PEOPLES BANCORP OF NORTH CAROLINA INC
Form DEF 14A
March 25, 2019

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	[X]
Filed by a Party other than the Registrant	[ ]

Check the appropriate box:

[ ]	Preliminary Proxy Statement	[ ]	Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[X]	Definitive Proxy Statement		
[ ]	Definitive Additional Materials		
[ ]	Soliciting Material Pursuant to §240.14a-1		

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):

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

Notice of 2019 Annual Meeting,
Proxy Statement and
Annual Report

PEOPLES BANCORP OF NORTH CAROLINA, INC.

PROXY STATEMENT

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PEOPLES BANCORP OF NORTH CAROLINA, INC.
Post Office Box 467
518 West C Street
Newton, North Carolina 28658-0467
(828) 464-5620

NOTICE OF 2019 ANNUAL MEETING OF SHAREHOLDERS
To Be Held on May 2, 2019

NOTICE IS HEREBY GIVEN that the 2019 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 2, 2019
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 2020 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 named executive officers, as disclosed in the Proxy Statement;

To participate in an advisory (non-binding) vote on the frequency in which shareholders approve the compensation of the Company's named executive officers.

To ratify the appointment of Elliott Davis, PLLC as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2019; 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 8, 2019, 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 and will help protect your account from escheatment. 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,
Lance A. Sellers
President and Chief Executive Officer
Newton, North Carolina
March 25, 2019

PEOPLES BANCORP OF NORTH CAROLINA, INC.

PROXY STATEMENT

Annual Meeting of Shareholders
To Be Held On May 2, 2019

This Proxy Statement is being mailed to our shareholders on or about March 25, 2019, 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 2, 2019. The Notice, Proxy Statement and the Annual Report to Shareholders for the year ended December 31, 2018 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 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 2019 Annual Meeting of Shareholders by the proxies named on the enclosed proxy card.

When is the Annual Meeting?	May 2, 2019, 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 2020 Annual Meeting of Shareholders. 2. PARTICIPATION IN ADVISORY VOTE (“SAY ON PAY”). To participate in an advisory (non-binding) vote to approve the compensation of the Company’s named executive officers, as disclosed in the Proxy Statement. 3. PARTICIPATION IN ADVISORY VOTE (“SAY ON FREQUENCY”). To participate in an advisory (non-binding) vote to determine the frequency in which shareholders approve the compensation of the Company’s named executive officers, as disclosed in the Proxy Statement

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4. RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM. To ratify the appointment of Elliott Davis, PLLC ("Elliott Davis") as the Company's independent registered public accounting firm for fiscal year 2019.

5. 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 8, 2019 (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 5,997,136 shares of our common stock outstanding and entitled to vote and 658 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 not permitted to vote on your behalf on the election of directors 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 you 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 ratify the appointment of the Company's independent registered public accounting firm for 2019 will be approved if the votes cast in favor exceed the votes cast in opposition. 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 vote on the frequency in which the shareholders approve the compensation of the Company's named executive officers is advisory only; however the Board of Directors will consider the outcome of the vote when determining the frequency in which the compensation of the Company's named executive officers is submitted to the shareholders for approval. 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. 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.

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 (5%) 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 (5%) of the Company's outstanding common stock.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership[1]	Percent of Class[2]
Christine S. Abernethy P.O. Box 386 Newton, NC 28658	725,338[3]	12.09%
Tontine Financial Partners, LP 55 Railroad Avenue, 3rd Floor Greenwich, CT 06830-6378	387,936[4]	6.47%
Tontine Management, LLC 55 Railroad Avenue Greenwich, CT 06830	387,936[5]	6.47%
Tontine Asset Associates, LLC 55 Railroad Avenue Greenwich, CT 06830	144,475[6]	2.41%
Jeffrey L. Gendell 55 Railroad Avenue Greenwich, CT 06830	532,411[7]	8.88%

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 5,997,136 shares of common stock outstanding as of the Record Date.

3
Carolina Glove Company, Inc. owns 118,363 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.

4
Based on a Schedule 13G/A (Amendment No. 8) filed by Tontine Financial Partners, L.P., Tontine Management, LLC, Tontine Overseas Associates, LLC, Tontine Asset Associates, LLC and Jeffrey L. Gendell with the SEC on February 14, 2019 (the "2019 Schedule 13G/A"). Represents the number of shares of common stock owned directly by Tontine Financial Partners, L.P.

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Based on the 2019 Schedule 13G/A, Tontine Management, LLC is the general partner of Tontine Financial Partners, L.P. Represents the number of shares of common stock owned by Tontine Financial Partners, L.P.

6
Based on the 2019 Schedule 13G/A, Tontine Asset Associates, LLC is the general partner of Tontine Capital Overseas Master Fund II, LP. Represents the number of shares of common stock owned by Tontine Capital Overseas Master Fund II, LP.

7
Represents the number of shares of common stock owned directly by Tontine Financial Partners, L.P. and Tontine Capital Overseas Master Fund II, LP.

5

Set forth below is certain information, as of the Record Date (unless otherwise indicated), 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 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 Ownership1		Percentage of Class2	
James S. Abernethy Post Office Box 327 Newton, NC 28658	157,369	3	2.62	%
Robert C. Abernethy Post Office Box 366 Newton, NC 28658	172,386	4	2.87	%
William D. Cable, Sr. Post Office Box 467 Newton, NC 28658	22,984		*	
Douglas S. Howard Post Office Box 587 Denver, NC 28037	19,673	5	*	
A. Joseph Lampron, Jr. Post Office Box 467 Newton, NC 28658	16,803		*	
John W. Lineberger, Jr. Post Office Box 481 Lincolnton, NC 28092	4,352		*	
Gary E. Matthews 210 First Avenue South Conover, NC 28613	25,701		*	
Billy L. Price, Jr., M.D. 540 11th Ave. Place NW Hickory, NC 28601	9,868		*	
Larry E. Robinson Post Office Box 723 Newton, NC 28658	66,799	6	1.11	%
Lance A. Sellers Post Office Box 467 Newton, NC 28658	25,510		*	
William Gregory Terry Post Office Box 610 Newton, NC 28658	19,498		*	
Dan Ray Timmerman, Sr. Post Office Box 1148 Conover, NC 28613	97,410	7	1.62	%
Benjamin I. Zachary Post Office Box 277 Taylorsville, NC 28681	108,820	8	1.81	%

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All current directors and nominees and executive officers as a group (13 people)	676,732 9	11.28 %

*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 5,997,136 shares of common stock outstanding as of the Record Date.

3
Includes 70,441 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 6,988 shares of common stock owned by Mr. R. Abernethy's spouse, for which Mr. R. Abernethy disclaims beneficial ownership.

5
Includes 495 shares of common stock owned by Mr. Howard's spouse, for which Mr. Howard disclaims beneficial ownership.

6
Includes 19,344 shares of common stock owned by Mr. Robinson's spouse, for which Mr. Robinson disclaims beneficial ownership.

7
Includes 2,994 shares of common stock owned by Timmerman Manufacturing, Inc. Mr. Timmerman is a shareholder, director, Chairman of the Board and the Chief Executive Officer of Timmerman Manufacturing, Inc.

8
Includes 70,441 shares of common stock owned by Alexander Railroad Company. Mr. Zachary is President, Treasurer, General Manager and a Director of Alexander Railroad Company.

9
The 70,441 shares owned by Alexander Railroad Company and attributed to Mr. J. Abernethy and Mr. Zachary are only included once in calculating this total.

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

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 (10%) of the common stock, to file reports of ownership and changes in ownership with the

SEC. Executive officers, directors and greater than ten percent (10%) 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, 2018, its executive officers and directors and greater than ten percent (10%) 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 2020 Annual Meeting of Shareholders appears below. All of the nominees are currently serving on the Board of Directors.

Director Nominees

James S. Abernethy, age 64 (as of February 1, 2019), 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. He has served as a director of the Company since 1992. Mr. Abernethy has a total of 26 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 26 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 68 (as of February 1, 2019), 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 42 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 60 (as of February 1, 2019), is employed by Denver Equipment Company of Charlotte, Inc. as Vice President and Treasurer. Mr. Howard is currently serving as the Chairman of the Catawba Valley Medical Group. He has served as a director of the Company since 2004. Mr. Howard has a total of 20 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. Howard also serves as the Chairman of the Board of Trustees of Catawba Valley Medical Center.

John W. Lineberger, Jr., age 68 (as of February 1, 2019), 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 14 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 63 (as of February 1, 2019), 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 17 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 62 (as of February 1, 2019), is a Practitioner of Internal Medicine at BL Price Jr Medical Consultants, PLLC. Dr. Price served on the Board of Trustees of Catawba Valley Medical Center through 2018. He has served as a director of the Company since 2004. Dr. Price has a total of 14 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 Medical Director of Healthgram Medical, 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. He serves as Medical Director and Assistant Professor to Lenoir Rhyne University Physician Assistants Master of Science Program.

Larry E. Robinson, age 73 (as of February 1, 2019), is a shareholder, director and President of The Blue Ridge Distributing Company, Inc., a beer and wine distributor. He is also a director and member of the Board of Directors of United Beverages of North Carolina, LLC, a malt beverage beer distributor. He has served as a director of the Company since 1993. Mr. Robinson has a total of 25 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 51 (as of February 1, 2019), is President of DFH Holdings and Operator/General Manager of Drum & Willis-Reynolds Funeral Homes and Crematory. He has served as a director of the Company since 2004. Mr. Terry has a total of 14 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 71 (as of February 1, 2019), is a shareholder, director, Chairman of the Board of Directors and the Chief Executive Officer of Timmerman Manufacturing, Inc., a wrought iron furniture, railings and gates manufacturer. He has served as a director of the Company since 1995. Mr. Timmerman has a total of 23 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. Mr. Timmerman serves as member of the Board of the Catawba County Economic Development Commission.

Benjamin I. Zachary, age 62 (as of February 1, 2019), 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 23 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. Mr. Zachary is a member of the Taylorsville Rotary Club and has served as Treasurer for the Taylorsville Rotary Club and its Foundation.

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

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Executive Officers of the Company

During 2018, our executive officers were:

Lance A. Sellers, age 56 (as of February 1, 2019), serves as the President and Chief Executive Officer of the Company and the Bank. Prior to becoming the President and Chief Executive Officer of the Company and the Bank, Mr. Sellers served 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 34 years of banking experience. He is a graduate of the University of North Carolina at Chapel Hill and served as a senior credit officer at a regional bank headquartered in North Carolina.

William D. Cable, Sr., age 50 (as of February 1, 2019), serves as Executive Vice President, Assistant Corporate Treasurer and Corporate Secretary 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 27 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 64 (as of February 1, 2019), serves as Executive Vice President, Chief Financial Officer, Corporate Treasurer and Assistant Corporate Secretary 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 39 years of banking experience.

How often did our Board of Directors meet during 2018

Our Board of Directors held 14 meetings during 2018. 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 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 2018 Annual Meeting of Shareholders held on May 3, 2018.

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 Lance Sellers, 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.

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, and James Abernethy is currently serving as the Vice Chairman of the Board of Directors. Other than Directors Lineberger and Matthews, all of the members of the Board of Directors are independent under applicable

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NASDAQ listing requirements. The Company has five standing committees: Executive, Loan Sub-Committee, Governance, Audit and Compensation. The Chief Executive Officer serves on the Executive Committee. addition to the above-named committees has a Loan Committee and a Loan Sub-Committee. The duties of the Company's committees are described below. Each of the Company's and the Bank's committees considers risk within its area of responsibility. The Audit 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.

Code of Business Conduct and 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 Bank's website (www.peoplesbanknc.com) under Investor Relations.

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.

Diversity of the Board of Directors

The Company and the Bank do not have written diversity policies. However, the Company and the Bank value diversity in society, and believe that the virtues and pursuit of diversity are just as important within the Company and the Bank. The Company and the Bank adhere to a policy prohibiting discrimination and harassment on the basis of legally protected characteristics, including sex, pregnancy, race, color, religion, national origin, veteran status, age, and disability. While there are currently no women or minorities serving on the Board of Directors, any qualified candidate receives equal consideration.

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.

Board Committees

During 2018, our Board of Directors had five standing committees, the Audit and Enterprise Risk Committee, the Governance Committee, the Compensation Committee, the Executive Committee and the Loan Sub-Committee. 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 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 following persons currently serve on the Executive Committee: Directors R. Abernethy, J. Abernethy, Lineberger, Robinson and Terry, as well as the President and Chief Executive Officer of the Company in a non-voting capacity. It meets on an “as needed” basis and did not meet during 2018.

Governance Committee Governance Committee. 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 following persons currently serve on the Governance Committee: Directors R. Abernethy, J. Abernethy, Howard, Terry, and Timmerman. All of the members of the Governance Committee are independent as defined in the applicable NASDAQ listing standards. The Board of Directors determines on an annual basis each director’s independence.

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 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 met once during the year ended December 31, 2018.

The Governance Committee has a written charter which is reviewed annually, and amended as needed, by the Governance Committee. A copy of the Governance Committee Charter is available onthe Bank’s website (www.peoplesbanknc.com) under Investor Relations.

Audit and Enterprise Risk Committee Audit and Enterprise Risk Committee. The Company has a separately designated standing Audit and Risk Enterprise Committee (the "Audit Committee") which was established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Audit Committee's responsibilities include oversight of enterprise risk. The Audit Committee has a written charter which is reviewed annually, and amended as needed, by the Audit Committee. A copy of the Audit Committee Charter is available on the Bank's website (www.peoplesbanknc.com) under Investor Relations. The

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following persons currently serve on the Audit Committee: Directors R. Abernethy, J. Abernethy, Howard, Price, Timmerman and Zachary.

The Board of Directors has determined that each member of the Audit Committee is independent as that term is defined in the applicable NASDAQ listing standards and the SEC's regulations. The Board of Directors determines on an annual basis each director's independence. In addition, the Board of Directors has determined that each member of the Audit Committee qualifies as an "audit committee financial expert" based on each of the member's educational background and business experience.

The Audit 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 Committee met eight times during the year ended December 31, 2018.

Audit Committee Report. The Audit 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. 16 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 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 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, 2018 for filing with the SEC.

Robert C. Abernethy	Dan R. Timmerman, Sr.
Benjamin I. Zachary Douglas S. Howard	James S. Abernethy Billy L Price, Jr. MD, Committee Chair

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 the applicable NASDAQ's listing standards. The Board of Directors determines on an annual basis each director's independence. The following persons currently serve on the Compensation Committee: Directors R. Abernethy, J. Abernethy, Howard, Terry and Timmerman. The Compensation Committee met three times during the year ended December 31, 2018.

The Compensation Committee has a written charter which is reviewed annually, and amended as needed, by the Compensation Committee. A copy of the Compensation Committee's Charter is available on the Bank's website (www.peoplesbanknc.com) under Investor Relations.

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 named executive officers serve as a member of the board of directors of another entity whose executive officers or directors serve on the Company's Board of Directors.

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Compensation Committee Report. The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis in this Proxy Statement with management and has recommended that it be included in this Proxy Statement and our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2018.

Compensation Committee
Robert C. Abernethy
James S. Abernethy
Douglas S. Howard
William Gregory Terry
Dan R. Timmerman, Sr., Committee Chair

Compensation Discussion and Analysis

The following Compensation Discussion and Analysis provides information with respect to the compensation paid during the year ended December 31, 2018 to our President and Chief Executive Officer, Lance A. Sellers, our Chief Financial Officer, A. Joseph Lampron, Jr. and William D. Cable, Sr. (together, our "named executive officers").

Compensation Committee Processes and Procedures. The Compensation Committee assists the Board of Directors in determining appropriate compensation levels for the members of the Board of Directors and our named executive officers. It also has strategic and administrative responsibility for a broad range of compensation issues. It seeks to ensure that we compensate key management employees effectively and in a manner consistent with the Compensation Committee's stated compensation strategy and relevant requirements of various regulatory entities. A part of these responsibilities is overseeing the administration of executive compensation and employee benefit plans, including the design, selection of participants, establishment of performance measures, and evaluation of awards pursuant to our annual and long-term incentive programs.

Compensation Philosophy. The overall objective of our executive 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 executive compensation program is designed to: (i) attract 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 executive compensation program is founded upon the idea that a strong, performance-oriented compensation program, which is generally consistent with the practices of our peers, is a key ingredient in becoming a leading performer among financial institutions of similar size, and is, therefore, in the best interests of our shareholders.

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.

Elements of the Executive Compensation Program. The Company’s and the Bank’s compensation program consists of the following elements:

Base Salary. The salaries of our named executive officers 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.

Annual Cash Incentive Awards. We believe that annual cash incentive awards encourage our named executive officers to achieve short-term targets that are critical to achievement of our long-term strategic plan. The Bank has a Management Incentive Plan for officers of the Bank. 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 named executive officer earned or was paid a cash incentive under the Management Incentive Plan during the fiscal year ended December 31, 2018.

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. In 2018, the Compensation Committee recommended, and the Board of Directors approved, discretionary bonuses as follows: $90,000 for Mr. Sellers; $55,000 for Mr. Lampron; and $50,000 for Mr. Cable. These discretionary bonuses were paid in January of 2019. 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.

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.

In making its decision to grant awards to the Company's named executive officers under the Omnibus Plan, the Compensation Committee considers all elements of such named executive officer's compensation. In considering the number of awards to grant to the Company's named executive officers, the Compensation Committee considers each named executive officer's contribution to the Company's performance.

The Company did not grant any plan-based awards to its named executive officers during the fiscal year ended December 31, 2018. See "Outstanding Equity Awards at Fiscal Year-End" on page 19 of this Proxy Statement and "Option Exercises and Stock Vested" on page 19 of this Proxy Statement for information on grants and vesting of restricted stock units to the named executed officers during the fiscal years ended December 31, 2012, 2013, 2014, 2015 and 2017. See "Omnibus Plan and Long Term Incentive Plan" starting on page 22 of this Proxy Statement for additional information on the Omnibus Plan.

Supplemental Executive Retirement Agreements. The Bank provides non-qualified supplemental executive retirement benefit in the form of Amended and Restated Executive Salary Continuation Agreements with Messrs. Sellers, Lampron and Cable. The Committee's goal is to provide competitive retirement benefits given the restrictions on executives within tax-qualified plans. In prior years, the Compensation Committee worked with a compensation consultant in analyzing the possible benefits of using supplemental retirement benefits 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

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final average pay and executives in our peer group. In connection with the non-qualified supplemental executive retirement benefits, the Bank purchased life insurance contracts on the lives of the named executive officers. The increase in cash surrender value of the life insurance contracts constitutes the Bank'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.

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, 2018. 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 4.00% of annual compensation. The Bank's 2018 contribution to the 401(k) Plan pursuant to this formula was approximately $670,000. 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 are now "safe harbor" plans, and all participants are immediately 100% vested in all employer contributions.

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 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 2018. 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.

Employment Agreements. The Company has employment agreements with each named executive officer, which the Board of Directors believes serve a number of functions, including (i) retention of the 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 starting on page 21 of this Proxy Statement.

Other Benefits. Executive officers are entitled to participate in fringe benefit plans offered to employees including health and dental insurance plans and life, accidental death and dismemberment and long-term disability plans. In addition, the Bank has paid country club dues for each named executive officer and provides a car allowance to Mr. Sellers.

The above elements of each named executive officer's compensation are not inter-related. For example, if vesting standards on restricted stock awards are not achieved, the executive's base salary is not increased to make up the difference. Similarly, the value of previously granted options is not considered by the Compensation Committee in recommending the other elements of the compensation package.

The Compensation Committee did not engage a compensation consultant during the year ended December 31, 2018. The President and Chief Executive Officer of the Company and the Bank makes recommendations to the Committee regarding the compensation of the executive officers other than his own. The President and Chief Executive Officer 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 reports its actions to the Board of Directors and keeps written minutes of its meetings, which minutes are maintained with the books and records of the Company.

The Compensation Committee also considers the results of the shareholders' non-binding vote on executive compensation. At the 2013 Annual Meeting of Shareholders, 52% of the shareholders who voted at the 2013 Annual

Meeting of Shareholders elected to review the executive compensation of the Company's named executive officers once every three years. As a result, the Company submitted, in a non-binding advisory proposal, the executive compensation of the Company's named executive officers at the 2016 Annual Meeting of Shareholders. At the 2016 Annual Meeting of Shareholders, 94% of the shareholders who voted at the 2016 Annual Meeting of Shareholders approved the executive compensation of the Company's named executive officers as presented to the shareholders in the 2016 proxy statement. The Company, pursuant to this Proxy Statement, submits a vote to the shareholders on the compensation of its named executive officers and the frequency on which shareholders review such compensation.

2018 Compensation Disclosure Ratio of the Median Annual Total Compensation of All Company Employees to the Annual Total Compensation of the Company's Chief Executive Officer

We believe our executive compensation program must be consistent and internally equitable to motivate our employees to perform in ways that enhance shareholder value. We are committed to internal pay equity, and the Compensation Committee monitors the relationship between the pay of our executive officers and the pay of our non-executive employees. The Compensation Committee reviewed a comparison of our Chief Executive Officer's annual total compensation in fiscal year 2018 to that of all other Company employees (including all employees of the Bank) for the same period. The calculation of annual total compensation of all employees was determined in the same manner as the "Total Compensation" shown for our Chief Executive Officer in the "Summary Compensation Table" on page 18 of this Proxy Statement.

The calculation below includes all employees as of October 31, 2018.

The 2018 compensation disclosure ratio of the median annual total compensation of all Company employees to the annual total compensation of the Company's chief executive officer is as follows:

Median Annual Total Compensation of All Employees (excluding Lance A. Sellers, Chief Executive Officer)	$45,051
Annual Total Compensation of Lance A. Sellers, Chief Executive Officer	$517,278
Ratio of the Median Annual Total Compensation of All Employees to the Annual Total Compensation of Lance A. Sellers, Chief Executive Officer	11.48

Summary Compensation Table

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 show, for the fiscal years ended December 31, 2018, 2017 and 2016, the cash compensation received by, as well as certain other compensation paid or accrued for those years, to each named executive officer.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary($)	Bonus($)	Stock Awards($)1	Change in Pension Value and Nonqualified Deferred Compensation Earnings($)	All Other Compensation($)2	Total($)
Lance A. Sellers	2018	328,760	90,000	-	68,064	30,454	517,278
President and Chief Executive	2017	319,185	55,000	-	62,493	29,080	465,758
Officer	2016	319,185	50,000	-	57,312	31,775	458,271
A. Joseph Lampron, Jr.	2018	210,009	55,000	-	120,772	22,224	408,005
Executive Vice President,	2017	203,892	45,000	-	112,658	23,020	384,570
Chief Financial Officer	2016	197,653	40,000	-	102,893	24,307	365,153
William D. Cable, Sr.	2018	216,125	50,000	-	26,837	24,365	317,327
Executive Vice President,	2017	209,830	45,000	-	24,608	24,506	303,944
Chief Operating Officer	2016	203,179	40,000	-	22,540	25,500	291,759

1 Amount represents the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. See Note 1 in the Notes to the Company’s Consolidated Financial Statements included in the Company’s Annual Report, which Annual Report is attached here to as Appendix A.
2 All other compensation is comprised of the following:

Name and Principal Position	Year	Employer Match($)	Car Allowance($)	Country Club Dues($)	Split Dollar Death Benefit($)	Group Term Life($)(a)	Disability and LTC Premiums($)(b)	Dividends Accrued on Restricted Stock Units($)	Other($)

Lance A. Sellers President and Chief Executive Officer	2018	11,000	2,888	3,730	539	2,900	5,628	1,270	2,500(c)
	2017	10,800	2,888	3,636	501	3,456	5,628	2,171	0
	2016	10,600	4,113	3,576	480	2,376	5,628	5,002	0
A. Joseph Lampron, Jr. Executive Vice President, Chief Financial Officer	2018	10,610	0	3,630	1,359	3,688	1,984	952	0
	2017	10,800	0	3,460	1,234	3,951	1,984	1,591	0
	2016	9,096	0	3,380	1,139	3,863	1,984	3,570	1,275(d)
William D. Cable, Sr. Executive Vice President, Chief Operating Officer	2018	10,795	0	3,730	463	2.050	6,375	952	0
	2017	10,675	0	3,636	433	1,796	6,375	1,591	0
	2016	8,699	0	4,676	405	1,775	6,375	3,570	0

(a)
Represents amounts paid by the Bank for premiums on group term life insurance in excess of $50,000 for each named executive officer.
(b)
Represents amounts paid by the Bank for premiums on disability and long-term care insurance for each named executive officer.
(c)
In 2018, Mr. Sellers received 68 shares for 20 years of service with the Bank and $528 in cash to pay taxes associated with the award under the Bank's Service Recognition Program.
(d)
In 2016, Mr. Lampron received 42 shares for 15 years of service with the Bank and $288 in cash to pay the taxes associated with the award under the Bank's Service Recognition Program.

Grants of Plan-Based Awards

The Company did not grant any plan-based awards to the named executive officers during the fiscal year ended December 31, 2018.

Outstanding Equity Awards at Fiscal Year End

The following table shows certain information for those outstanding equity awards at December 31, 2018.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END TABLE

	Stock Awards			
Name	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested(3) ($)
Lance A. Sellers	--	--	2,442(1)	59,731
A. Joseph Lampron, Jr.	--	--	1,832(2)	44,798
William D. Cable, Sr.	--	--	1,832(2)	44,798

(1)
Represents 2,442 restricted stock units (adjusted for the 10% stock dividend granted in December 2017) that were granted on February 19, 2015 (with a grant date fair value for each restricted stock unit of $16.36 on February 19, 2015 (adjusted for the 10% stock dividend granted in December 2017)) and vested on February 19, 2019.
(2)
Represents 1,832 restricted stock units (adjusted for the 10% stock dividend granted in December 2017) that were granted on February 19, 2015 (with a grant date fair value for each restricted stock unit of $16.36 on February 19, 2015 (adjusted for the 10% stock dividend granted in December 2017)) and vested on February 19, 2019.
(3)
Based on a stock price of $24.46 per share on December 31, 2018.

Option Exercises and Stock Vested

No stock options or restricted stock units vested for each Messrs. Sellers, Lampron and Cable during the fiscal year ended December 31, 2018.

Pension Benefits

The following table shows, for the fiscal year ended December 31, 2018, the pension benefits paid or earned by Messrs. Sellers, Lampron and Cable.

PENSION BENEFITS TABLE

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit($)	Payments During Last Fiscal Year($)
Lance A. Sellers	Amended and Restated Executive Salary Continuation Agreement1	17	501,171	--
A. Joseph Lampron, Jr.	Amended and Restated Executive Salary Continuation Agreement1,2	17	758,505	--
William D. Cable, Sr.	Amended and Restated Executive Salary Continuation Agreement1	17	188,590	--

1 The Bank entered into Amended and Restated Executive Salary Continuation Agreement with Messrs. Sellers, Lampron and Cable effective on December 18, 2008. The Amended and Restated Executive Salary Continuation Agreements for Messrs. Sellers, Lampron and Cable were further amended on December 10, 2014, and such amendments were memorialized in a First Amendment to the Amended and Restated Executive Salary Continuation Agreements effective February 16, 2018. Unless a separation from service or a change in control (as defined in the Amended and Restated Executive Salary Continuation Agreements) occurs before the retirement age set forth in each Amended and Restated Executive Salary Continuation Agreement, the Amended and Restated Executive Salary Continuation Agreements provide for an annual supplemental retirement benefit to be paid to each of the named executive officers in 12 equal monthly installments payable on the first day of each month, beginning with the month immediately after the month in which the named executive officer attains the normal retirement age and for the named executive officer’s lifetime, or if longer, a 13-year term. Under the terms of the Amended and Restated Executive Salary Continuation Agreements, Mr. Sellers will receive an annual supplemental retirement benefit of $130,495, Mr. Lampron will receive an annual supplemental retirement benefit of $76,554 and Mr. Cable will receive an annual supplemental retirement benefit of $93,872.

2 As of December 31, 2018, Mr. Lampron was the only named executive officer eligible to withdraw funds from the plan. Mr. Lampron, if he elected, could withdrawal 100% of the annual benefit of $76,554.

Nonqualified Deferred Compensation

The below table shows the compensation deferred by Messrs. Lampron and Cable during the year ended December 31, 2018. Mr. Sellers elected not to defer any portion of his compensation during the year ended December 31, 2018.

NONQUALIFIED DEFERRED COMPENSATION TABLE

Name	Executive Contributions in the Last FY ($)(1)	Registrant Contributions In Last FY ($)	Aggregate Earnings in Last FY ($)(2)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE ($)(3)
A. Joseph Lampron, Jr.	$6,612	--	$(49,297)	0	$212,773
William D. Cable, Sr.	$17,830	--	$(84,529)	0	$488,990

(1)
The above contributions were based on the named executive officer's deferral elections and the salaries shown in the Summary Compensation Table. The salaries in the Summary Compensation Table include these contributions.
(2)
This column reflects earnings or losses on plan balances in 2018. Earnings may increase or decrease depending on the performance of the elected hypothetical investment options. Earnings on these plans are not "above-market" and thus are not reported in the Summary Compensation Table. Plan balances may be hypothetically invested in various mutual funds and common stock as described below. Investment returns on those funds and common stock ranged from (19.6%) to 2.40% for the year ended December 31, 2018.
(3)
This column represents the year-end balances of the named executive officer's nonqualified deferred compensation accounts. These balances include contributions that were included in the Summary Compensation Tables in previous years. Amounts in this column include earnings that were not previously reported in the Summary Compensation Table because they were not "above-market" earnings.

Employment Agreements

On January 22, 2015, the Company, the Bank and each of (i) Lance A. Sellers, the President and Chief Executive Officer of the Company and the Bank, (ii) A. Joseph Lampron, Jr., Executive Vice President and Chief Financial Officer of the Bank and Executive Vice President, Chief Financial Officer and Corporate Treasurer of the Company and (iii) William D. Cable, Sr., Executive Vice President and Chief Operating Officer of the Bank and Executive Vice President, Assistant Corporate Treasurer and Assistant Corporate Secretary of the Company executed an Employment Agreement which replaced and superseded such executive's prior employment agreement (collectively, the "Employment Agreements").

Each Employment Agreement provides for an initial term of 36 months beginning on January 22, 2015 (the "Effective Date"). On the first anniversary of the Effective Date and on each anniversary thereafter (the "Renewal Date"), each Employment Agreement shall be extended automatically for one additional year unless the Board of Directors of the Company (or the executive determines, and prior to the Renewal Date sends to the other party written notice, that the term shall not be extended. If the Board of Directors of the Company decides not to extend the term, the Employment Agreement shall nevertheless remain in force until its existing term expires. Under the Employment Agreements, the Bank will pay Mr. Sellers a base salary at the rate of at least $311,400 per year, Mr. Lampron a base salary at the rate of at least $193,125 per year and Mr. Cable a base salary at the rate of at least $198,750 per year ("Base Salary"). The Bank will review each executive's total compensation at least annually and in its sole discretion may adjust an executive’s total compensation from year to year, but during the term of the Employment Agreement, Mr. Sellers’s Base Salary may not decrease below $311,400, Mr. Lampron’s Base Salary may not decrease below $193,125 and Mr. Cable’s Base Salary may not decrease below $198,750; provided, however, that periodic increases in Base Salary, once granted, may not be subject to revocation. In addition, the Employment Agreements provide for discretionary bonuses and participation in other management incentive, pension, profit-sharing, medical and retirement plans maintained by the Bank, as well as fringe benefits normally associated with such executive’s office.

Under the Employment Agreements, each executive’s employment will terminate automatically upon death. Otherwise, the Company and the Bank may terminate each executive’s employment for “cause”, “without cause” or in the

event of a "disability" (each as defined in the Employment Agreements). In addition, each executive may voluntarily terminate his employment upon 60 days prior written notice to the Company and the Bank or for "good reason" (as defined in the Employment Agreement). Under the Employment Agreements, if the Company and the Bank terminate an executive's employment "without cause", or an executive terminates his employment for "good reason", in each case, other than in connection with a change of control, then in each case, the executive would be entitled to receive certain severance payments and access to welfare benefit plans as more particularly set forth in the Employment Agreements. Under the Employment Agreements, in the event that the Company and the Bank terminate an executive's employment "without cause", or an executive terminates his employment for "good reason", in any such case at the time of or within one year after a Change of Control, then the executive will be entitled to receive certain change in control payments as more particularly set forth in the Employment Agreements.

In addition, each Employment Agreement contains certain restrictive covenants prohibiting the executive from competing against the Company and the Bank or soliciting the Company's or the Bank's customers for a period of time following termination of employment, all as more particularly set forth in the Employment Agreements.

Potential Payments upon Termination or Change in Control

Each of the Employment Agreements provide that in the event the Company terminates the employment of a named executive officers Without Cause (as defined in the Employment Agreements), or the officer terminates his or her employment for Good Reason (as defined in the Employment Agreements), in any such case during the employment and at the time of or within one year after a "change of control" (as defined in the Employment Agreements), the officer will be entitled to receive the following payments and benefits: (1) the Company will pay the officer the aggregate of the following amounts: (a) the sum of his accrued obligations; (b) the greater of his base salary, divided by 365 and multiplied by the number of days remaining in the employment period, or an amount equal to 2.99 times his base salary; and (c) the product of his aggregate cash bonus for the last completed fiscal year, and a fraction, the numerator of which is the number of days in the current fiscal year through the date of termination, and the denominator of which is 365; (2) all restricted stock or restricted stock unit awards previously granted to the executive and which have not already become vested and released from restrictions on transfer and repurchase an forfeiture rights, either as a result of the change of control or otherwise, shall immediately vest and be released from such restrictions as of the change of control termination date; and (3) all options previously granted to the officer that are unvested as of the change of control termination date will be deemed vested, fully exercisable and non-forfeitable as of the change of control termination date (other than transfer restrictions applicable to incentive stock options) and all previously granted options that are vested, but unexercised, on the change of control termination date will remain exercisable, in each case for the period during which they would have been exercisable absent the termination of his or her employment, except as otherwise specifically provided by the Internal Revenue Code; and (4) his benefits under all benefit plans that are non-qualified plans will be 100% vested, regardless of his age or years of service, as of the change of control termination date.

If the named executive officers were terminated on December 31, 2018, "without cause" or for "good reason" at the time of or within one year after a "change of control", Mr. Sellers, Mr. Lampron and Mr. Cable would have been entitled to receive compensation of approximately $1,256,000, $795,000 and $798,000, respectively, pursuant to their Employment Agreements. These amounts are calculated based on each officer's 2018 base salary and bonus as shown in the Summary Compensation Table. In addition, if a "change in control" (as defined in the Omnibus Plan) had occurred on December 31, 2018, all unvested restricted stock units previously granted to each of Mr. Sellers, Mr. Lampron and Mr. Cable would have vest immediately. On December 31, 2018, these unvested restricted stock units had a fair market value of $59,731, $44,798 and $44,798, respectively.

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.

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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 to 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 Stock 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 Stock 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 generally accepted accounting principles.

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 terminate earlier 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

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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.

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.

During the year ended December 31, 2018, each director received a fee of $1,000 for each Bank Board of Directors meeting attended, an additional fee of $750 for each committee meeting attended and a retainer of $12,000. In addition, the Chairman of the Bank's Board of Directors received an additional $250 per meeting attended and the chairpersons of each committee received an additional $150 per meeting attended. Directors receive $500 for special meetings held via conference call in lieu of the Board of Director and committee meeting fees set forth above.

Directors who are members of the Board of Directors of Real Estate Advisory Services, Inc., Peoples Investment Services, Inc. and PB Real Estate Holdings, LLC, and Community Bank Real Estate Solutions, LLC, subsidiaries of the Bank, receive $750 per meeting.

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. On March 22, 2012, the Company granted 891 Restricted Stock Units, each Restricted Stock Unit being comprised of the right to receive one share of the Company's common stock, to each director. The Restricted Stock Units awarded to directors on March 22, 2012 vested in full on March 22, 2017, and upon vesting, each Restricted Stock Unit had a market value of $25.91 for a total value of $23,085, which was distributed to each director in a combination of stock or cash, as chosen by each director. On May 23, 2013, the Company granted 891 Restricted Stock Units, each Restricted Stock Unit being comprised of the right to receive one share of the Company's common stock, to each director. The Restricted Stock Units awarded to directors on May 23, 2013 vested in full on May 23, 2017, and upon vesting, each Restricted Stock Unit had a market value of $24.94 for a total value of $22,218, which was distributed to each director in a combination of stock or cash, as chosen by each director. On February 20, 2014, the Company granted 715 Restricted Stock Units, each Restricted Stock Unit being comprised of the right to receive one share of the Company's common stock, to each director. The Restricted Stock Units awarded to directors on February 20, 2014 vested in full on February 20, 2017, and upon vesting, each Restricted Stock Unit had a market value of $24.78 for a total value of $17,719, which was distributed to each director in a combination of stock or cash, as chosen by each director. On February 19, 2015, the Company granted 413 Restricted Stock Units, each unit being comprised of the right to receive one share of the Company's common stock, to each director. The Restricted Stock Units awarded to directors on February 19, 2015 vested in full on February 19, 2019. The number of Restricted Stock Units granted and the grant date fair value of each Restricted Stock Unit have been restated to reflect the 10% stock dividend issued in December, 2017. The Company did not grant any plan-based awards to directors during the fiscal year ended December 31, 2018.

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 2018.

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 2018 fiscal year.

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash ($)	Stock Awards1 ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings2 ($)	All Other Compensation3 ($)	Total ($)
James S. Abernethy	33.550	--	--	--	8,106	--	41,656
Robert C. Abernethy	40,200	--	--	--	12,273	--	52,473
Douglas S. Howard	34,300	--	--	--	5,032	--	39,332
John W. Lineberger, Jr.	25,800	--	--	--	11,954	--	37,754
Gary E. Matthews	24,800	--	--	--	7,349	--	32.149
Billy L. Price, Jr., M.D.	32,250	--	--	--	6,647	--	38,897
Larry E. Robinson	26,550	--	--	--	6,279	3,750	36,579
William Gregory Terry	28,050	--	--	--	2,463	--	30,513
Dan Ray Timmerman, Sr.	36,100	--	--	--	6,625	--	42,725
Benjamin I. Zachary	30,800	--	--	--	6.676	--	37,476

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The Company did not grant any plan-based awards to directors during the fiscal year ended December 31, 2018. At December 31, 2018, each director had an aggregate of 413 Restricted Stock Units (as adjusted for the 10% stock dividend granted in December of 2017) outstanding. See information above under the heading "Directors Stock Benefit Plan" for information on each individual grant of restricted stock units.

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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.

3

In 2018, Director Robinson received 104 shares of PEBK stock and $750.00 in cash for his 25 years of service as a director under the Bank's Service Recognition Program.

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 2018. All outstanding loans, extensions of credit or overdrafts, endorsements and guarantees outstanding at any time during 2018 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 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 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. The standard applied to such transactions are to review such transactions for 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 is 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. See “Code of Business Conduct and Ethics” on page 11 of this Proxy Statement. During the fiscal year ended December 31, 2018, there were no related party transactions that would be required to be reported that were not reviewed in accordance with the above.

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. Each of the facilities is subject to a 20-year lease between the Bank and Shortgrass. Pursuant to the terms of the leases for the two facilities leased by the Bank, during 2018 the Bank paid a total of $230,232 to Shortgrass in lease payments for these facilities, and the dollar value of Director John W. Lineberger, Jr.’s interest in such lease payments was approximately $57,558 (or 25% x $230,232). The total aggregate dollar value of all lease payments due by the Bank to Shortgrass starting on January 1, 2018 and continuing until the end of each lease, is $906,136, and the total aggregate dollar value of Director John W. Lineberger, Jr.’s interest in all such lease payments is approximately $226,534 (or 25% x $906,136).

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 (10%) 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.

Equity Compensation Plan Information

The following table sets forth certain information regarding outstanding options and shares for future issuance under the Equity Compensation Plans as of December 31, 2018. Individual equity compensation arrangements are aggregated and included within this table. This table excludes any plan, contract or arrangement that provides for the issuance of options, warrants or other rights that are given to our shareholders on a pro rata basis and any employee benefit plan that is intended to meet the qualification requirements of Section 401(a) of the Internal Revenue Code.

Plan Category	Number of securities to be issued upon exercise of outstanding option, warrants and rights (1), (2), (3) and (4) (a)	Weighted-average exercise price of outstanding options, warrants and rights (3) (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (5) (6) (c)
Equity compensation plans approved by security holders	29,526	$24.46	280,933
Equity compensation plans not approved by security holders	-	-	-
Total	29,526	$24.46	280,933

(1) Includes 16,583 restricted stock units (adjusted for the 10% stock dividend granted in December of 2017) granted on February 19, 2015 under the Omnibus Plan. These restricted stock grants vested on February 19, 2019.

(2) Includes 5,104

restricted stock units (adjusted for the 10% stock dividend granted in December of 2017) granted on February 18, 2016 under the Omnibus Plan. These restricted stock grants vest on February 20, 2020

(3) Includes 4,144 restricted stock units (adjusted for the 10% stock dividend granted in December, 2017) granted on March 1, 2017 under the Omnibus Plan. The restricted stock grants vest on March 1, 2021.

(4) Includes 3,725 restricted stock units

granted on January 24, 2018 under the Omnibus Plan. These restricted stock units vest on January 24, 2022.

(5) The exercise price used for the grants of restricted stock units under the Omnibus Plan is $24.46, the closing price for the Company's stock on December 31, 2018.

(6) Reflects shares currently reserved for possible issuance under the Omnibus Plan (adjusted for the 10% stock dividend granted in December, 2017).

STOCK PERFORMANCE GRAPH

The following graph compares the Company's cumulative shareholder return on its common stock with a NASDAQ index and with a southeastern bank index. The graph was prepared by S&P Global Market Intelligence, Charlottesville, Virginia, using data as of December 31, 2018

COMPARISON OF SIX-YEAR CUMULATIVE TOTAL RETURNS
Performance Report for
Peoples Bancorp of North Carolina, Inc.

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PROPOSAL 2
ADVISORY (NON-BINDING) PROPOSAL TO APPROVE THE COMPENSATION OF THE COMPANY'S NAMED EXECUTIVE OFFICERS

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law on July 21, 2010. The Dodd-Frank Act requires that our shareholders be provided an opportunity to cast a separate advisory vote on the compensation paid to our named executive officers as disclosed in the compensation tables and related matches in this Proxy Statement.

The Company believes that our 2018 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.

This proposal, commonly known as a "say-on-pay" proposal, gives you as a shareholder the opportunity to vote on the compensation of our named executive officers 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 Dodd-Frank Act, 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
ADVISORY (NON-BINDING) PROPOSAL ON THE FREQUENCY IN WHICH SHAREHOLDERS APPROVE THE COMPENSATION OF THE COMPANY'S NAMED EXECUTIVE OFFICERS

The Company is presenting the following proposal, which gives the shareholders the opportunity to inform the Company as to how often you wish the Company to include a proposal, similar to Proposal 2, in its Proxy Statement. This resolution is required pursuant to the Dodd-Frank Act. While our Board intends to carefully consider the shareholder vote resulting from the proposal, the final vote will not be binding on us and is advisory in nature.

"RESOLVED, that the shareholders wish the company to include an advisory vote on the overall compensation of the Company's named executive officers: (i) every year; (ii) every other year; or (iii) every three years."

The Board of Directors recommends that shareholders vote to hold an advisory vote on the overall compensation of the Company's named executive officers every three years.

The Board of Directors believes the three-year option is best as shareholder feedback would be more useful if the success of a compensation program is judged over a period of time.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE TO HOLD AN ADVISORY VOTE ON THE OVERALL COMPENSATION OF THE COMPANY'S NAMED EXECUTIVE OFFICERS EVERY THREE YEARS.

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PROPOSAL 4
RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Elliott Davis, our registered independent public accounting firm for the fiscal year ended December 31, 2018, has been appointed by the Audit Committee as our registered independent public accounting firm for the fiscal year ending December 31, 2019, and you are being asked to ratify this appointment. Fees charged by this firm are at rates and upon terms that are customarily charged by other registered independent public accounting firms. A representative of the firm will be present at the Annual Meeting and will have an opportunity to make a statement if he or she desires to do so and to respond to appropriate questions.

Audit Fees Paid to Independent Auditors

The following table represents the approximate fees for professional services rendered by Elliott Davis for the audit of our annual financial statements and review of our financial statements included in our Forms 10-Q for the fiscal years ended December 31, 2018 and 2017 and fees billed for audit-related services, tax services and all other services rendered, for each of such years.

	Year Ended December 31	
	2018	2017
Audit Fees1	$194,626	$188,250
Audit-Related Fees2	$10,593	$10,545
Tax Fees3	$38,500	$23,392
All Other Fees	--	--

1
Includes amounts for the testing of management’s assertions regarding internal controls in accordance with the Federal Deposit Insurance Corporation Improvement Act. Audit Fees include amounts for the integrated audit of the consolidated financial statements and internal control over financial reporting (Sarbanes-Oxley Section 404).
2
Represents amounts for 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.
3
Represents amounts for assistance in the preparation of our various federal, state and local tax returns.

All audit related services, tax services and other services giving rise to the fees listed under “Audit-Related Fees”, “Tax Fees” and “All Other Fees” in the table above were pre-approved by the Audit Committee, which concluded that the provision of such services was compatible with the maintenance of that firm’s independence in the conduct of its auditing functions. The Audit Committee’s Charter provides for pre-approval of all audit and non-audit services to be provided by our independent auditors. The Charter authorizes the Audit Committee to delegate to one or more of its members pre-approval authority with respect to permitted services, provided that any such approvals are presented to the Audit Committee at its next scheduled meeting.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR RATIFICATION OF THE APPOINTMENT OF ELLIOTT DAVIS AS THE COMPANY’S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2019.

DATE FOR RECEIPT OF SHAREHOLDER PROPOSALS

It is presently anticipated that the 2020 Annual Meeting of Shareholders of the Company will be held on May 7, 2020. 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 November 25, 2019 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 2020 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 7, 2020, of his or her proposal. If the Secretary of the Company is not notified of the shareholder's proposal by February 7, 2020, 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 2020 Annual Meeting of Shareholders.

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, 2018, which includes financial statements audited and reported upon by the Company's registered independent public accounting firm, 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,
Lance A. Sellers
President and Chief Executive Officer
Newton, North Carolina
March 25, 2019

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. (“Bancorp”), was formed in 1999 to serve as the holding company for Peoples Bank (the “Bank”). Bancorp 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”). Bancorp’s principal source of income is dividends declared and paid by the Bank on its capital stock, if any. Bancorp has no operations and conducts no business of its own other than owning the Bank. Accordingly, the discussion of the business which follows concerns the business conducted by the Bank, unless otherwise indicated. Bancorp and its wholly owned subsidiary, the Bank, along with the Bank’s wholly owned subsidiaries are collectively called the “Company”.

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 20 banking offices, as of December 31, 2018, located in Lincolnton, Newton, Denver, Catawba, Conover, Maiden, Claremont, Hiddenite, Hickory, Charlotte, Cornelius, Mooresville, Raleigh, and Cary North Carolina. The Bank also operates loan production offices in Denver and Durham, North Carolina. At December 31, 2018, the Company had total assets of $1.1 billion, net loans of $797.6 million, deposits of $877.2 million, total securities of $198.9 million, and shareholders’ equity of $123.6 million.

The Bank operates three banking offices focused on the Latino population that were formerly operated as a division of the Bank under the name Banco de la Gente (“Banco”). These offices are now branded as Bank branches and considered a separate market territory of the Bank as they offer 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.

The Bank has a diversified loan portfolio, with no foreign loans and few agricultural loans. Real estate loans are predominately variable rate and fixed 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 thorough 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-23 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”).

The Company’s fiscal year ends December 31. This Form 10-K is also being used as the Bank’s Annual Disclosure Statement under FDIC Regulations. This Form 10-K has not been reviewed, or confirmed for accuracy or relevance by the FDIC.

At December 31, 2018, the Company employed 310 full-time employees and 35 part-time employees, which equated to 334 full-time equivalent employees.

Subsidiaries

The Bank is a subsidiary of the Company. At December 31, 2018, the Bank had four subsidiaries, Peoples Investment Services, Inc., Real Estate Advisory Services, Inc., Community Bank Real Estate Solutions, LLC ("CBRES") and PB Real Estate Holdings, LLC. 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. 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 to be appraised is located. This type of service ensures that the appraisal process remains independent from the financing process within the Bank. PB Real Estate Holdings, LLC acquires, manages and disposes of real property, other collateral and other assets obtained in the ordinary course of collecting debts previously contracted.

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, 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 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 has the right to redeem the debentures purchased by PEBK Trust II, in whole or in part, which became effective on June 28, 2011. As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will be the principal amount plus any accrued but unpaid interest.

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

	2018	2017	2016	2015	2014
Summary of Operations					
Interest income	$45,350	41,949	39,809	38,666	38,420
Interest expense	2,146	2,377	3,271	3,484	4,287
Net interest income	43,204	39,572	36,538	35,182	34,133
Provision for loan losses	790	(507)	(1,206)	(17)	(699)
Net interest income after provision for loan losses	42,414	40,079	37,744	35,199	34,832
Non-interest income (1)	16,166	15,364	16,236	15,256	13,824
Non-interest expense (1)	42,574	41,228	42,242	37,722	37,331
Earnings before income taxes	16,006	14,215	11,738	12,733	11,325
Income tax expense	2,624	3,947	2,561	3,100	1,937
Net earnings	$13,382	10,268	9,177	9,633	9,388
Selected Year-End Balances					
Assets	$1,093,251	1,092,166	1,087,991	1,038,481	1,040,494
Investment securities available for sale	194,578	229,321	249,946	268,530	281,099
Net loans	797,578	753,398	716,261	679,502	640,809
Mortgage loans held for sale	680	857	5,709	4,149	1,375
Interest-earning assets	1,007,078	996,509	999,201	977,079	956,900
Deposits	877,213	906,952	892,918	832,175	814,700
Interest-bearing liabilities	657,110	679,922	698,120	679,937	722,991
Shareholders' equity	$123,617	115,975	107,428	104,864	98,665
Shares outstanding	5,995,256	5,995,256	5,417,800	5,510,538	5,612,588
Selected Average Balances					
Assets	$1,094,707	1,098,992	1,076,604	1,038,594	1,036,486
Investment securities available for sale	209,742	234,278	252,725	266,830	287,371
Net loans	777,098	741,655	703,484	669,628	631,025
Interest-earning assets	1,007,484	998,821	985,236	952,251	949,537
Deposits	903,120	895,129	856,313	816,628	808,399
Interest-bearing liabilities	665,165	700,559	705,291	707,611	731,786
Shareholders' equity	$123,797	116,883	113,196	106,644	96,877
Shares outstanding (2)	5,995,256	5,988,183	6,024,970	6,115,159	6,177,233
Profitability Ratios					
Return on average total assets	1.22%	0.93%	0.85%	0.93%	0.91%
Return on average shareholders' equity	10.81%	8.78%	8.11%	9.03%	9.69%
Dividend payout ratio	23.41%	25.67%	22.95%	16.34%	10.89%

Liquidity and Capital Ratios (averages)					
Loan to deposit	86.05%	82.85%	82.15%	82.00%	78.06%
Shareholders' equity to total assets	11.31%	10.64%	10.51%	10.27%	9.35%
Per share of Common Stock (2)					
Basic net earnings	$2.23	1.71	1.53	1.57	1.52
Diluted net earnings	$2.22	1.69	1.50	1.56	1.51
Cash dividends	$0.52	0.44	0.35	0.25	0.16
Book value	$20.62	19.34	18.03	17.30	15.98

(1)
Appraisal management fee income and expense from the Bank’s subsidiary, CBRES, was reported as a net amount prior to March 31, 2018, which was included in miscellaneous non-interest income. This income and expense is now reported on separate line items under non-interest income and non-interest expense. Prior periods have been restated to reflect this change.

(2)
Average shares outstanding and per share computations have been restated to reflect a 10% stock dividend paid during the fourth quarter of 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

The following is a discussion of our financial position and results of operations and should be read in conjunction with the information set forth under Item 1A Risk Factors in the Company's annual report on Form 10-K and the Company's consolidated financial statements and notes thereto on pages A-24 through A-68.

Introduction
Management's discussion and analysis of earnings and related data are presented to assist in understanding the consolidated financial condition and results of operations of Peoples Bancorp of North Carolina, Inc. ("Bancorp"), for the years ended December 31, 2018, 2017 and 2016. Bancorp is a registered bank holding company operating under the supervision of the Federal Reserve Board (the "FRB") and the parent company of Peoples Bank (the "Bank"). The Bank is a North Carolina-chartered bank, with offices in Catawba, Lincoln, Alexander, Mecklenburg, Iredell, Wake and Durham counties, operating under the banking laws of North Carolina and the rules and regulations of the Federal Deposit Insurance Corporation (the "FDIC").

Overview
Our business consists principally of attracting deposits from the general public and investing these funds in commercial loans, real estate mortgage loans, real estate construction loans and consumer loans. Our profitability depends primarily on our net interest income, which is the difference between the income we receive on our loan and investment securities portfolios and our cost of funds, which consists of interest paid on deposits and borrowed funds. Net interest income also is affected by the relative amounts of our interest-earning assets and interest-bearing liabilities. When interest-earning assets approximate or exceed interest-bearing liabilities, a positive interest rate spread will generate net interest income. Our profitability is also affected by the level of other income and operating expenses. Other income consists primarily of miscellaneous fees related to our loans and deposits, mortgage banking income and commissions from sales of annuities and mutual funds. Operating expenses consist of compensation and benefits, occupancy related expenses, federal deposit and other insurance premiums, data processing, advertising and other expenses.

Our operations are influenced significantly by local economic conditions and by policies of financial institution regulatory authorities. The earnings on our assets are influenced by the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve"), inflation, interest rates, market and monetary fluctuations. Lending activities are affected by the demand for commercial and other types of loans, which in turn is affected by the interest rates at which such financing may be offered. Our cost of funds is influenced by interest rates on competing investments and by rates offered on similar investments by competing financial institutions in our market area, as well as general market interest rates. These factors can cause fluctuations in our net interest income and other income. In addition, local economic conditions can impact the credit risk of our loan portfolio, in that (1) local employers may be required to eliminate employment positions of individual borrowers, and (2) small businesses and commercial borrowers may experience a downturn in their operating performance and become unable to make timely payments on their loans. Management evaluates these factors in estimating the allowance for loan losses and changes in these economic factors could result in increases or decreases to the provision for loan losses.

Our business emphasis has been and continues to be to operate as a well-capitalized, profitable and independent community-oriented financial institution dedicated to providing quality customer service. We are committed to meeting the financial needs of the communities in which we operate. We expect growth to be achieved in our local markets and through expansion opportunities in contiguous or nearby markets. While we would be willing to consider growth by acquisition in certain circumstances, we do not consider the acquisition of another company to be necessary for our continued ability to provide a reasonable return to our shareholders. We believe that we can be more effective in serving our customers than many of our non-local competitors because of our ability to quickly and effectively provide senior management responses to customer needs and inquiries. Our ability to provide these services is enhanced by the stability and experience of our Bank officers and managers.

The Federal Reserve maintained the Federal Funds rate at 0.25% from December 2008 to December 2015 before increasing the Fed Funds rate nine times since December 2015 to the Fed Funds rate of 2.50% at December 31, 2018. These increases have had a positive impact on earnings in recent periods and should continue to have a positive impact on the Bank's net interest income in future periods.

The Company plans to open a Loan Production Office in the Ballantyne area of Charlotte, North Carolina during 2019. The Company does not have specific plans for additional offices in 2019 but will continue to look for growth opportunities in nearby markets and may expand if considered a worthwhile opportunity.

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

The Order required the Bank to take certain affirmative actions to comply with its obligations under the BSA, including, without limitation, strengthening its Board of Directors' oversight of BSA activities; reviewing, enhancing, adopting and implementing a revised BSA compliance program; completing a BSA risk assessment; developing a revised system of internal controls designed to ensure full compliance with the BSA;reviewing and revising customer due diligence and risk assessment processes, policies and procedures; developing, adopting and implementing effective BSA training programs; assessing BSA staffing needs and resources and appointing a qualified BSA officer;establishing an independent BSA testing program; ensuring that all reports required by the BSA are accurately and properly filed and engaging an independent firm to review past account activity to determine whether suspicious activity was properly identified and reported.

During the third quarter of 2017 the Bank received notice that the Order was terminated effective August 30, 2017.

Summary of Significant and Critical Accounting Policies
The consolidated financial statements include the financial statements of Bancorp and its wholly owned subsidiary, the Bank, along with the Bank's wholly owned subsidiaries, Peoples Investment Services, Inc., Real Estate Advisory Services, Inc. ("REAS"), Community Bank Real Estate Solutions, LLC ("CBRES") and PB Real Estate Holdings, LLC (collectively called the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

The Company's accounting policies are fundamental to understanding management's discussion and analysis of results of operations and financial condition. Many of the Company's accounting policies require significant judgment regarding valuation of assets and liabilities and/or significant interpretation of specific accounting guidance. The following is a summary of some of the more subjective and complex accounting policies of the Company. A more complete description of the Company's significant accounting policies can be found in Note 1 of the Notes to Consolidated Financial Statements in the Company's 2018 Annual Report to Shareholders which is Appendix A to the Proxy Statement for the May 2, 2019 Annual Meeting of Shareholders.

The allowance for loan losses reflects management's assessment and estimate of the risks associated with extending credit and its evaluation of the quality of the loan portfolio. The Bank periodically analyzes the loan portfolio in an effort to review asset quality and to establish an allowance for loan losses that management believes will be adequate in light of anticipated risks and loan losses.

Many of the Company's assets and liabilities are recorded using various techniques that require significant judgment as to recoverability. The collectability of loans is reflected through the Company's estimate of the allowance for loan losses. The Company performs periodic and systematic detailed reviews of its lending portfolio to assess overall collectability. In addition, certain assets and liabilities are reflected at their estimated fair value in the consolidated financial statements. Such amounts are based on either quoted market prices or estimated values derived from dealer quotes used by the Company, market comparisons or internally generated modeling techniques. The Company's internal models generally involve present value of cash flow techniques. The various techniques are discussed in greater detail elsewhere in this management's discussion and analysis and the Notes to Consolidated Financial Statements.

There are other complex accounting standards that require the Company to employ significant judgment in interpreting and applying certain of the principles prescribed by those standards. These judgments include, but are not limited to, the determination of whether a financial instrument or other contract meets the definition of a derivative in accordance with U.S. Generally Accepted Accounting Principles ("GAAP").

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

The Company has an overall interest rate risk management strategy that has, in prior years, incorporated the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. When using derivative instruments, the Company is exposed to credit and market risk. If the counterparty fails to perform, credit risk is equal to the extent of the fair-value gain in the derivative. The Company minimized the credit risk in derivative instruments by entering into transactions with high-quality counterparties that were reviewed periodically by the Company. The Company did not have any interest rate derivatives outstanding as of December 31, 2018 or 2017.

Management of the Company has made a number of estimates and assumptions relating to reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare the accompanying consolidated financial statements in conformity with GAAP. Actual results could differ from those estimates.

Results of Operations

Summary. The Company reported earnings of $13.4 million or $2.23 basic net earnings per share and $2.22 diluted net earnings per share for the year ended December 31, 2018, as compared to $10.3 million or $1.71 basic net earnings per share and $1.69 diluted net earnings per share for the same period one year ago. The increase in year-to-date net earnings is primarily attributable to an increase in net interest income, an increase in non-interest income and a decrease in income tax expense, which were partially offset by an increase in the provision for loan losses and an increase in non-interest expense, as discussed below.

The Company reported earnings of $10.3 million or $1.71 basic net earnings per share and $1.69 diluted net earnings per share for the year ended December 31, 2017, as compared to $9.2 million or $1.53 basic net earnings per share and $1.50 diluted net earnings per share for the year ended December 31, 2016. The increase in year-to-date net earnings from 2016 to 2017 is primarily attributable to an increase in net interest income and a decrease in non-interest expense, which were partially offset by a decrease in non-interest income and a decrease in the credit to the provision for loan losses, as discussed below. Earnings for the year ended December 31, 2017 were reduced by a charge to income tax expense of $588,000 due to the revaluation of deferred taxes as required due to the passing of the Tax Cuts and Jobs Act ("TCJA") in December, 2017. Without this charge to earnings, the Company would have had net earnings totaling $10.9 million for the year ended December 31, 2017.

The return on average assets in 2018 was 1.22%, compared to 0.93% in 2017 and 0.85% in 2016. The return on average shareholders' equity was 10.81% in 2018 compared to 8.78% in 2017 and 8.11% in 2016.

Net Interest Income. Net interest income, the major component of the Company's net income, is the amount by which interest and fees generated by interest-earning assets exceed the total cost of funds used to carry them. Net interest income is affected by changes in the volume and mix of interest-earning assets and interest-bearing liabilities, as well as changes in the yields earned and rates paid. Net interest margin is calculated by dividing tax-equivalent net interest income by average interest-earning assets, and represents the Company's net yield on its interest-earning assets.

Net interest income for 2018 was $43.2 million compared to $39.6 million in 2017. The increase in net interest income was primarily due to a $3.4 million increase in interest income, which was primarily attributable to an increase in the average outstanding balance of loans and a 1.00% increase in the prime rate since December 31, 2017, combined with a $231,000 decrease in interest expense, which was primarily attributable to a decrease in the average outstanding balances of Federal Home Loan Bank ("FHLB") borrowings during the year ended December 31, 2018, as compared to the same period one year ago due to the payoff of remaining FHLB borrowings in October 2017. Net interest income increased to $39.6 million in 2017 from $36.5 million in 2016.

Table 1 sets forth for each category of interest-earning assets and interest-bearing liabilities, the average amounts outstanding, the interest incurred on such amounts and the average rate earned or incurred for the years ended

December 31, 2018, 2017 and 2016. The table also sets forth the average rate earned on total interest-earning assets, the average rate paid on total interest-bearing liabilities, and the net yield on total average interest-earning assets for the same periods. Yield information does not give effect to changes in fair value that are reflected as a component of shareholders' equity. Yields and interest income on tax-exempt investments have been adjusted to a tax equivalent basis using an effective tax rate of 22.98% for securities that are both federal and state tax exempt and an effective tax rate of 20.48% for federal tax exempt securities. Non-accrual loans and the interest income that was recorded on non-accrual loans, if any, are included in the yield calculations for loans in all periods reported.

Table 1- Average Balance Table

	December 31, 2018			December 31, 2017			December 31, 2016		
(Dollars in thousands)	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate
Interest-earning assets:									
Loans	$777,098	38,654	4.97%	$741,655	34,888	4.70%	703,484	32,452	4.61%
Investments - taxable	71,093	1,936	2.72%	64,341	1,693	2.63%	78,575	1,925	2.45%
Investments - nontaxable*	142,832	5,508	3.86%	173,069	7,314	4.23%	178,379	7,577	4.25%
Other	16,461	304	1.85%	19,756	219	1.11%	24,798	123	0.50%
Total interest-earning assets	1,007,484	46,402	4.61%	998,821	44,114	4.42%	985,236	42,077	4.27%
Cash and due from banks	41,840			53,805			44,732		
Other assets	51,704			53,557			59,537		
Allowance for loan losses	(6,321)			(7,191)			(8,884)		
Total assets	$1,094,707			1,098,992			1,080,621		
Interest-bearing liabilities:									
NOW, MMDA & savings deposits	$484,180	769	0.16%	$481,455	598	0.12%	447,582	495	0.11%
Time deposits	112,398	472	0.42%	132,626	466	0.35%	150,641	586	0.39%
FHLB borrowings	-	-	-	16,329	662	4.05%	42,903	1,661	3.87%
Trust preferred securities	20,619	790	3.83%	20,619	590	2.86%	20,619	485	2.35%
Other	47,968	115	0.24%	49,530	61	0.12%	43,546	44	0.10%
Total interest-bearing liabilities	665,165	2,146	0.32%	700,559	2,377	0.34%	705,291	3,271	0.46%

Demand deposits	306,544		281,048	258,091
Other liabilities	(799)		502	4,043
Shareholders' equity	123,797		116,883	113,196
Total liabilities and shareholder's equity	$1,094,707		1,098,992	1,080,621
Net interest spread		$44,256		