets that are critical to achievement of our long-term strategic plan. The following officers are eligible to receive annual cash incentive awards under our Management Incentive Plan, which provides for cash awards to the following NEOs upon achievement of certain financial objectives:

Tony W. Wolfe, President and Chief Executive Officer  
A. Joseph Lampron, Jr., Executive Vice President and Chief Financial Officer  
Lance A. Sellers, Executive Vice President and Chief Credit Officer  
William D. Cable, Sr., Executive Vice President and Chief Operating Officer  
Joseph F. Beaman, Jr., Executive Vice President, Chief Administrative Officer and  
Corporate Secretary

We seek to ensure that a significant portion of each executive officer's total annual cash compensation is linked to  
the attainment of the annual performance objectives determined by the executive officer and  
the Compensation Committee  
under the Management Incentive Plan.

- (iii) Discretionary Bonus and Service Awards. From time to time the Compensation Committee may recommend to the Board of Directors that additional bonuses be paid based on accomplishments that significantly exceed expectations during the fiscal year. These bonuses are totally discretionary as to who will receive a bonus and the amount of any such bonus. No discretionary bonuses were awarded to NEOs in 2011. Under the Service Recognition Program, the Bank gives service awards to each employee and director for every five years of service with the Bank to promote longevity of service for both directors and employees. Service awards are made in the form of shares of the Company's common stock plus cash in the amount necessary to pay taxes on the award. The number of shares awarded increases with the number of years of service to the Bank.
- (iv) Long-Term Equity Incentive Awards. The Company maintains the 2009 Omnibus Stock Ownership and Long Term Incentive Plan ("Omnibus Plan"), under which it is permitted to grant incentive stock options, restricted stock, restricted stock units, stock appreciation rights, book value shares, and performance units. The purpose of the Omnibus Plan is to promote the interests of the Company by attracting and retaining directors and employees of outstanding ability and to provide executives of the Company greater incentive to make material contributions to the success of the Company by providing them with stock-based compensation which will increase in value based upon the market performance of the common stock and/or the corporate achievement of financial and other performance objectives. The Compensation Committee is reviewing the use of long-term equity incentives, with the intent to associate the vesting of awards to the achievement of selected financial performance goals. No rights under the Omnibus Plan were granted to any NEO in 2011.

Under the terms of the Omnibus Plan, option exercise prices are always based upon the closing trading price of the Company's common stock on the date of grant by the Board of Directors.

- (v) Retirement Benefits. The Company maintains supplemental executive retirement agreements (SERPs) for the benefit of Messrs. Wolfe, Lampron, Sellers, Cable and Beaman. The Committee's goal is to provide competitive retirement benefits given the restrictions on executives within tax-qualified plans. The Compensation Committee worked with Matthews Young in analyzing the possible benefits of using SERPs to address the issues of internal and external equity in terms of retirement benefits offered to all employees at the Company as a percentage of final average pay and executives in our peer group. The Compensation Committee approved supplemental retirement benefits targeting 40% of the final average pay for all NEOs. The Compensation Committee selected a target of 40% to match such benefits offered to other employees fully participating in qualified retirement plans offered by the Company. For more information on the SERPs, see page 27 of this Proxy Statement.
- (vi) Employment Agreements. The Company has employment agreements with our NEOs which we believe serve a number of functions, including (i) retention of our executive team; (ii) mitigation of any uncertainty about future employment and continuity of management in the event of a change in control; and (iii) protection of the Company and customers through non-compete and non-solicitation covenants. Additional information regarding the employment agreements, including a description of key terms may be found on page 21 of this Proxy Statement.

Under the provisions of the Emergency Economic Stabilization Act ("EESA") enacted in 2008 to stabilize the US financial system, the United States Treasury (the "US Treasury") developed the Troubled Asset Relief Program ("TARP") which includes the Capital Purchase Program ("CPP"). On December 23, 2008, the US Treasury under the CPP invested \$25,054,000 in the Company's preferred stock and common stock warrants. As a participant in the CPP, we have adopted certain requirements for executive compensation and corporate governance in accordance with the US Treasury's interim final rule implementing the compensation and corporate governance requirements under EESA, as amended by the American Recovery and Reinvestment Act of 2010, as well as additional guidance issued by the US Treasury from time to time following the issuance of the interim final rule. These rules were subject to a public comment period which has expired, but no final rule has been adopted. The Board of Directors directed management to take all steps necessary to ensure that the Company complies with EESA, and the rules and regulations of the US Treasury and the SEC, including by complying with the following limitations:

- No unnecessary and excessive risk or plans that encourage earnings manipulation. The Compensation Committee is required to review no less than every six months the Company's senior executive officers compensation programs with the Company's senior risk officers and certify that the Company has made reasonable efforts to ensure that its compensation arrangements do not encourage unnecessary risks that threaten the Company's value. Further, the Compensation Committee must examine the Company's compensation programs to ensure that the Company's plans do not encourage manipulation of the Company's reported earnings in or to enhance the compensation of any of its employees.
- Prohibition on bonuses, retention awards and other incentive compensation. The Company is prohibited from paying or accruing any bonus retention award or incentive compensation to any senior executive officer or any of the five next most highly compensated employees subject to certain exceptions. The Company is permitted to award restricted stock that has a value not exceeding one-third of the employee's total annual compensation, so long as the stock is not paid out during the period the Company is participating in the CPP.





- **Clawback.** The Company must recover bonuses, retention awards and incentive compensation paid to senior executive officers and the next 20 most highly compensated employees if they were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria whether or not the employee was at fault, any misconduct occurred or the financial statements were restated.
- **Prohibition on Severance.** The Company is prohibited from making severance payments to the senior executive officers and the next five most highly compensated employees other than payments for services performed or benefits accrued.
- **Luxury policy.** The Company has adopted a companywide policy regarding excessive or luxury expenditures.

Under the CPP rules, the term “senior executive officer” or “SEO” is defined as the Chief Executive Officer, Chief Financial Officer and the next three most highly compensated employees. In 2008 at the time of entering into the CPP, each of the Company’s named executive officers signed an agreement with the Company agreeing to modify their compensation arrangements to the extent applicable to comply with these requirements. The CPP requirements remain in effect during the period that the US Treasury holds equity or debt securities of the Company.

The current compensation program has been and will continue to be limited as necessary to comply with the CPP restrictions including the elimination of cash bonuses and accruals, limiting the value of equity compensation awards, and the elimination of parachute payments as well as the other restrictions described above.

As noted above, participation in the CPP also requires that the Compensation Committee, in conjunction with the Company’s senior risk officer, at least every six months discuss, evaluate, and review (1) the Company’s SEO compensation plans to ensure that those plans do not encourage the SEOs to take unnecessary and excessive risks that threaten the value of the Company, (2) the Company’s employee compensation plans in light of the risks posed to the Company by such plans and how to limit such risks, and (3) the Company’s employee compensation plans to ensure that those plans do not encourage the manipulation of the Company’s reported earnings to enhance the compensation of any employee. Further, the Compensation Committee must annually provide a narrative description of how the SEO compensation plans do not encourage the SEOs to take unnecessary and excessive risks that threaten the value of the Company (including how the SEO plans do not encourage behavior focused on short-term results rather than long-term value creation), the risks posed by the employee compensation plans and how these risks were limited (including how the employee compensation plans do not encourage behavior focused on short-term results rather than long-term value creation), and how the Company has ensured that the employee compensation plans do not encourage the manipulation of the Company’s reported earnings to enhance the compensation of any employee. Within this framework, the Compensation Committee discussed a variety of topics including:

- The parameters of acceptable and excessive risk taking in light of a number of considerations, including the understanding that some risk taking is an inherent part of the operations of a financial institution;
- The other controls that the Company and the Bank have established (other than reviews of the Company’s compensation practices) that limit undesirable risk taking; and
- The general business goals and concerns of the Company, ranging from growth and profitability to the need to attract, retain and incentivize top tier talent.

The Compensation Committee has determined that the design and goals of the existing SEO and employee incentive compensation arrangements do not create an incentive for the SEOs or employees to engage in unnecessary and excessive risk taking; encourage behavior that is focused on short-term results rather than long-term value creation; or encourage the manipulation of the Company’s reported earnings to enhance the compensation of any employee. The Compensation Committee believes that the discretionary nature of its decision-making process in determining the

amount of any incentive compensation awards based upon its after-the-fact assessment of a variety of financial and other performance factors serves to mitigate the potential for excessive risk taking.

### Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee is now, or formerly was, an officer or employee of the Company or the Bank. None of the NEOs serves as a member of the board of directors of another entity whose executive officers or directors serve on the Company's Board of Directors.

### Board Leadership Structure and Risk Oversight

Our Company and the Bank have traditionally operated with separate Chief Executive Officer and Chairman of the Board of Directors positions. We believe it is our Chief Executive Officer's responsibility to manage the Company and the Chairman's responsibility to lead the Board of Directors. Robert Abernethy is currently serving as Chairman of the Board of Directors. All of the members of the Board of Directors are independent under NASDAQ listing requirements. The Company has four standing committees: Executive, Governance, Audit and Enterprise Risk and Compensation. All but the Executive Committee is made up entirely of independent directors. Mr. Wolfe, the Chief Executive Officer, serves on the Executive Committee. The Bank in addition to the above-named committees has a Loan Committee and a Loan Sub-Committee. The duties of the Company's committees and the qualifications of the independent directors have been described above. Each of the Company's and the Bank's committees considers risk within its area of responsibility. The Audit and Enterprise Risk Committee and the full Board of Directors focus on the Company's most significant risks in the areas of liquidity, credit, interest rate and general risk management strategy. The Board of Directors sets policy guidelines in the areas of loans and asset/liability management which are reviewed on an on-going basis. While the Board of Directors oversees the Company's risk management, the Company's and the Bank's management are responsible for day-to-day risk management following the dictates of the policy decisions set by the Board of Directors.

The Governance Committee, as part of its annual review, evaluates the Board of Directors leadership structure and performance and reports its findings to the whole Board of Directors. The Board of Directors believes that having separate persons serving as Chief Executive Officer and Chairman and all independent directors provides the optimal board leadership structure for the Company and its shareholders.

Does the Company have a Code of Ethics?

The Company and the Bank have a Code of Business Conduct and Ethics for its directors, officers and employees. The Code of Business Conduct and Ethics requires that individuals avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner and otherwise act with integrity and in the best interests of the Company and the Bank. The Code of Business Conduct and Ethics is a guide to help ensure that all employees live up to the highest ethical standards of behavior.

A copy of the Code of Business Conduct and Ethics is available on the Company's website at [www.peoplesbanknc.com](http://www.peoplesbanknc.com).

As is permitted by SEC rules, the Company intends to post on its website any amendment to or waiver from any provision in the Code of Business Conduct and Ethics that applies to the Chief Executive Officer, the Chief Financial Officer, the Controller, or persons performing similar functions, and that relates to any element of the standards enumerated in the rules of the SEC.

How can you communicate with the Board or its members?

We do not have formal procedures for shareholder communication with our Board of Directors. In general, our directors and officers are easily accessible by telephone, postal mail or e-mail. Any matter intended for your Board of

Directors, or any individual director, can be directed to Tony Wolfe, our President and Chief Executive Officer or Joe Lampron, our Chief Financial Officer, at our principal executive offices at 518 West C Street, Newton, North Carolina 28658. You also may direct correspondence to our Board of Directors, or any of its members, in care of the Company at the foregoing address. Your communication will be forwarded to the intended recipient unopened.

What is our policy for director attendance at Annual Meetings?

Although it is customary for all of our directors to attend Annual Meetings of Shareholders, we have no formal policy in place requiring attendance. All members of the Board of Directors attended our 2011 Annual Meeting of Shareholders held on May 5, 2011.

How can a shareholder nominate someone for election to the Board of Directors?

Our Bylaws provide that in order to be eligible for consideration at the Annual Meeting of Shareholders, all nominations of directors, other than those made by the Governance Committee or the Board of Directors, must be in writing and must be delivered to the Secretary of the Company not less than 50 days nor more than 90 days prior to the meeting at which such nominations will be made. However, if less than 60 days' notice of the meeting is given to the shareholders, such nominations must be delivered to the Secretary of the Company not later than the close of business on the tenth day following the day on which the notice of meeting was mailed.

The Board of Directors may disregard any nominations that do not comply with these requirements. Upon the instruction of the Board of Directors, the inspector of voting for the Annual Meeting may disregard all votes cast for a nominee if the nomination does not comply with these requirements. Written notice of nominations should be directed to the Secretary of the Company.

Who serves on the Board of Directors of the Bank?

The Bank has ten directors currently serving on its Board of Directors, who are the same people who are currently directors of the Company.

## DIRECTOR AND EXECUTIVE COMPENSATION AND BENEFITS

### Director Compensation

**Directors' Fees.** Members of the Company's Board of Directors receive no fees or compensation for their service. However, all members of the Board of Directors are also directors of the Bank and are compensated for that service. Each director receives a fee of \$600 for each Bank Board of Directors meeting attended. An additional fee of \$300 is paid to committee members for each committee meeting attended. In addition to these meeting fees, each director also received an annual retainer of \$9,000. The Chairman of the Bank's Board of Directors receives an additional \$250 per meeting attended and the chairpersons of each committee receive an additional \$150 per meeting attended. Directors who are members of the Board of Directors of Real Estate Advisory Services, Inc., and Peoples Investment Services, Inc., subsidiaries of the Bank, and Community Bank Real Estate Solutions, LLC, a subsidiary of the Company, received \$500 per meeting. Directors received \$375 for special meetings via conference call rather than the normal committee or Board of Director meeting fees.

The Bank maintains a Service Recognition Program, under which directors, officers and employees are eligible for awards. Under the Service Recognition Program, directors, officers and employees are awarded a combination of common stock of the Company and cash in the amount necessary to pay taxes on the award, with the amount of the award based upon the length of service to the Bank. Any common stock awarded under the Service Recognition Program is purchased by the Bank on the open market, and no new shares are issued by the Company under the Service Recognition Program.

**Directors' Stock Benefits Plan.** Members of the Board of Directors are eligible to participate in the Company's Omnibus Plan. All grants to directors awarded previously have been paid out and no awards were made to any

directors under the Omnibus Plan in 2011.

Directors' Deferred Compensation Plan. The Bank maintains a non-qualified deferred compensation plan for all of its directors. The Bank's directors are also directors of the Company. Under the deferred compensation plan, each director may defer all or a portion of his fees to the plan each year. The director may elect to invest the deferred compensation in a restricted list of investment funds. The Bank may make matching contributions to the plan for the benefit of the director from time to time at the discretion of the Bank. Directors are fully vested in all amounts they

contribute to the plan and in any amounts contributed by the Bank. The Bank has established a Rabbi Trust to hold the directors' accrued benefits under the plan. There are no "above-market" returns provided for in the deferred compensation plan. The Bank made no contributions to this plan in 2011.

Benefits under the plan are payable in the event of the director's death, resignation, removal, failure to be re-elected, retirement or in cases of hardship. Directors may elect to receive deferred compensation payments in one lump sum or in installments.

Directors' Supplemental Retirement Plan. The Bank maintains a non-qualified supplemental retirement benefits plan for all its directors. The supplemental retirement benefits plan is designed to provide a retirement benefit to the directors while at the same time minimizing the financial impact on the Bank's earnings. Under the supplemental retirement benefits plan, the Company purchased life insurance contracts on the lives of each director. The increase in cash surrender value of the contracts constitutes the Company's contribution to the supplemental retirement benefits plan each year. The Bank will pay annual benefits to each director for 15 years beginning upon retirement from the Board of Directors. The Bank is the sole owner of all of the insurance contracts.

The following table reports all forms of compensation paid to or accrued for the benefit of each director during the 2011 fiscal year.

#### DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings <sup>1</sup> (\$)	All Other Compensation (\$)	Total (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
James S. Abernethy	20,700	0	0	0	3,861	0	24,561
Robert C. Abernethy	29,000	5,000	0	0	6,128	0	40,128
Douglas S. Howard	21,300	0	0	0	2,257	0	23,557
John W. Lineberger, Jr.	21,000	0	0	0	5,934	0	26,934
Gary E. Matthews	20,400	650	0	0	3,459	0	24,509
Billy L. Price, Jr., M.D.	23,475	0	0	0	3,089	0	26,564
Larry E. Robinson	21,000	0	0	0	11,761	0	32,761
William Gregory Terry	20,400	0	0	0	1,000	0	21,400
Dan Ray Timmerman, Sr.	24,300	0	0	0	8,945	0	33,245
Benjamin I. Zachary	20,700	0	0	0	3,106	0	23,806

<sup>1</sup> Change in Pension Value and Nonqualified Deferred Compensation Earnings represents the expense accrued by the Bank for each director under the Directors' Supplemental Retirement Plan as described above.





## Executive Officers

Tony W. Wolfe, age 65 (as of March 1, 2012), serves as President and Chief Executive Officer of the Company and the Bank. He has been employed by the Company and the Bank since 1990, where he served as Vice President-Commercial Loans and Senior Vice President-Lending. Mr. Wolfe served in the past on the boards of directors of the Community Trust of the Southeast and Community Financial Services, Inc., the holding company for The Bankers Bank. Mr. Wolfe has a total of 42 years of banking experience. Mr. Wolfe is a graduate of Lenoir Rhyne University, the North Carolina School of Banking and the School of Banking of the South at Louisiana State University. On December 7, 2011, Mr. Wolfe announced his intention to retire in the fourth quarter of 2012.

Joseph F. Beaman, Jr., age 62 (as of March 1, 2012), serves as Executive Vice President and Corporate Secretary of the Company and Executive Vice President, Chief Administrative Officer and Secretary of the Bank. He has been employed by the Company and the Bank since 1977, where he has served as Vice President-Operations and Senior Vice President. Mr. Beaman has a total of 39 years of banking experience. He is a graduate of Pfeiffer University, the North Carolina School of Banking, and the Graduate School of Financial Management at the University of Texas in Austin.

William D. Cable, Sr., age 43 (as of March 1, 2012), serves as Executive Vice President and Assistant Corporate Treasurer of the Company and Executive Vice President and Chief Operating Officer of the Bank. He has been employed by the Company and the Bank since 1995, where he has served as Senior Vice President-Information Services. Mr. Cable has a total of 20 years of banking experience. Prior to joining the Company, Mr. Cable was a regulatory examiner with the Federal Deposit Insurance Corporation. He is a graduate of Western Carolina University and the School of Banking of the South at Louisiana State University.

A. Joseph Lampron, Jr., age 57 (as of March 1, 2012), serves as Executive Vice President, Chief Financial Officer and Corporate Treasurer of the Company and Executive Vice President and Chief Financial Officer of the Bank. He has been employed by the Company and the Bank since 2001. Mr. Lampron is a graduate of the University of North Carolina at Chapel Hill and upon graduation worked as a certified public accountant with a national accounting firm. His work with the firm included audits of banks and thrift institutions. Mr. Lampron has also served as Chief Financial Officer of a thrift institution and as a senior change manager in the finance group of a large North Carolina bank. Mr. Lampron has a total of 32 years of banking experience.

Lance A. Sellers, age 49 (as of March 1, 2012), serves as Executive Vice President and Assistant Corporate Secretary of the Company and Executive Vice President and Chief Credit Officer of the Bank. He has been employed by the Company and the Bank since 1998. Mr. Sellers has a total of 27 years of banking experience. He is a graduate of the University of North Carolina at Chapel Hill and upon graduation served as a senior credit officer at a regional bank headquartered in North Carolina.

## Management Compensation

The executive officers of the Company are not paid any cash compensation by the Company. However, the executive officers of the Company also are executive officers of the Bank and receive compensation from the Bank.

The table on the following page shows, for the fiscal years ended December 31, 2011 and 2010, the cash compensation received by, as well as certain other compensation paid or accrued for those years, the Bank's Chief Executive Officer and the Bank's executive officers whose total annual salary and bonus exceeded \$100,000.



## Summary Compensation Table

Name and Principal Position (a)	Year (b)	Salary (c)	Bonus (d)	Stock Awards (e)	Option Awards (f)	Non-Equity Incentive Plan Compensation (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (h)	All Other Compensation <sup>1</sup> (i)	Total (j)
Tony W. Wolfe President and Chief Executive Officer	2011	\$290,000	\$0	\$0	\$0	\$0	\$0	\$34,2372	\$324,237
	2010	\$290,000	\$0	\$2,0007	\$0	\$0	\$269,720	\$33,6992	\$595,419
A. Joseph Lampron, Jr. Executive Vice President, Chief Financial Officer	2011	\$152,934	\$0	\$5007	\$0	\$0	\$22,288	\$8,7903	\$184,512
	2010	\$152,934	\$0	\$0	\$0	\$0	\$24,959	\$8,7923	\$186,685
Joseph F. Beaman, Jr. Executive Vice President, Chief Administrative Officer and Corporate Secretary	2011	\$125,373	\$0	\$0	\$0	\$0	\$32,378	\$8,6254	\$166,376
	2010	\$125,373	\$0	\$0	\$0	\$0	\$33,464	\$8,9914	\$167,828
Lance A. Sellers Executive Vice President, Chief Credit Officer	2011	\$194,371	\$0	\$0	\$0	\$0	\$17,049	\$13,1795	\$224,599
	2010	\$194,371	\$0	\$0	\$0	\$0	\$19,494	\$13,5635	\$227,428
William D. Cable, Sr. Executive Vice President, Chief Operating Officer	2011	\$156,835	\$0	\$0	\$0	\$0	\$5,349	\$7,8266	\$170,010
	2010	\$156,835	\$0	\$1,0007	\$0	\$0	\$6,238	\$8,7576	\$172,830



- 1 Perquisites for the fiscal year did not exceed \$10,000 for any NEO other than Mr. Wolfe.
- 2 For Mr. Wolfe, includes for 2011: \$6,125 under the 401(k) plan, \$5,466 premium paid for group term life insurance in excess of \$50,000 and \$2,429 paid for the Split Dollar Death Benefit, and perquisites consisting of country club dues of \$3,468, car allowance of \$1,088 and disability insurance premium of \$15,662; and for 2010: \$6,683 under the 401(k) plan, \$2,772 premium paid for group term life insurance in excess of \$50,000 and \$2,271 paid for the Split Dollar Death Benefit, and perquisites consisting of country club dues of \$3,618, car allowance of \$2,193 disability insurance premium of \$15,662 and \$500 to pay taxes associated with the award of 384 shares of stock under the Bank's Service Recognition Program.
- 3For Mr. Lampron, includes for 2011: \$3,823 under the 401(k) plan, \$1,321 premium paid for group term life insurance in excess of \$50,000, \$396 paid for the Split Dollar Death Benefit and \$150 to pay taxes associated with the award of 89 shares of stock under the Bank's Service Recognition Program; and for 2010: \$4,117 under the 401(k) plan, \$1,321 premium paid for group term life insurance in excess of \$50,000 and \$374 paid for the Split Dollar Death Benefit.
- 4For Mr. Beaman, includes for 2011: \$3,140 under the 401(k) plan, \$1,596 premium paid for group term life insurance in excess of \$50,000 and \$420 paid for the Split Dollar Death Benefit; and for 2010: \$3,375 under the 401(k) plan, \$1,600 premium paid for group term life insurance in excess of \$50,000 and \$398 paid for the Split Dollar Death Benefit.
- 5For Mr. Sellers, includes for 2011: \$4,859 under the 401(k) plan, \$612 premium paid for group term life insurance in excess of \$50,000 and \$349 paid for the Split Dollar Death Benefit; and for 2010: \$5,233 under the 401(k) plan, \$612 premium paid for group term life insurance in excess of \$50,000 and \$328 paid for the Split Dollar Death Benefit.
- 6For Mr. Cable, includes for 2011: \$3,921 under the 401(k) plan, \$317 premium paid for group term life insurance in excess of \$50,000, \$120 paid for the Split Dollar Death Benefit; and for 2010: \$4,222 under the 401(k) plan, \$317 premium paid for group term life insurance in excess of \$50,000, \$115 paid for the Split Dollar Death Benefit and \$275 to pay taxes associated with the award of 192 shares of stock under the Bank's Service Recognition Program.
- 7In 2011, Mr. Lampron received 89 shares for 10 years of service and \$150 in cash to pay the taxes associated with the award under the Bank's Service Recognition Program. In 2010, Mr. Wolfe received 384 shares of stock for 20 years of service and \$500 in cash to pay the taxes associated with the award under the Bank's Service Recognition Program; Mr. Cable received 192 shares of stock for 15 years of service and \$275 in cash to pay the taxes associated with the award under the Bank's Service Recognition Plan.

#### Employment Agreements

The Bank has entered into employment agreements with Tony W. Wolfe, President and Chief Executive Officer; Joseph F. Beaman, Jr., Executive Vice President, Chief Administrative Officer and Corporate Secretary; Lance A. Sellers, Executive Vice President, Chief Credit Officer and Assistant Corporate Secretary; A. Joseph Lampron, Jr., Executive Vice President, Chief Financial Officer and Corporate Treasurer; and William D. Cable, Sr., Executive Vice President, Chief Operating Officer and Assistant Corporate Treasurer, in order to establish their duties and compensation and to provide for their continued employment with the Bank. The agreements provide for an initial term of employment of three years. Commencing on the first anniversary date and continuing on each anniversary date thereafter, unless notice of a non-extension is given by either party, each agreement is automatically extended for an additional year so that the remaining term is always no less than two and no more than three years. The agreements

also provide that the base salary will be reviewed by the Board of Directors not less often than annually. In addition, the employment agreements provide for discretionary bonuses and participation in other management incentive, pension, profit-sharing, medical or retirement plans maintained by the Bank, as well as fringe benefits normally associated with such employee's office. Mr. Wolfe's agreement provides for a company automobile. The employment agreements provide that they may be terminated by the Bank for cause, as defined in the agreements, and that they may otherwise be terminated by the Bank (subject to vested rights) or by the employee.

In the event of a change in control, the term of the employment agreements will be automatically extended for three years from the date of the change of control. For purposes of the employment agreement, a change in control generally will occur if (i) any "person" (as such term is used in Section 13(d) and 14(d) of the Exchange Act), other than a person who beneficially owned as of January 1, 1998, more than 5% of the Bank's securities, acquires beneficial ownership of

voting stock and irrevocable proxies representing 20% or more of any class of voting securities of either the Company or the Bank, (ii) the election of directors constituting more than one-half of the Board of Directors of the Company or the Bank who, prior to their election, were not nominated for election or approved by at least three-fourths of the Board of Directors of the Company as then constituted; (iii) either the Company or the Bank consolidates or merges with or into another corporation, association or entity or is otherwise reorganized, where neither the Company nor the Bank, respectively, is the surviving corporation in the transaction; or (iv) all or substantially all of the assets of either the Company or the Bank are sold or otherwise transferred to or acquired by any other entity or group.

In addition, the employee may voluntarily terminate his employment at any time following a change in control and continue to receive his base salary for the remainder of the term of the employment agreement, if, after the change in control, (i) the employee is assigned duties and/or responsibilities that are inconsistent with his position prior to the change in control or that are inconsistent with his reporting responsibilities at that time, (ii) the employee's compensation or benefits are reduced, or (iii) the employee is transferred, without his consent, to a location which is an unreasonable distance from his current principal work location.

An additional thirteen (13) middle management officers had employment agreements during 2011. The term of these agreements is until December 1, 2012, renewed annually and the agreements contain provisions similar to those discussed above.

Under the terms of the CPP, none of the NEOs would have been entitled to payments had a termination of employment occurred during 2011.

#### Omnibus Stock Option and Long Term Incentive Plan

The purpose of the Omnibus Plan is to promote the interests of the Company by attracting and retaining directors and employees of outstanding ability and to provide executive and other key employees of the Company and its subsidiaries greater incentive to make material contributions to the success of the Company by providing them with stock-based compensation which will increase in value based upon the market performance of the common stock and/or the corporate achievement of financial and other performance objectives.

**Rights Which May Be Granted.** Under the Omnibus Plan, the Committee may grant or award eligible participants stock options, rights to receive restricted shares of common stock, restricted stock units, performance units (each equivalent to one share of common stock), SARs, and/or book value shares. These grants and awards are referred to herein as "Rights." All Rights must be granted or awarded by February 19, 2019, the tenth anniversary of the date the Board of Directors adopted the Omnibus Plan. The Board of Directors has provided for 360,000 shares of the Company's common stock be included in the Omnibus Plan to underlie Rights which may be granted thereunder.

**Options.** Options granted under the Omnibus Plan to eligible directors and employees may be either incentive stock options ("ISOs") or non-qualified stock options ("NSOs"). The exercise price of an ISO or NSO may not be less than 100% of the last-transaction price for the common stock quoted by the NASDAQ Market on the date of grant.

**Restricted Stock and Restricted Stock Units.** The Committee may award Rights to acquire shares of common stock or restricted stock units, subject to certain transfer restrictions ("Restricted Stock" or "Restricted Stock Unit") to eligible participants under the Omnibus Plan for such purchase price per share, if any, as the Committee, in its discretion, may determine appropriate. The Committee will determine the expiration date for each Restricted Stock or Restricted Stock Unit award, up to a maximum of ten years from the date of grant. In the Committee's discretion, it may specify the period or periods of time within which each Restricted Stock or Restricted Stock Unit award will first become exercisable, which period or periods may be accelerated or shortened by the Committee. Under the terms of the Omnibus Plan, the Committee also has the discretion to pay out awards of Restricted Stock or Restricted Stock Units



in the Company's common stock, cash or a combination of stock and cash.

Performance Units. Under the Omnibus Plan, the Committee may grant to eligible directors and employees awards of long term incentive performance units, each equivalent in value to one share of common stock ("Units"). Except as otherwise provided, Units awarded may be distributed only after the end of a performance period of two or more years, as determined by the Committee, beginning with the year in which the awards are granted.

The percentage of the Units awarded that are to be distributed will depend on the level of financial and other performance goals achieved by the Company during the performance period. The Committee may adopt one or more performance categories in addition to, or in substitution for, a performance category or may eliminate all performance categories other than financial performance.

As soon as practicable after each performance period, the percentage of Units awarded that are to be distributed, based on the levels of performance achieved, will be determined and distributed to the recipients of such awards in the form of a combination of shares of common stock and cash or cash only. Units awarded, but which the recipients are not entitled to receive, will be cancelled.

In the event of the death or disability of a Unit recipient prior to the end of any performance period, the number of Units awarded for such performance period will be reduced in proportion to the number of months remaining in the performance period after the date of death or disability. The remaining portion of the award, if any, may, in the discretion of the Committee, be adjusted based upon the levels of performance achieved prior to the date of death or disability, and distributed within a reasonable time after death or disability. In the event a recipient of Units ceases to be an eligible director or employee for any reason other than death or disability, all Units awarded, but not yet distributed, will be cancelled.

In the event of a change in control (as that term is defined in the Omnibus Plan), any outstanding Units will immediately and automatically be reduced as appropriate to reflect a shorter performance period.

An amount equal to the dividend payable on one share of common stock (a “dividend equivalent credit”) will be determined and credited on the payment date to each Unit recipient’s account for each Unit awarded and not yet distributed or cancelled. Such amount will be converted within the account to an additional number of Units equal to the number of shares of common stock which could be purchased at the last-transaction price of the common stock on the NASDAQ Market on the dividend payment date.

No dividend equivalent credits or distribution of Units may be credited or made if, at the time of crediting or distribution, (i) the regular quarterly dividend on the common stock has been omitted and not subsequently paid or there exists any default in payment of dividends on any such outstanding shares of common stock; (ii) the rate of dividends on the common stock is lower than at the time the Units to which the dividend equivalent credit relates were awarded, adjusted for certain changes; (iii) estimated consolidated net income of the Company for the twelve-month period preceding the month the dividend equivalent credit or distribution would otherwise have been made is less than the sum of the amount of the dividend equivalent credits and Units eligible for distribution under the Omnibus Plan in that month plus all dividends applicable to such period on an accrual basis, either paid, declared or accrued at the most recently paid rate, on all outstanding shares of common stock; or (iv) the dividend equivalent credit or distribution would result in a default in any agreement by which the Company is bound.

If an extraordinary event occurs during a performance period which significantly alters the basis upon which the performance levels were established, the Committee may make adjustments which it deems appropriate in the performance levels. Such events may include changes in accounting practices, tax, financial institution laws or regulations or other laws or regulations, economic changes not in the ordinary course of business cycles, or compliance with judicial decrees or other legal requirements.

**Stock Appreciation Rights.** The Omnibus Plan provides that the Committee may award to eligible directors and employees Rights to receive cash based upon increases in the market price of common stock over the last transaction price of the common stock on the NASDAQ Market (the “Base Price”) on the date of the award. The Committee may adjust the Base Price of a stock appreciation right (“SAR”) based upon the market value performance of the common stock in comparison with the aggregate market value performance of a selected index or at a stated annual percentage

rate. The expiration date of a SAR may be no more than ten years from the date of award.

Each SAR awarded by the Committee may be exercisable immediately or may become vested over such period or periods as the Committee may establish, which periods may be accelerated or shortened in the Committee's discretion. Each SAR awarded will terminate upon the expiration date established by the Committee, termination of the employment

or directorship of the SAR recipient, or in the event of a change in control, as described above in connection with the termination of Options.

**Book Value Shares.** The Omnibus Plan provides that the Committee may award to eligible directors and eligible employees long term incentive units, each equivalent in value to the book value of one share of common stock on the date of award (“Book Value Shares”). The Committee will specify the period or periods of time within which each Book Value Share will vest, which period or periods may be accelerated or shortened by the Committee. Upon redemption, the holder of a Book Value Share will receive an amount equal to the difference between the book value of the common stock at the time the Book Value Share is awarded and the book value of the common stock at the time the Book Value Share is redeemed, adjusted for the effects of dividends, new share issuances, and mark-to-market valuations of the Company’s investment securities portfolio in accordance with FASB 115.

The expiration date of each Book Value Share awarded will be established by the Committee, up to a maximum of ten years from the date of award. However, awards of Book Value Shares will earlier terminate in the same manner as described above in connection with the termination of Options.

**Adjustments.** In the event the outstanding shares of the common stock are increased, decreased, changed into or exchanged for a different number or kind of securities as a result of a stock split, reverse stock split, stock dividend, recapitalization, merger, share exchange acquisition, or reclassification, appropriate proportionate adjustments will be made in (i) the aggregate number or kind of shares which may be issued pursuant to exercise of, or which underlie, Rights; (ii) the exercise or other purchase price, or Base Price, and the number and/or kind of shares acquirable under, or underlying, Rights; and (iii) rights and matters determined on a per share basis under the Omnibus Plan. Any such adjustment will be made by the Committee, subject to ratification by the Board of Directors. As described above, the Base Price of a SAR may also be adjusted by the Committee to reflect changes in a selected index. Except with regard to Units and Book Value Shares awarded under the Omnibus Plan, no adjustment in the Rights will be required by reason of the issuance of common stock, or securities convertible into common stock, by the Company for cash or the issuance of shares of common stock by the Company in exchange for shares of the capital stock of any corporation, financial institution or other organization acquired by the Company or a subsidiary thereof in connection therewith.

Any shares of common stock allocated to Rights granted under the Omnibus Plan which are subsequently cancelled or forfeited will be available for further allocation upon such cancellation or forfeiture.

#### Federal Income Tax Consequences

**Options.** Under current provisions of the Code, the federal income tax treatment of ISOs and NSOs is different. Options granted to employees under the Omnibus Plan may be ISOs which are designed to result in beneficial tax treatment to the employee but not a tax deduction to the Company.

The holder of an ISO generally is not taxed for federal income tax purposes on either the grant or the exercise of the option. However, the optionee must include in his or her federal alternative minimum tax income any excess (the “Bargain Element”) of the acquired common stock’s fair market value at the time of exercise over the exercise price paid by the optionee. Furthermore, if the optionee sells, exchanges, gives or otherwise disposes of such common stock (other than in certain types of transactions) either within two years after the option was granted or within one year after the option was exercised (an “Early Disposition”), the optionee generally must recognize the Bargain Element as compensation income for regular federal income tax purposes. Any gain realized on the disposition in excess of the Bargain Element is subject to recognition under the usual rules applying to dispositions of property. If a taxable sale or exchange is made after such holding periods are satisfied, the difference between the exercise price and the amount realized upon the disposition of the common stock generally will constitute a capital gain or loss for tax purposes.

Options granted to directors under the Omnibus Plan would be “NSOs.” In general, the holder of an NSO will recognize at the time of exercise of the NSO, compensation income equal to the amount by which the fair market value of the common stock received on the date of exercise exceeds the sum of the exercise price and any amount paid for the NSO.

If an optionee exercises an ISO or NSO and delivers shares of common stock as payment for part or all of the exercise price of the stock purchased (the "Payment Stock"), no gain or loss generally will be recognized with respect to the Payment Stock; provided, however, if the Payment Stock was acquired pursuant to the exercise of an ISO, the optionee will be subject to recognizing as compensation income the Bargain Element on the Payment Stock as an Early Disposition if the exchange for the new shares occurs prior to the expiration of the holding periods for the Payment Stock.

The Company generally would not recognize gain or loss or be entitled to a deduction upon either the grant of an ISO or NSO or the optionee's exercise of an ISO. The Company generally will recognize gain or loss or be entitled to a deduction upon the exercise of an NSO. If there is an Early Disposition, the Company generally would be entitled to deduct the Bargain Element as compensation paid to the optionee.

The above and other descriptions of federal income tax consequences are necessarily general in nature and do not purport to be complete. Moreover, statutory provisions are subject to change, as are their interpretations, and their application may vary in individual circumstances. Such descriptions may not be used to avoid any federal tax penalty. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor. Finally, the consequences under applicable state and local income tax laws may not be the same as under federal income tax laws.

**Restricted Stock and Restricted Stock Units.** Pursuant to Section 83 of the Code, recipients of Restricted Stock and Restricted Stock Unit awards under the Omnibus Plan will recognize ordinary income in an amount equal to the fair market value of the shares of common stock granted to them at the time that the shares vest and become transferable. The Company will be entitled to deduct as a compensation expense for tax purposes the same amounts recognized as income by recipients of Restricted Stock awards in the year in which such amounts are included in income.

**Units.** The Company expects that participants generally will not be taxed on the award of Units. Instead, any cash and the then fair market value of any common stock received by the participants upon the distribution of a Unit generally will be taxable to the participants as compensation income upon such distribution. At that time, the Company generally will be entitled to claim a deduction in an amount equal to the compensation income.

**SARs.** Pursuant to Section 83 of the code, recipients of SARs under the Omnibus Plan will recognize, at the time a SAR award is exercised, ordinary income in an amount equal to the difference between the fair market value of the common stock at the time of award of the SAR and the fair market value of the common stock at the time that the SAR is exercised. The Company will be entitled to deduct as a compensation expense for tax purposes the same amounts recognized as income by recipients of SAR awards in the year in which such amounts are included in income.

**Book Value Shares.** The Company expects that participants generally will not be taxed on the award of Book Value Shares. Instead, any cash received by the participants upon redemption of the Book Value Shares generally will be taxable to the participant as compensation income upon distribution. At that time, the Company generally will be entitled to claim a deduction in an amount equal to the compensation income.

#### Incentive Compensation Plans

The Bank also has a Management Incentive Plan for officers and an Employee Incentive Plan for employees of the Bank. Eligibility under the Employee Incentive Plan is granted to all employees upon ninety (90) days of service with the Bank. Participants in the Employee Incentive Plan are entitled to receive quarterly cash incentives based upon a graduated schedule indexed to attainment of corporate budget. Participants in the Management Incentive Plan are recommended annually by the President and Chief Executive Officer to the Bank's Board of Directors. Each

individual's incentive pool is determined by a formula which links attainment of corporate budget with attainment of individual goals and objectives. Incentives under the Management Incentive Plan are paid annually. No payments under the Management Incentive Plan can be paid to NEOs so long as the CPP requirements remain in effect during the period the US Treasury holds equity or debt securities of the Company.

Outstanding Equity Awards at Fiscal Year End. The table below gives information related to equity awards held by the Company's NEOs at the end of fiscal year 2011:

## OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name	Option Awards				Stock Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable <sup>1</sup>	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Tony W. Wolfe	9,075	--	--	\$7.77	12/17/2012	--	--	--	--
A. Joseph Lampron, Jr.	10,890	--	--	\$7.77	12/17/2012	--	--	--	--
Joseph F. Beaman, Jr.	7,260	--	--	\$7.77	12/17/2012	--	--	--	--
Lance A. Sellers	12,705	--	--	\$7.77	12/17/2012	--	--	--	--
William D. Cable, Sr.	10,890	--	--	\$7.77	12/17/2012	--	--	--	--

<sup>1</sup> Securities underlying options have been adjusted for the three-for-two stock split on June 15, 2007.



#### Deferred Compensation Plan

The Bank maintains a non-qualified deferred compensation plan for directors and certain officers. Eligible officers selected by the Bank's Board of Directors may elect to contribute a percentage of their compensation to the plan. Participating officers may elect to invest their deferred compensation in a restricted list of 11 investment funds. The Bank may make matching or other contributions to the plan as well, in amounts determined at the discretion of the Bank. Participants are fully vested in all amounts contributed to the plan by them or on their behalf. The Bank has established a Rabbi Trust to hold the accrued benefits of the participants under the plan. There are no "above-market" returns provided for in this plan. The Bank made no contributions to the plan in 2011.

Benefits under the plan are payable in the event of the participant's retirement, death, termination, or as a result of hardship. Benefit payments may be made in a lump sum or in installments, as selected by the participant.

#### Supplemental Retirement Plan

The Bank maintains a non-qualified supplemental retirement benefits plan ("SERP") for certain officers. The plan is designed to provide a retirement benefit to the officers while at the same time minimizing the financial impact on the Bank's earnings. Under the Plan, the Company purchased life insurance contracts on the lives of certain officers. The increase in cash surrender value of the contracts constitutes the Company's contribution to the plan each year. The Bank will pay benefits to participating officers for a period between 13 years and the life of the officer. The Bank is the sole owner of all of the insurance contracts. Each NEO is fully vested in the benefits provided under the SERP.

#### Discretionary Bonuses and Service Awards

In the past, the Bank has paid bonuses to its employees in amounts determined in the discretion of the Bank's Board of Directors. The Bank anticipates that discretionary bonuses will continue to be paid to its employees in the future. The Bank also gives service awards to each employee for every five years of service with the Bank. Service awards are made in the form of shares of the Company's common stock. The number of shares awarded increases with the years of service to the Bank.

#### Profit Sharing Plan and 401(k) Plan

The Bank has a Profit Sharing Plan and 401(k) Plan for all eligible employees. The Bank made no contribution to the Profit Sharing Plan for the year ended December 31, 2011. No investments in Bank stock have been made by the plan.

Under the Bank's 401(k) Plan, the Bank matches employee contributions to a maximum of 2.50% of annual compensation. The Bank's 2011 contribution to the 401(k) Plan pursuant to this formula was approximately \$219,420. All contributions to the 401(k) Plan are tax deferred.

The Profit Sharing Plan and 401(k) Plan permit participants to choose from investment funds which are selected by a committee comprised of senior management. Employees are eligible to participate in both the 401(k) Plan and Profit Sharing Plan beginning in the second month of employment. Both plans provide for vesting of 20% of the benefit after two years employment and 20% each year thereafter until participants are 100% vested after six years employment.

#### Indebtedness of and Transactions with Management and Directors

The Company is a “listed issuer” under the rules and regulations of the Exchange Act whose common stock is listed on NASDAQ. The Company uses the definition of independence contained in NASDAQ’s listing standards to determine the independence of its directors and that the Board of Directors and each standing committee of the Board of Directors is in compliance with NASDAQ listing standards for independence.

Certain directors and executive officers of the Bank and their immediate families and associates were customers of and had transactions with the Bank in the ordinary course of business during 2011. All outstanding loans, extensions

of credit or overdrafts, endorsements and guarantees outstanding at any time during 2011 to the Bank's executive officers and directors and their family members were made in the ordinary course of its business. These loans are currently made on substantially the same terms, including interest rates and collateral, as those then prevailing for comparable transactions with persons not related to the lender, and did not involve more than the normal risk of collectability or present any other unfavorable features.

The Bank leases two of its facilities from Shortgrass Associates, L.L.C. ("Shortgrass"). Director John W. Lineberger, Jr., owns 25% of the membership interests in Shortgrass. Pursuant to the terms of the leases for the two facilities leased by the Bank, during 2011 the Bank paid a total of \$202,260 to Shortgrass in lease payments for these facilities. Each of the facilities is subject to a 20-year lease between the Bank and Shortgrass. The Board of Directors routinely, and no less than annually, reviews all transactions, direct and indirect, between the Company or the Bank and any employee or director, or any of such person's immediate family members. Transactions are reviewed as to comparable market values for similar transactions. All material facts of the transactions and the director's interest are discussed by all disinterested directors and a decision made about whether the transaction is fair to the Company and the Bank. A majority vote of all disinterested directors is required to approve the transaction.

The Board of Directors also evaluates the influence family relationships may have on the independence of directors who are related by blood or marriage. Christine S. Abernethy, a greater than ten percent shareholder of the Company, has two sons, Robert C. Abernethy and James S. Abernethy, who serve on the Board of Directors. All of the non-related directors have determined that the family relationships among Christine S. Abernethy, James S. Abernethy and Robert C. Abernethy do not affect the brothers' independence as directors.

## PROPOSAL 2

### ADVISORY (NON-BINDING) PROPOSAL TO APPROVE THE COMPENSATION OF THE COMPANY'S NAMED EXECUTIVE OFFICERS

The Company believes that our 2011 compensation policies and procedures are centered on a pay-for-performance culture and are strongly aligned with the long-term interests of our shareholders. These policies and procedures are described in detail in this Proxy Statement.

The ARRA provides that all participants in the TARP permit a non-binding shareholder vote to approve the compensation of the participant's executives. Therefore, the Board of Directors is providing our shareholders with the right to cast an advisory vote on the compensation of the Company's NEOs at the 2012 Annual Meeting of Shareholders.

This proposal, commonly known as a "say-on-pay" proposal, gives you as a shareholder the opportunity to vote on the compensation of our NEOs through the following resolution:

"RESOLVED, that the shareholders of Peoples Bancorp of North Carolina, Inc. approve the compensation of its Named Executive Officers named in the Summary Compensation Table in this Proxy Statement, as described in the narrative and the tabular disclosure regarding the compensation of the Named Executive Officers contained in this Proxy Statement."

Under the ARRA, your vote on this matter is advisory and will therefore not be binding upon the Board of Directors. However, the Compensation Committee will take the outcome of the vote into account when determining further executive compensation arrangements.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THIS PROPOSAL.



### PROPOSAL 3

#### RATIFICATION OF SELECTION OF INDEPENDENT AUDITOR

Porter Keadle Moore, LLC, of Atlanta, Georgia, has been selected by the Audit and Enterprise Risk Committee as the Company's and the Bank's independent auditor for the year ending December 31, 2012. Such selection is being submitted to the Company's shareholders for ratification. Representatives of PKM are expected to attend the Annual Meeting and will be afforded an opportunity to make a statement, if they so desire, and to respond to appropriate questions from shareholders.

##### Audit Fees

The aggregate fees billed by PKM for professional services rendered in connection with the (i) audit of the Company's annual financial statements for 2011 and 2010; (ii) review of the financial statements included in the Company's quarterly filings on Form 10-Q during those fiscal years; and (iii) review of the Company's internal controls over financial reporting in 2011 and 2010 were approximately \$168,000 and \$167,000, respectively.

##### Audit Related Fees

The aggregate fees billed by PKM in 2011 and 2010 for professional services rendered for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and not included in "Audit Fees" above were approximately \$59,000 and \$59,000, respectively. These fees were primarily related to the audit of the Company's Profit Sharing and 401(k) Plan and the testing of management's assertions regarding internal controls in accordance with the Federal Deposit Insurance Corporation Improvement Act.

##### Tax Fees

The aggregate fees billed in each of the last two fiscal years for professional services rendered by PKM for tax compliance, tax advice, and tax planning were approximately \$30,000 and \$28,000 in 2011 and 2010, respectively. These fees were primarily related to the preparation of the Company's income tax returns, assistance with quarterly income tax estimates and preparation of Forms 5500 for various benefit plans.

##### All Other Fees

In addition to the fees outlined above, PKM billed fees in the amount of approximately \$0 in 2011 and \$1,600 in 2010.

The fees billed by PKM are pre-approved by the Audit and Enterprise Risk Committee of the Company in accordance with the policies and procedures for the Audit and Enterprise Risk Committee set forth in its charter. The Audit and Enterprise Risk Committee typically pre-approves all audit and non-audit services provided by the Company's independent auditors and may not engage the independent auditors to perform any prohibited non-audit services. For 2011, 100% of the total fees paid for audit, audit related and tax services were pre-approved. For 2010, 99% of the total fees paid for audit, audit related and tax services were pre-approved. The Audit and Enterprise Risk Committee has determined that the rendering of non-audit professional services by PKM, as identified above, is compatible with maintaining PKM's independence.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR RATIFICATION OF THE APPOINTMENT OF PKM AS INDEPENDENT AUDITOR FOR THE COMPANY AND THE BANK FOR THE FISCAL YEAR ENDING DECEMBER 31, 2012.



#### DATE FOR RECEIPT OF SHAREHOLDER PROPOSALS

It is presently anticipated that the 2013 Annual Meeting of Shareholders of the Company will be held on May 2, 2013. In order for shareholder proposals to be included in the Company's proxy materials for that meeting, such proposals must be received by the Secretary of the Company at the Company's principal executive office no later than December 6, 2012 and meet all other applicable requirements for inclusion in the Proxy Statement.

In the alternative, a shareholder may commence his or her own proxy solicitation and present a proposal from the floor at the 2013 Annual Meeting of Shareholders of the Company. In order to do so, the shareholder must notify the Secretary of the Company in writing, at the Company's principal executive office no later than February 19, 2013, of his or her proposal. If the Secretary of the Company is not notified of the shareholder's proposal by February 19, 2013, the Board of Directors may vote on the proposal pursuant to the discretionary authority granted by the proxies solicited by the Board of Directors for the 2013 Annual Meeting.

#### OTHER MATTERS

Management knows of no other matters to be presented for consideration at the Annual Meeting or any adjournments thereof. If any other matters shall properly come before the Annual Meeting, it is intended that the proxyholders named in the enclosed form of proxy will vote the shares represented thereby in accordance with their judgment, pursuant to the discretionary authority granted therein.

#### MISCELLANEOUS

The Annual Report of the Company for the year ended December 31, 2011, which includes financial statements audited and reported upon by the Company's independent auditor, is being mailed as Appendix A to this Proxy Statement; however, it is not intended that the Annual Report be deemed a part of this Proxy Statement or a solicitation of proxies.

THE FORM 10-K FILED BY THE COMPANY WITH THE SEC, INCLUDING THE FINANCIAL STATEMENTS AND SCHEDULES THERETO, WILL BE PROVIDED FREE OF CHARGE UPON WRITTEN REQUEST DIRECTED TO: PEOPLES BANCORP OF NORTH CAROLINA, INC., POST OFFICE BOX 467, 518 WEST C STREET, NEWTON, NORTH CAROLINA 28658-0467, ATTENTION: A. JOSEPH LAMPRON, JR.

By Order of the Board of  
Directors,

/s/ Tony W. Wolfe  
Tony W. Wolfe  
President and Chief Executive  
Officer

Newton, North Carolina  
April 2, 2012





APPENDIX A

ANNUAL REPORT  
OF  
PEOPLES BANCORP OF NORTH CAROLINA, INC.

---

PEOPLES BANCORP OF NORTH CAROLINA, INC.

General Description of Business

Peoples Bancorp of North Carolina, Inc. (the “Company”), was formed in 1999 to serve as the holding company for Peoples Bank (the “Bank”). The Company is a bank holding company registered with the Board of Governors of the Federal Reserve System (the “Federal Reserve”) under the Bank Holding Company Act of 1956, as amended (the “BHCA”). The Company’s principal source of income is dividends declared and paid by the Bank on its capital stock, if any. The Company has no operations and conducts no business of its own other than owning the Bank and Community Bank Real Estate Solutions, LLC (“CBRES”). Accordingly, the discussion of the business which follows concerns the business conducted by the Bank, unless otherwise indicated.

The Bank, founded in 1912, is a state-chartered commercial bank serving the citizens and business interests of the Catawba Valley and surrounding communities through 22 banking offices located in Lincolnton, Newton, Denver, Catawba, Conover, Maiden, Claremont, Hiddenite, Hickory, Charlotte, Monroe, Cornelius, Mooresville and Raleigh, North Carolina. The Bank also operates a loan production office in Denver, North Carolina. At December 31, 2011, the Company had total assets of \$1.1 billion, net loans of \$653.9 million, deposits of \$827.1 million, total securities of \$327.1 million, and shareholders’ equity of \$103.0 million.

The Bank operates four offices focused on the Latino population under the name Banco de la Gente (“Banco”). These offices are operated as a division of the Bank. Banco 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.

The Bank has a diversified loan portfolio, with no foreign loans and few agricultural loans. Real estate loans are predominately variable rate commercial property loans, which include residential development loans to commercial customers. Commercial loans are spread throughout a variety of industries with no one particular industry or group of related industries accounting for a significant portion of the commercial loan portfolio. The majority of the Bank’s deposit and loan customers are individuals and small to medium-sized businesses located in the Bank’s market area. The Bank’s loan portfolio also includes Individual Taxpayer Identification Number (ITIN) mortgage loans generated through the Bank’s Banco offices. Additional discussion of the Bank’s loan portfolio and sources of funds for loans can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” on pages A-4 through A-27 of the Annual Report, which is included in this Form 10-K as Exhibit 13.

The operations of the Bank and depository institutions in general are significantly influenced by general economic conditions and by related monetary and fiscal policies of depository institution regulatory agencies, including the Federal Reserve, the Federal Deposit Insurance Corporation (the “FDIC”) and the North Carolina Commissioner of Banks (the “Commissioner”).

At December 31, 2011, the Company employed 247 full-time employees and 45 part-time employees, which equated to 277 full-time equivalent employees.

Subsidiaries

The Bank is a subsidiary of the Company. The Bank has two subsidiaries, Peoples Investment Services, Inc. and Real Estate Advisory Services, Inc. Through a relationship with Raymond James Financial Services, Inc., Peoples Investment Services, Inc. provides the Bank’s customers access to investment counseling and non-deposit investment products such as stocks, bonds, mutual funds, tax deferred annuities, and related brokerage services. Real Estate Advisory Services, Inc. provides real estate appraisal and real estate brokerage services.

In June 2006, the Company formed a 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, which pay a floating rate equal to three-month LIBOR plus 163 basis points. The proceeds received by the Company from the sale of the junior subordinated debentures were used in December 2006 to repay the trust preferred securities issued in December 2001 by PEBK Capital Trust, a wholly owned Delaware statutory trust of the Company, in December 2001 and for general purposes. The debentures represent the sole asset 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 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

A-1

---

combined effect of the trust preferred securities transaction is that the Company is obligated 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 had the right to redeem the debentures purchased by PEBK Trust II, in whole or in part, on or after June 28, 2011. As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will be the principal amount and any accrued but unpaid interest.

The Company established a new subsidiary, CBRES, in 2009. CBRES serves 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. This type of service ensures that the appraisal process remains independent from the financing process within the bank.

This report contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Company. These forward-looking statements involve risks and uncertainties and are based on the beliefs and assumptions of management of the Company and on the information available to management at the time that these disclosures were prepared. These statements can be identified by the use of words like “expect,” “anticipate,” “estimate” and “believe,” variations of these words and other similar expressions. Readers should not place undue reliance on forward-looking statements as a number of important factors could cause actual results to differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, (1) competition in the markets served by the Bank, (2) changes in the interest rate environment, (3) general national, regional or local economic conditions may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and the possible impairment of collectibility of loans, (4) legislative or regulatory changes, including changes in accounting standards, (5) significant changes in the federal and state legal and regulatory environment and tax laws, (6) the impact of changes in monetary and fiscal policies, laws, rules and regulations and (7) other risks and factors identified in the Company’s other filings with the Securities and Exchange Commission. The Company undertakes no obligation to update any forward-looking statements.

**SELECTED FINANCIAL DATA**  
Dollars in Thousands Except Per Share Amounts

	2011	2010	2009	2008	2007
<b>Summary of Operations</b>					
Interest income	\$ 45,259	47,680	50,037	56,322	61,732
Interest expense	10,946	14,348	17,187	23,526	27,585
Net interest earnings	34,313	33,332	32,850	32,796	34,147
Provision for loan losses	12,632	16,438	10,535	4,794	2,038
Net interest earnings after provision for loan losses	21,681	16,894	22,315	28,002	32,109
Non-interest income	14,513	13,884	11,823	10,495	8,816
Non-interest expense	29,572	28,948	29,883	28,893	25,993
Earnings before taxes	6,622	1,830	4,255	9,604	14,932
Income taxes	1,463	(11)	1,339	3,213	5,340
Net earnings	5,159	1,841	2,916	6,391	9,592
Dividends and accretion of preferred stock	1,393	1,394	1,246	-	-
Net earnings available to common shareholders	\$ 3,766	447	1,670	6,391	9,592
<b>Selected Year-End Balances</b>					
Assets	\$ 1,067,063	1,067,652	1,048,494	968,762	907,262
Available for sale securities	321,388	272,449	195,115	124,916	120,968
Loans, net	653,893	710,667	762,643	770,163	713,174
Mortgage loans held for sale	5,146	3,814	2,840	-	-
Interest-earning assets	1,004,131	1,010,983	988,017	921,101	853,878
Deposits	827,111	838,712	809,343	721,062	693,639
Interest-bearing liabilities	820,452	850,233	826,838	758,334	718,870
Shareholders' equity	\$ 103,027	96,858	99,223	101,128	70,102
Shares outstanding*	5,544,160	5,541,413	5,539,056	5,539,056	5,624,234
<b>Selected Average Balances</b>					
Assets	\$ 1,074,250	1,078,136	1,016,257	929,799	846,836
Available for sale securities	295,413	219,797	161,135	115,853	120,296
Loans	697,527	757,532	782,464	747,203	665,379
Interest-earning assets	1,015,451	999,054	956,680	876,425	801,094
Deposits	835,550	840,343	772,075	720,918	659,174
Interest-bearing liabilities	836,382	849,870	796,260	740,478	665,727
Shareholders' equity					