PEOPLES BANCORP OF NORTH CAROLINA INC
Form DEF 14A
March 27, 2015

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-12		

Peoples Bancorp of North Carolina, Inc.

(Name of Registrant as Specified
In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

[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):
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	(1)	Amount Previously Paid:
	(2)	Form, Schedule or Registration Statement No.:
	(3)	Filing Party:
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PEOPLES BANCORP
OF NORTH CAROLINA, INC.

Notice of 2015 Annual Meeting,
Proxy Statement and
Annual Report

PEOPLES BANCORP OF NORTH CAROLINA, INC.

PROXY STATEMENT

Table of Contents

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

NOTICE OF 2015 ANNUAL MEETING OF
SHAREHOLDERS
To Be Held On May 7, 2015

NOTICE IS HEREBY GIVEN that the 2015 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 7, 2015
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 2016 Annual Meeting of Shareholders or until their successors are duly elected and qualified;
- To ratify the appointment of Porter Keadle Moore, LLC ("PKM") as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2015; 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 13, 2015, as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting. If an insufficient number of shares is present in person or by proxy to constitute a quorum at the time of the Annual Meeting, the Annual Meeting may be adjourned in order to permit further solicitation of proxies by the Company.

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

By Order of the Board of Directors,

/s/ Lance A. Sellers
Lance A. Sellers
President and Chief Executive Officer

Newton, North Carolina
March 27, 2015

ii

PEOPLES BANCORP OF NORTH CAROLINA, INC.

PROXY STATEMENT

Annual Meeting of Shareholders
To Be Held On May 7, 2015

This Proxy Statement is being mailed to our shareholders on or about March 27, 2015, 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 7, 2015. The Notice, Proxy Statement and the Annual Report to Shareholders for the year ended December 31, 2014 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 2015 Annual Meeting of Shareholders by the proxies named on the enclosed proxy card.

When is the Annual Meeting?	May 7, 2015, 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 2016 Annual Meeting of Shareholders;
	2.	RATIFICATION OF SELECTION OF INDEPENDENT AUDITOR. To ratify the appointment of Porter Keadle Moore, LLC ("PKM") as the Company's independent registered public accounting firm for fiscal year 2015.
	3.	

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 13, 2015 (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 5,612,588 shares of our common stock outstanding and entitled to vote and 696 shareholders of record.

1

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 now will need to communicate your voting decision to your bank, broker or othe 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 2015 will be approved if the votes cast in favor exceed the votes cast in opposition. Any other matters properly coming before the Annual Meeting for a vote will require the affirmative vote of the holders of a majority of the shares represented in person or by proxy at the Annual Meeting and entitled to vote on that matter. Abstentions and broker non-votes are not treated as votes cast on any proposal. As a result, neither will have an effect on the vote for the election of any director or the ratification of our independent registered public accounting firm. A broker non-vote occurs when a broker does not vote on a particular matter because the broker does not have discretionary authority on that matter and has not received instructions from the owner of the shares. 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	660,495[3]	11.77%
Tontine Financial Partners, LP 55 Railroad Avenue, 3rd Floor Greenwich, CT 06830-6378	371,604[4]	6.62%
Tontine Management, LLC 55 Railroad Avenue Greenwich, CT 06830	371,604[4]	6.62%
Tontine Asset Associates, LLC 55 Railroad Avenue Greenwich, CT 06830	141,361[4]	2.52%
Jeffrey L. Gendell 55 Railroad Avenue Greenwich, CT 06830	512,965[4]	9.14%

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 5,612,588 shares of common stock outstanding as of the Record Date.

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

4 Based on a Schedule 13G/A (Amendment No. 5) filed by Tontine Financial Partners, LP, Tontine Management, LLC, Tontine Overseas Associates, LLC, Tontine Asset Associates, LLC and Jeffrey L. Gendell with the SEC on February 13, 2015 and represents the total number of shares controlled by Jeffrey Gendell and the related Tontine entities.

4

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 ("NEO") of the Company. Also shown is the number of shares of common stock owned by the directors and executive officers of the Company as a group.

Name and Address	Amount and Nature of Beneficial Ownership[1]	Percentage of Class[2]
James S. Abernethy	171,604[3]	3.06%
Post Office Box 327		
Newton, NC 28658		
Robert C. Abernethy	156,850[4]	2.79%
Post Office Box 366		
Newton, NC 28658		
Joseph F. Beaman, Jr.	8,437	*
Post Office Box 467		
Newton, NC 28658		
William D. Cable, Sr.	19,564	*
Post Office Box 467		
Newton, NC 28658		
Douglas S. Howard	13,151[5]	*
Post Office Box 587		
Denver, NC 28037		
A. Joseph Lampron, Jr.	7,131	*
Post Office Box 467		
Newton, NC 28658		
John W. Lineberger, Jr.	2,326	*
Post Office Box 481		
Lincolnton, NC 28092		
Gary E. Matthews	21,607	*
210 First Avenue South		
Conover, NC 28613		
Billy L. Price, Jr., M.D.	5,926	*
540 11th Ave. Place NW		
Hickory, NC 28601		
Larry E. Robinson	49,944[6]	*
Post Office Box 723		
Newton, NC 28658		

Lance A. Sellers	11,066	*
Post Office Box 467		
Newton, NC 28658		
William Gregory Terry	17,246	*
Post Office Box 395		
Conover, NC 28613		
Dan Ray Timmerman, Sr.	87,4867	1.56%
Post Office Box 1148		
Conover, NC 28613		
Benjamin I. Zachary	90,4248	1.61%
Post Office Box 277		
Taylorsville, NC 28681		

All current directors and nominees and executive officers as a group (14 people)	598,724[9]	10.67%

*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 5,612,588 shares of common stock outstanding as of the Record Date.

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

4 Includes 5,930 shares of common stock owned by Mr. R. Abernethy's spouse, for which Mr. R. Abernethy disclaims beneficial ownership.

5 Includes 450 shares of common stock owned by Mr. Howard's spouse, for which Mr. Howard disclaims beneficial ownership.

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

7 Includes 2,722 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 64,038 shares of common stock owned by Alexander Railroad Company. Mr. Zachary is President, Treasurer, General Manager and a Director of Alexander Railroad Company.

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

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.

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, 2014, 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 2016 Annual Meeting of Shareholders appears below. All of the nominees are currently serving on the Board of Directors.

Director Nominees

James S. Abernethy, age 60 (as of March 1, 2015), is employed by Carolina Glove Company, Inc., a glove manufacturing company as its Vice President. Mr. Abernethy continues to serve as President and Assistant Secretary of Midstate Contractors, Inc., a paving company and also as Vice President, Secretary and Chairman of the Board of Directors of Alexander Railroad Company. Mr. Abernethy is also a director of Burke Mills, a public company. He has served as a director of the Company since 1992. Mr. Abernethy has a total of 22 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 22 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 64 (as of March 1, 2015), 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 38 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 56 (as of March 1, 2015), is employed by Denver Equipment of Charlotte, Inc. as Vice President, Secretary and Treasurer. Mr. Howard is currently serving as the Chairman of the Endowment Committee of Eastern Catawba Cooperative Christian Ministry. He has served as a director of the Company since 2004. Mr. Howard has a total of 16 years of banking experience and is a graduate of the North Carolina Bank Directors' College and attended the initial Advanced Directors' Training session offered by the NC Bank Directors' College in association with the College of Management at North Carolina State University. He also serves on the Western NC Methodist Church Board of Finance. Mr. Howard also serves on the boards of Catawba Valley Medical Center and other privately-held companies.

John W. Lineberger, Jr., age 64 (as of March 1, 2015), 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 ten 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 59 (as of March 1, 2015), 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 13 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 58 (as of March 1, 2015), is a Practitioner of Internal Medicine at BL Price Medical Consultants, PLLC. Dr. Price also serves on the Board of Trustees of Catawba Valley Medical Center. He has served as a director of the Company since 2004. Dr. Price has a total of ten 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 Healthgrow 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.

Larry E. Robinson, age 69 (as of March 1, 2015), is employed by The Blue Ridge Distributing Company, Inc., a beer and wine distributor, as the President and Chief Executive Officer. He is a partner and Chief Operating Officer of United Beverages of North Carolina, LLC, a beer distributor. He has served as a director of the Company since 1993. Mr. Robinson has a total of 21 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 47 (as of March 1, 2015), is employed by Drum & Willis-Reynolds Funeral Homes and Crematory as General Manager. He has served as a director of the Company since 2004. Mr. Terry has a total of ten 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 67 (as of March 1, 2015), is a shareholder, director, Chairman of the Board 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 19 years of banking experience and is a graduate of the North Carolina Bank Directors' College and attended the initial Advanced Directors' Training session offered by the NC Bank Directors' College in association with the College of Management at North Carolina State University. Mr. Timmerman earned a B.S. degree in business administration with a concentration in accounting from Lenoir-Rhyne University in North Carolina.

Benjamin I. Zachary, age 59 (as of March 1, 2015), 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 19 years of banking experience and is a graduate of the North Carolina Bank Directors' College. Mr. Zachary earned a B.S. degree in business administration with a concentration in accounting from the University of North Carolina at Chapel Hill. He worked as a CPA for a national accounting firm for eight years following graduation where his assignments included financial statement audits of several banks. He formerly served as Treasurer and a member of the Finance Committee of First United Methodist Church of Taylorsville for many years. Mr. Zachary is a member of the Taylorsville Rotary Club and also serves as Treasurer.

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

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

OUR BOARD OF DIRECTORS
AND ITS COMMITTEES

How often did our Board of Directors meet during 2014?

Our Board of Directors held 14 meetings during 2014. All incumbent directors attended more than 75% of the total number of meetings of the Board of Directors and its committees on which they served during the year.

What committees does our Board of Directors have?

During 2014, our Board of Directors had four standing committees, the Audit and Enterprise Risk Committee, the Governance Committee, the Compensation Committee and the Executive 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. 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, Matthews and Howard, as well as the President and Chief Executive Officer of the Company. It meets on an "as needed" basis and did not meet during 2014.

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

The Governance Committee met once during the year ended December 31, 2014.

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 on the Bank's website (www.peoplesbanknc.com) under Investor Relations.

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 following persons currently serve on the Audit Committee: Directors R. Abernethy, Howard, Price, Timmerman and Zachary. The Board of Directors has determined that these members are 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.

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 ten times during the year ended December 31, 2014.

REPORT OF AUDIT AND ENTERPRISE RISK COMMITTEE

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, 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, 2014.

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

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, Robinson, Terry and Timmerman. The Compensation Committee met twice during the year ended December 31, 2014.

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.

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

During the fiscal year ended December 31, 2014, the Compensation Committee engaged McGladrey, LLC to review the executive compensation plans for the executive officers and the Board of Directors. The Company paid McGladrey, LLP $13,808 to review the executive compensation plans for the executive officers and the Board of Directors. 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 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 will submit a vote to the shareholders on the compensation of its named executive officers at the 2016 Annual Meeting of Shareholders.

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

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

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

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

(i) Base Salary. The salaries of our NEOs are designed to provide a reasonable level of compensation that is affordable to the Company and fair to the executive. Salaries are reviewed annually, and adjustments, if any, are made based on the review of competitive salaries in our peer group, as well as an evaluation of the individual officer's responsibilities, job scope, and individual performance. For example, we assess each officer's success in achieving budgeted earnings and return ratios, business conduct and integrity, and leadership and team building skills.

(ii) Annual Cash Incentive Awards. We believe that annual cash incentive awards encourage our NEOs to achieve short–term targets that are critical to achievement of our long-term strategic plan. The following officers were eligible during the fiscal year ended December 31, 2014 to receive annual cash incentive awards under our Management Incentive Plan, which provides for cash awards to the following NEOs upon achievement of certain financial objectives:

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

We seek to ensure that a significant portion of each executive officer's total annual cash compensation is linked to the attainment of the annual performance objectives determined by the executive officer and the Compensation Committee under the Management Incentive Plan. No NEO earned or was paid a cash incentive under the Management Incentive Plan during the fiscal year ended December 31, 2014.

(iii) Discretionary Bonus and Service Awards. From time to time the Compensation Committee may recommend to the Board of Directors that additional bonuses be paid based on accomplishments that significantly exceed expectations during the fiscal year. These bonuses are totally discretionary as to who will receive a bonus and the amount of any such bonus. In 2014, the Compensation Committee recommended, and the Board of Directors approved, discretionary bonuses as follows: $30,000 for Mr. Sellers; $30,000 for Mr. Lampron; $15,000 for Mr. Beaman; and $30,000 for Mr. Cable. These discretionary bonuses were paid in January of 2015. Under the Service Recognition Program, the Bank gives service awards to each employee and director for every five years of service with the Bank to promote longevity of service for both directors and employees. Service awards are made in the form of shares of the Company's common stock plus cash in the amount necessary to pay taxes on the award. The number of shares awarded increases with the number of years of service to the Bank.

(iv) Long-Term Equity Incentive Awards. The Company maintains the 2009 Omnibus Stock Ownership and Long Term Incentive Plan ("Omnibus Plan"), under which it is permitted to grant incentive stock options, restricted stock, restricted stock units, stock appreciation rights, book value shares, and performance units. The purpose of the Omnibus Plan is to promote the interests of the Company by attracting and retaining directors and employees of outstanding ability and to provide executives of the Company greater incentive to make material contributions to the success of the Company by providing them with stock-based compensation which will increase in value based upon the market performance of the common stock and/or the corporate achievement of financial and other performance objectives. In 2014, the NEOs were granted the following restricted stock units, each comprised of the right to receive one share of the Company's common stock:

NEO	Grant Date	No. of Restricted Stock Units
Lance A. Sellers	February 20, 2014	3,900
A. Joseph Lampron, Jr.	February 20, 2014	2,728
William D. Cable, Sr.	February 20, 2014	2,728

(v) Retirement Benefits. The Company maintains supplemental executive retirement agreements (SERPs) for the benefit of Messrs. Sellers, Lampron, Cable and Beaman. 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 SERPs to address the issues of internal and external equity in terms of retirement benefits offered to all employees at the Company as a percentage of final average pay and executives in our peer group. The Compensation Committee approved supplemental retirement benefits targeting 40% of the final average pay for all NEOs. The Compensation Committee selected a target of 40% to match such benefits offered to other employees fully participating in qualified retirement plans offered by the Company. For more information on the SERPs, see page 25 of this Proxy Statement.

(vi) Employment Agreements. The Company has employment agreements with our NEOs which we believe serve a number of functions, including (i) retention of our executive team; (ii) mitigation of any uncertainty about future employment and continuity of management in the event of a change in control; and (iii) protection of the Company and customers through non-compete and non-solicitation covenants. Additional information regarding the employment agreements, including a description of key terms may be found starting on page 19 of this Proxy Statement.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee is now, or formerly was, an officer or employee of the Company or the Bank. None of the NEOs 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.

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. Other than Director Lineberger, all of the members of the Board of Directors are independent under applicable NASDAQ listing requirements. The Company has four standing committees: Executive, Governance, Audit and Compensation. The Chief Executive Officer serves on the Executive Committee. The Bank in addition to the above-named committees has a Loan Committee and a Loan Sub-Committee. The duties of the Company's committees and the qualifications of the independent directors have been described above. Each of the Company's and the Bank's committees considers risk within its area of responsibility. The Audit 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.

13

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

Does the Company have a Code of Ethics?

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

A copy of the Code of Business Conduct and Ethics is available on the 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.

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.

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 2014 Annual Meeting of Shareholders held on May 1, 2014.

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

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

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

Who serves on the Board of Directors of the Bank?

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

DIRECTOR AND EXECUTIVE COMPENSATION AND BENEFITS

Director Compensation

Directors' Fees. Members of the Company's Board of Directors receive no fees or compensation for their service. However, all members of the Board of Directors are also directors of the Bank and are compensated for that service.

During 2014, each director received a fee of $750 for each Bank Board of Directors meeting attended, an additional fee of $500 for each committee meeting attended and a retainer of $9,000. In addition, during 2014, 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 received $375 for special meetings held via conference call lieu of the Board of Director and committee meeting fees set forth above.

Beginning on January 1, 2015, each director receives a fee of $850 for each Bank Board of Directors meeting attended, an additional fee of $500 for each committee meeting attended and a retainer of $12,000. In addition, starting on January 1, 2015, the Chairman of the Bank's Board of Directors receives an additional $250 per meeting attended and the chairpersons of each committee receives an additional $150 per meeting attended. Directors receive $375 for special meetings held via conference call 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., and Peoples Investment Services, Inc., subsidiaries of the Bank, and Community Bank Real Estate Solutions, LLC, a subsidiary of the Company, receive $500 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 810 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 March 22, 2012 will vest in full on March 22, 2017. On May 23, 2013, the Company granted 810 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 May 23, 2013 will vest in full on May 23, 2017. On February 20, 2014, the Company granted 650 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 20, 2014 will vest in full on February 20, 2017.

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 2014.

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 2014 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 ($)	All Other Compensation ($)	Total ($)
James S. Abernethy	20,300	11,693	0	0	5,799	0	37,792
Robert C. Abernethy	30,950	11,693	0	0	8,781	0	51,424
Douglas S. Howard	24,800	11,693	0	0	3,600	650	40,743
John W. Lineberger, Jr.	20,800	11,693	0	0	8,552	650	41,695
Gary E. Matthews	20,300	11,693	0	0	5,258	0	37,251
Billy L. Price, Jr., M.D.	27,025	11,693	0	0	4,755	650	44,124
Larry E. Robinson	21,300	11,693	0	0	15,890	0	48,883
William Gregory Terry	20,800	11,693	0	0	1,762	650	34,905
Dan Ray Timmerman, Sr.	26,825	11,693	0	0	12,373	0	50,891
Benjamin I. Zachary	24,300	11,693	0	0	4,776	0	40,769

1 The amounts reported represent the aggregate fair value of the restricted stock units granted to the respective recipient on the date of grant under Financial Accounting Standards Board ASC Topic 718 ("Topic 718"). The fair market value of each restricted stock unit granted to each director was $15.00 on February 20, 2014.

2 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 2014, Directors Howard, Lineberger, Price and Terry received 27 shares of the Company's common stock and $164 in cash for their ten years of service as a director under the Bank's Service Recognition Program.

Executive Officers

Lance A. Sellers, age 52 (as of March 1, 2015), 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 30 years of banking experience. He is a graduate of the University of North Carolina at Chapel Hill and upon graduation served as a senior credit officer at a regional bank headquartered in North Carolina.

Joseph F. Beaman, Jr., age 65 (as of March 1, 2015), serves as Executive Vice President and Corporate Secretary of the Company and Executive Vice President, Chief Administrative Officer and Secretary of the Bank. He has been employed by the Company and the Bank since 1977, where he has served as Vice President-Operations and Senior Vice President. Mr. Beaman has a total of 42 years of banking experience. He is a graduate of Pfeiffer University, the North Carolina School of Banking, and the Graduate School of Financial Management at the University of Texas in Austin.

William D. Cable, Sr., age 46 (as of March 1, 2015), serves as Executive Vice President, Assistant Corporate Treasurer and Assistant 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 23 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 60 (as of March 1, 2015), serves as Executive Vice President, Chief Financial Officer and Corporate Treasurer of the Company and Executive Vice President and Chief Financial Officer of the Bank. He has been employed by the Company and the Bank since 2001. Mr. Lampron is a graduate of the University of North Carolina at Chapel Hill and upon graduation worked as a certified public accountant with a national accounting firm. His work with the firm included audits of banks and thrift institutions. Mr. Lampron has also served as Chief Financial Officer of a thrift institution and as a senior change manager in the finance group of a large North Carolina bank. Mr. Lampron has a total of 35 years of banking experience.

Management Compensation

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

The table on the following page shows, for the fiscal years ended December 31, 2014 and 2013, the cash compensation received by, as well as certain other compensation paid or accrued for those years, the NEOs whose total annual salary and bonus exceeded $100,000.

Summary Compensation Table

Name and Principal Position	Year	Salary($)	Bonus($)	Stock Awards($)	Option Awards($)	Non-Equity Incentive Plan Compensation($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings($)	All Other Compensation($)1	Total(
Lance A. Sellers	2014	311,400	30,000	88,734	0	0	54,638	25,020	509,79
President and Chief Executive Officer	2013	311,400	20,000	44,506	0	0	40,072	24,557	440,53
A. Joseph Lampron, Jr.	2014	187,500	30,000	63,561	0	0	57,767	17,076	355,90
Executive Vice President, Chief Financial Officer	2013	182,963	20,000	31,328	0	0	47,082	12,875	294,24
Joseph F. Beaman, Jr.	2014	140,700	15,000	0	0	0	45,377	16,922	217,99
Executive Vice President, Chief Administrative Officer and Corporate Secretary	2013	140,700	15,000	0	0	0	64,566	15,594	235,86
William D. Cable, Sr.	2014	187,500	30,000	63,561	0	0	20,599	18,385	320,04
Executive Vice President, Chief Operating Officer	2013	182,963	20,000	31,328	0	0	13,877	11,444	259,61

1 All other compensation is comprised of the following items:

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)	Other($)
Lance Sellers								
President and Chief Executive	2014	10,400	4,113	3,455	418	1,242	5,392	0
Officer	2013	10,200	4,113	3,199	396	1,219	5,151	279 (c)
A. Joseph Lampron, Jr.								
Executive Vice President,	2014	8,279	0	3,280	978	2,555	1,984	0
Chief Financial Officer	2013	7,107	0	3,241	904	1,623	0	0
Joseph F. Beaman, Jr.								
Executive Vice President,								
Chief Administrative Officer	2014	6,228	0	3,360	1,713	2,337	3,284	0
and Corporate Secretary	2013	5,466	0	3,423	1,585	1,836	3,284	0
William D. Cable, Sr.								
Executive Vice President,	2014	8,279	0	3,360	349	581	5,816	0
Chief Operating Officer	2013	7,107	0	3,423	322	592	0	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 2013, Mr. Sellers received 76 shares for 15 years of service with the Bank and $279 in cash to pay the taxes associated with the award under the Bank's Service Recognition Program.

Employment Agreements

During 2014, the Bank was a party to those certain employment agreements with each of Lance A. Sellers, President and Chief Executive Officer; Joseph F. Beaman, Jr., Executive Vice President, Chief Administrative Officer and Corporate Secretary; A. Joseph Lampron, Jr., Executive Vice President, Chief Financial Officer and Corporate Treasurer; and William D. Cable, Sr., Executive Vice President, Chief Operating Officer, Assistant Corporate Treasurer and Assistant Corporate Secretary (collectively, the "2014 Employment Agreements"). The 2014 Employment Agreements provided for an initial term of employment of three years, and commencing on the first anniversary date and continuing on each anniversary date thereafter, unless notice of a non-extension was given by either party, each of the 2014 Employment Agreements was automatically extended for an additional year so that the remaining term was always no less than two and no more than three years. The 2014 Employment Agreements also provided that the base salary of the executive would be reviewed by the Board of Directors not less often than annually. In addition, the 2014 Employment Agreements provided 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. The 2014 Employment Agreements provided that they may be terminated by the Bank for cause, as defined in the 2014 Employment Agreements, and that they may otherwise be terminated by the Bank (subject to vested rights) or by the executive.

In the event of a change in control, the term of each 2014 Employment Agreement was automatically extended for three years from the date of the change of control. For purposes of the 2014 Employment Agreements, a change in control was defined as (i) any "person" (as such term is used in Section 13(d) and 14(d) of the Exchange Act), other than a person who beneficially owned as of January 1, 1998, more than 5% of the Bank's securities, acquiring beneficial ownership of voting stock and irrevocable proxies representing 20% or more of any class of voting securities of either the Company or the Bank, (ii) the election of directors constituting more than one-half of the Board of Directors of the Company or the Bank who, prior to their election, were not nominated for election or approved by at least three-fourths of the Board of Directors of the Company as then constituted; (iii) either the Company or the Bank consolidates or merges with or into another corporation, association or entity or is otherwise reorganized, where neither the Company nor the Bank, respectively, is the surviving corporation in the transaction; or (iv) all or substantially all of the assets of either the Company or the Bank are sold or otherwise transferred to or acquired by any other entity or group.

In addition, each executive could have voluntarily terminated his 2014 Employment Agreement at any time following a change in control and continue to receive his base salary for the remainder of the term of the 2014 Employment Agreement, if, after the change in control, (i) the employee was assigned duties and/or responsibilities that were inconsistent with his position prior to the change in control or that were inconsistent with his reporting responsibilities at that time, (ii) the employee's compensation or benefits were reduced, or (iii) the employee was transferred, without his consent, to a location which was an unreasonable distance from his current principal work location.

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) 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 2014 Employment Agreement (collectively, the "New Employment Agreements").

Each New 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 New Employment Agreement shall nevertheless remain in force until its existing term expires. Under the New Employment Agreements, the Bank will pay Mr. Sellers a base salary at the rate of at least $311,000 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 New Employment Agreement, Mr. Sellers's Base Salary may not decrease below $311,000, Mr. Lampron's Base Salary may not decrease below $193,125 and Mr. Cable's Base Salary may not decrease below $198,750. In addition, the New 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 New 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 New 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 New Employment Agreement). Under the New 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 New Employment Agreements. Under the New 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 New Employment Agreements.

In addition, each New 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 New Employment Agreements.

In 2014, if a “change in control” event had occurred Mr. Sellers, Mr. Lampron, Mr. Beaman and Mr. Cable would have been entitled to receive total compensation of approximately $1,071,000, $677,000, $448,000 and $677,000, respectively under the 2014 Employment Agreements. All amounts are calculated based on each NEO’s 2014 base salary as shown in the Summary Compensation Table.

Omnibus Stock Option and Long Term Incentive Plan

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

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

Incentive Compensation Plans

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

Outstanding Equity Awards at Fiscal Year End. The table below gives information related to equity awards held by the NEOs at December 31, 2014:

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of 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) ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Lance A. Sellers	-	-	-	-	-	-	-	17,449(1)	313,908
				-	-	-	-		
A. Joseph Lampron, Jr.	-	-	-	-	-	-	-	12,508(2)	225,019
				-	-	-	-		
Joseph F. Beaman, Jr.	-	-	-	-	-	-	-	-	-
				-	-	-	-		
William D. Cable, Sr.	-	-	-	-	-	-	-	12,508(2)	225,019

(1) Includes 6,505 restricted stock units that were granted on March 22, 2012 and vest on March 22, 2017; 2,169 restricted stock units that were granted on July 26, 2012 and vest on July 26, 2017; 4,875 restricted stock units that

were granted on May 23, 2013 and vest on May 23, 2017; and 3,900 restricted stock units that were granted on February 20, 2014 and vest on February 20, 2017.

(2) Includes 4,777 restricted stock units that were granted on March 22, 2012 and vest on March 22, 2017; 1,593 restricted stock units that were granted on July 26, 2012 and vest on July 26, 2017 and 3,410 restricted stock units that were granted on May 23, 2013 and vest on May 23, 2017; and 2,728 restricted stock units that were granted on February 20, 2014 and vest on February 20, 2017.

(3) Based on a stock price of $17.99 per share on December 31, 2014.

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 2014.

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

Supplemental Retirement Plan

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

Discretionary Bonuses and Service Awards

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

Profit Sharing Plan and 401(k) Plan

The Bank has a Profit Sharing Plan and 401(k) Plan for all eligible employees. The Bank made no contribution to the Profit Sharing Plan for the year ended December 31, 2014. 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 2014 contribution to the 401(k) Plan pursuant to this formula was approximately $439,000. 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 provide for vesting of 20% of the benefit after two years of employment and 20% each year thereafter until participants are 100% vested after six years of employment.

Indebtedness of and Transactions with Management and Directors

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

Certain directors and executive officers of the Bank and their immediate families and associates were customers of and had transactions with the Bank in the ordinary course of business during 2014. All outstanding loans, extensions of credit or overdrafts, endorsements and guarantees outstanding at any time during 2014 to the Bank's executive officers and directors and their family members were made in the ordinary course of its business. These loans are currently made on substantially the same terms, including interest rates and collateral, as those then prevailing for comparable transactions with persons not related to the lender, and did not involve more than the normal risk of collectability or present any other unfavorable features.

The Board of Directors routinely, and no less than annually, reviews all transactions, direct and indirect, between the Company or the Bank and any employee or director, or any of such person's immediate family members. Transactions are reviewed as to comparable market values for similar transactions. All material facts of the transactions and the director's interest are discussed by all disinterested directors and a decision 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.

The Bank leases two of its facilities from Shortgrass Associates, L.L.C. ("Shortgrass"). Director John W. Lineberger, Jr., owns 25% of the membership interests in Shortgrass. Pursuant to the terms of the leases for the two facilities leased by the Bank, during 2014 the Bank paid a total of $211,537 to Shortgrass in lease payments for these facilities. Each of the facilities is subject to a 20-year lease between the Bank and Shortgrass.

The Board of Directors 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.

PROPOSAL 2

RATIFICATION OF SELECTION OF INDEPENDENT AUDITOR

Porter Keadle Moore, LLC, of Atlanta, Georgia (or PKM in this Proxy Statement), has been selected by the Audit Committee as the Company's and the Bank's registered independent public accounting firm for the year ending December 31, 2015. Such selection is being submitted to the Company's shareholders for ratification. Representatives of PKM are expected to attend the Annual Meeting and will be afforded an opportunity to make a statement, if they so desire, and to respond to appropriate questions from shareholders.

Audit Fees

The aggregate fees billed by PKM for professional services rendered in connection with the audit of the Company's annual financial statements for 2014 and 2013 and the review of the financial statements included in the Company's quarterly filings on Form 10-Q during those fiscal years were approximately $186,000 and $186,000, respectively.

Audit Related Fees

The aggregate fees billed by PKM in 2014 and 2013 for professional services rendered for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and not included in "Audit Fees" above were approximately $59,000 and $59,000, respectively. These fees were primarily related to the audit of the Company's Profit Sharing and 401(k) Plan and the testing of management's assertions regarding internal controls in accordance with the Federal Deposit Insurance Corporation Improvement Act.

Tax Fees

The aggregate fees billed in each of the last two fiscal years for professional services rendered by PKM for tax compliance, tax advice, and tax planning were approximately $24,000 and $33,000 in 2014 and 2013, respectively. These fees were primarily related to the preparation of the Company's income tax returns, assistance with quarterly income tax estimates and preparation of Forms 5500 for various benefit plans.

All Other Fees

PKM billed no other fees to the Company in 2014 and 2013.

The fees billed by PKM are pre-approved by the Audit Committee in accordance with the policies and procedures for the Audit Committee set forth in its charter. The Audit Committee typically pre-approves all audit and non-audit services provided by the Company's independent auditors and may not engage the independent auditors to perform any prohibited non-audit services. For 2014 and 2013, 100% of the total fees paid for audit, audit related and tax services were pre-approved. The Audit Committee has determined that the rendering of non-audit professional services by PKM, as identified above, is compatible with maintaining PKM's independence.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR RATIFICATION OF THE APPOINTMENT OF PKM AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2015.

DATE FOR RECEIPT OF SHAREHOLDER PROPOSALS

It is presently anticipated that the 2016 Annual Meeting of Shareholders of the Company will be held on May 5, 2016. 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 27, 2015 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 2016 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 10, 2016, of his or her proposal. If the Secretary of the Company is not notified of the shareholder's proposal by February 10, 2016, 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 2016 Annual Meeting of Shareholders.

Please note that we intend to use the "Notice and Access" model to deliver the Notice to Annual Meeting and Proxy Statement for the 2016 Annual Meeting of Shareholders and the 2015 Annual Report to shareholders owning fewer than 1,000 shares of our common stock (i.e., a shareholder owning fewer than 1,000 shares of our common stock will receive a Notice to the 2016 Annual Meeting of Shareholders in the mail directing such shareholder to a website where such shareholder can view a complete copy of the Notice to Annual Meeting and Proxy Statement for the 2016 Annual Meeting of Shareholders and the 2015 Annual Report or request a hard copy of such documents be sent to such shareholder). Shareholders owning more than 1,000 shares of our common stock will receive hard copies of the Notice to Annual Meeting and Proxy Statement for the 2016 Annual Meeting of Shareholders and the 2015 Annual Report.

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, 2014, 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,

/s/ Lance A. Sellers
Lance A. Sellers
President and Chief Executive Officer

Newton, North Carolina
March 27, 2015

APPENDIX A

ANNUAL REPORT
OF
PEOPLES BANCORP OF NORTH CAROLINA, INC.

PEOPLES BANCORP OF NORTH CAROLINA, INC.

General Description of Business

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

The Bank, founded in 1912, is a state-chartered commercial bank serving the citizens and business interests of the Catawba Valley and surrounding communities through 21 banking offices, as of December 31, 2014, located in Lincolnton, Newton, Denver, Catawba, Conover, Maiden, Claremont, Hiddenite, Hickory, Charlotte, Monroe, Cornelius, Mooresville and Raleigh, North Carolina. The Bank also operates loan production offices in Denver and Durham, North Carolina. At December 31, 2014, the Company had total assets of $1.0 billion, net loans of $640.8 million, deposits of $814.7 million, total securities of $285.1 million, and shareholders' equity of $98.7 million.

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

The Bank has a diversified loan portfolio, with no foreign loans and few agricultural loans. Real estate loans are predominately variable rate 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-25 of the Annual Report, which is included in this Form 10-K as Exhibit (13).

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

At December 31, 2014, the Company employed 280 full-time employees and 37 part-time employees, which equated to 305 full-time equivalent employees.

Subsidiaries

The Bank is a subsidiary of the Company. At December 31, 2014, the Bank had two subsidiaries, Peoples Investment Services, Inc. and Real Estate Advisory Services, Inc. Through a relationship with Raymond James Financial Services, Inc., Peoples Investment Services, Inc. provides the Bank's customers access to investment counseling and non-deposit investment products such as stocks, bonds, mutual funds, tax deferred annuities, and related brokerage services. Real Estate Advisory Services, Inc. provides real estate appraisal and real estate brokerage services. In March 2015, the Bank established a new wholly owned subsidiary, PB Real Estate Holdings, LLC, which will acquire, manage and dispose 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.

The Company established CBRES, a wholly owned subsidiary, in 2009. CBRES serves as a “clearing-house” for appraisal services for community banks. Other banks are able to contract with CBRES to find and engage appropriate appraisal companies in the area where the property is located. This type of service ensures that the appraisal process remains independent from the financing process within the bank.

This report contains certain forward-looking statements with respect to the financial condition, results of operations and business of Peoples Bancorp of North Carolina, Inc. (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 simila 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 Peoples 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

		2014	2013	2012	2011	2010
Summary of Operations						
Interest income	$	38,420	36,696	39,245	45,259	47,680
Interest expense		4,287	5,353	7,696	10,946	14,348
Net interest earnings		34,133	31,343	31,549	34,313	33,332
Provision for loan losses		(699)	2,584	4,924	12,632	16,438
Net interest earnings after provision for loan losses		34,832	28,759	26,625	21,681	16,894
Non-interest income		12,164	12,652	12,537	14,513	13,884
Non-interest expense		35,671	32,841	31,782	29,572	28,948
Earnings before taxes		11,325	8,570	7,380	6,622	1,830
Income taxes		1,937	1,879	1,587	1,463	(11)
Net earnings		9,388	6,691	5,793	5,159	1,841
Dividends and accretion of preferred stock		-	656	1,010	1,393	1,394
Net earnings available to common shareholders	$	9,388	6,035	4,783	3,766	447
Selected Year-End Balances						
Assets	$	1,040,494	1,034,684	1,013,516	1,067,063	1,067,652
Available for sale securities		281,099	297,890	297,823	321,388	272,449
Loans, net		640,809	607,459	605,551	653,893	710,667
Mortgage loans held for sale		1,375	497	6,922	5,146	3,814
Interest-earning assets		956,900	925,736	931,738	1,004,131	1,010,983
Deposits		814,700	799,361	781,525	827,111	838,712
Interest-bearing liabilities		717,991	715,111	745,139	820,452	850,233
Shareholders' equity	$	98,665	83,719	97,747	103,027	96,858
Shares outstanding		5,612,588	5,613,495	5,613,495	5,544,160	5,541,413
Selected Average Balances						
Assets	$	1,036,486	1,023,609	1,029,612	1,074,250	1,078,136
Available for sale securities		287,371	293,770	289,010	295,413	219,797
Loans		631,025	614,532	648,595	697,527	757,532
Interest-earning assets		949,537	950,451	965,994	1,015,451	999,054
Deposits		808,399	787,640	786,976	835,550	840,343
Interest-bearing liabilities		731,786	741,228	770,546	836,382	849,870
Shareholders' equity	$	95,759	100,241	103,805	102,568	101,529
Shares outstanding		5,615,666	5,613,495	5,559,401	5,542,548	5,539,308
Profitability Ratios						
Return on average total assets		0.91%	0.65%	0.56%	0.48%	0.17%
Return on average shareholders' equity		9.69%	6.67%	5.58%	5.03%	1.81%
Dividend payout ratio*		10.88%	11.17%	20.96%	11.78%	100.11%

Liquidity and Capital Ratios (averages)						
Loan to deposit		78.06%	78.02%	82.42%	83.48%	90.15%
Shareholders' equity to total assets		9.24%	9.79%	10.08%	9.55%	9.42%
Per share of Common Stock						
Basic net income	$	1.67	1.08	0.86	0.68	0.08
Diluted net income	$	1.66	1.07	0.86	0.68	0.08
Cash dividends	$	0.18	0.12	0.18	0.08	0.08
Book value	$	17.58	14.91	15.18	14.06	12.96

*As a percentage of net earnings available to common shareholders.

A-3

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 and the Company's consolidated financial statements and notes thereto on pages A-26 through A-62.

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 the Company, for the years ended December 31, 2014, 2013 and 2012. The Company 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, Union, 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.

The unfavorable economic conditions experienced from 2008 to 2010 moderated in 2011 and 2012. Economic conditions were more favorable in 2013 and 2014, although still far below the pre-crisis levels of 2006 and 2007. With the unemployment rate continuing to be higher than historical norms and home prices still well below pre-crisis levels, the primary indicators of economic activity for our markets continue to point to uncertain business conditions.

Although we are unable to control the external factors that influence our business, by maintaining high levels of balance sheet liquidity, managing our interest rate exposures and by actively monitoring asset quality, we seek to minimize the potentially adverse risks of unforeseen and unfavorable economic trends.

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. The Company expects growth to be achieved in its local markets and through expansion opportunities in contiguous or nearby markets. While the Company would be willing to consider growth by acquisition in certain circumstances, it does not consider the acquisition of another company to be necessary for its continued ability to provide a reasonable return to its 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 has maintained the Federal Funds Rate at 0.25% since December 31, 2008. This has had a negative impact on 2012, 2013 and 2014 earnings and will continue to have a negative impact on the Bank's net interest income in future periods, if the Federal Funds Rate is not increased.

On December 23, 2008, the Company entered into a Securities Purchase Agreement ("Purchase Agreement") with the U.S. Department of the Treasury ("UST") pursuant to the Capital Purchase Program ("CPP") under the Troubled Asset Relief Program ("TARP"). Under the Purchase Agreement, the Company agreed to issue and sell 25,054 shares of Series A preferred stock and a Warrant to purchase 357,234 shares of the Company's common stock. Proceeds from this issuance of Series A preferred shares were allocated between preferred stock and the Warrant based on their relative fair values at the time of the sale. Of the $25.1 million in proceeds, $24.4 million was allocated to the Series A preferred stock and $704,000 was allocated to the Warrant. The discount recorded on the Series A preferred stock that resulted from allocating a portion of the proceeds to the Warrant was being accreted directly to retained earnings over a five-year period applying a level yield.

The UST sold all of the Company's Series A preferred stock in a public auction in June 2012. The Company purchased 12,530 shares of the 25,054 outstanding shares of Series A preferred stock from the UST. The shares were purchased for $933.36 per share, for a total purchase price of $11,778,576, including $83,575 accrued and unpaid dividends on the Series A preferred stock. The Company retired the 12,530 shares purchased. Remaining Series A preferred shares were redeemable at any time at par. Also, during 2012, the Company completed its repurchase of the Warrant to purchase 357,234 shares of the Company's common stock. The Company repurchased the Warrant for a total price of $425,000.

The Company received regulatory approval in December 2013 to repurchase and redeem the remaining 12,524 outstanding shares of its Series A preferred stock. The repurchase and redemption was completed on January 17, 2014 and was reflected on the Company's Consolidated Balance Sheets as of December 31, 2013. "Accrued interest payable and other liabilities" at December 31, 2013 includes $12.6 million for the payment to preferred shareholders of principal and accrued dividends on January 17, 2014.

The Company does not have specific plans for additional offices in 2015 but will continue to look for growth opportunities in nearby markets and may expand if considered a worthwhile opportunity.

Summary of Significant and Critical Accounting Policies
The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries, the Bank and Community Bank Real Estate Solutions, LLC ("CBRES"), along with the Bank's wholly owned subsidiaries, Peoples Investment Services, Inc. and Real Estate Advisory Services, Inc ("REAS"). 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 2014 Annual Report to Shareholders which is Appendix A to the Proxy Statement for the May 7, 2015 Annual Meeting of Shareholders.

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 incorporated the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. By 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 minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by the Company. The Company did not have any interest rate derivatives outstanding as of December 31, 2014 or 2013.

In November 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-16, (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity. ASU No. 2014-16 provides more direction for determining whether embedded features, such as a conversion option embedded in a share of preferred stock, need to be accounted for separately from their host shares. ASU No. 2014-16 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. The adoption of this guidance is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

In November 2014, FASB issued ASU No. 2014-17, (Topic 805): Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force). ASU No. 2014-17 gives acquired entities the option to apply pushdown accounting in their separate financial statements when an acquirer obtains control of them. ASU No. 2014-17 was effective upon issuance for current and future reporting periods and any open reporting periods for which financial statements have not yet been issued. The adoption of this guidance is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

In January 2015, FASB issued ASU No. 2015-01, (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. ASU No. 2015-01 eliminates the concept of extraordinary items from GAAP. ASU No. 2015-01 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015 . The adoption of this guidance is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

In February 2015, FASB issued ASU No. 2015-02, (Topic 810): Amendments to the Consolidation Analysis. ASU No. 2015-02 provides amendments to respond to stakeholders' concerns about the current accounting for consolidation of certain legal entities. Stakeholders expressed concerns that GAAP might require a reporting entity to consolidate another legal entity in situations in which the reporting entity's contractual rights do not give it the ability to act primarily on its own behalf, the reporting entity does not hold a majority of the legal entity's voting rights, or the reporting entity is not exposed to a majority of the legal entity's economic benefits or obligations. ASU No. 2015-02 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. The adoption of this guidance is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

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

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

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 $9.4 million or $1.67 basic net earnings per share and $1.66 diluted net earnings per share for the year ended December 31, 2014, as compared to $6.7 million or $1.19 basic and diluted net earnings per share, before adjustment for preferred stock dividends and accretion, for the year ended December 31, 2013. Net earnings available to common shareholders were $9.4 million or $1.67 basic net earnings per common share and $1.66 diluted net earnings per common share for the year ended December 31, 2014, as compared to $6.0 million or $1.08 basic net earnings per common share and $1.07 diluted net earnings per common share, for the year ended December 31, 2013. The increase in year-to-date earnings is primarily attributable to an increase in net interest income and a decrease in the provision for loan losses, which were partially offset by an increase in non-interest expense and a decrease in non-interest income, as discussed below.

Net earnings available to common shareholders for 2013 represented an increase of 26% as compared to net earnings available to common shareholders for the year ended December 31, 2012 of $4.8 million or $0.86 basic and diluted net earnings per common share. The increase in 2013 net earnings was primarily attributable to a decrease in the provision for loan losses and an increase in non-interest income, which were partially offset by a decrease in net interest income and an increase in non-interest expense.

The return on average assets in 2014 was 0.91%, compared to 0.65% in 2013 and 0.56% in 2012. The return on average shareholders' equity was 9.69% in 2014 compared to 6.67% in 2013 and 5.58% in 2012.

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 2014 was $34.1 million compared to $31.3 million in 2013. This increase was primarily due to an increase in interest income resulting from an increase in the yield on investment securities and an increase in the average outstanding principal balance of loans combined with a decrease in interest expense resulting primarily from a reduction in the cost of funds. Net interest income decreased in 2013 from $31.5 million in 2012.

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, 2014, 2013 and 2012. 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 37.96% for securities that are both federal and state tax exempt and an effective tax rate of 31.96% for federal tax exempt securities. Non-accrual loans and the interest income that was recorded on these loans, if any, are included in the yield calculations for loans in all periods reported.

Table 1- Average Balance Table

	December 31, 2014			December 31, 2013			December 31, 2012		
(Dollars in thousands)	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate
Interest-earning assets:									
Interest and fees on loans	$ 631,025	30,305	4.80%	614,532	30,194	4.91%	648,595	32,758	5.05%
Investments - taxable	120,038	2,840	2.37%	141,143	1,544	1.09%	188,625	2,901	1.54%
Investments - nontaxable*	172,662	7,561	4.38%	158,535	7,070	4.46%	106,796	5,198	4.87%
Other	25,812	65	0.25%	36,241	85	0.23%	21,977	51	0.23%
Total interest-earning assets	949,537	40,771	4.29%	950,451	38,893	4.09%	965,993	40,908	4.23%
Cash and due from banks	47,614			36,080			24,760		
Other assets	52,245			51,239			55,618		
Allowance for loan losses	(12,905)			(14,161)			(16,760)		
Total assets	$ 1,036,491			1,023,609			1,029,611		
Interest-bearing liabilities:									
NOW, MMDA & savings deposits	$ 392,822	499	0.13%	376,457	732	0.19%	351,748	1,180	0.34%
Time deposits	208,194	1,188	0.57%	230,880	1,650	0.71%	282,218	3,205	1.14%
FHLB / FRB borrowings	63,712	2,166	3.40%	69,740	2,518	3.61%	70,350	2,744	3.90%
Trust preferred securities	20,619	389	1.89%	20,619	398	1.93%	20,619	438	2.12%
Other	46,439	45	0.10%	43,532	55	0.13%	45,611	129	0.28%
Total interest-bearing liabilities	731,786	4,287	0.59%	741,228	5,353	0.72%	770,546	7,696	1.00%
Demand deposits	207,383			180,303			153,009		
Other liabilities	4,771			4,860			4,746		
Shareholders' equity	96,877			100,241			103,805		
Total liabilities and shareholder's equity	$ 1,040,817			1,026,632			1,032,106		

Net interest spread	$ 36,484	3.70%	$ 33,540	3.37%	33,212	3.23%
Net yield on interest-earning assets		3.84%		3.53%		3.44%
Taxable equivalent adjustment						
Investment securities	$ 2,351		$ 2,197		1,663	
Net interest income	$ 34,133		$ 31,343		31,549	

* Includes U.S. Government agency securities that are non-taxable for state income tax purposes of $26.0 million in 2014, $20.2 million in 2013 and $5.3 million in 2012. Tax rates of 6.00%, 6.90% and 6.90% were used to calculate the tax equivalent yield on these securities in 2014, 2013 and 2012, respectively.

Changes in interest income and interest expense can result from variances in both volume and rates. Table 2 describes the impact on the Company's tax equivalent net interest income resulting from changes in average balances and average rates for the periods indicated. The changes in interest due to both volume and rate have been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the changes in each.

Table 2 - Rate/Volume Variance Analysis-Tax Equivalent Basis

(Dollars in thousands)	December 31, 2014 Changes in average volume	Changes in average rates	Total Increase (Decrease)	December 31, 2013 Changes in average volume	Changes in average rates	Total Increase (Decrease)
Interest income:						
Loans: Net of unearned income	$ 801	(690)	111	$ (1,697)	(867)	(2,564)
Investments - taxable	(365)	1,661	1,296	(625)	(732)	(1,357)
Investments - nontaxable	624	(133)	491	2,413	(541)	1,872
Other	(26)	5	(21)	33	1	34
Total interest income	1,034	843	1,877	124	(2,139)	(2,015)
Interest expense:						
NOW, MMDA & savings deposits	26	(259)	(233)	65	(513)	(448)
Time deposits	(146)	(316)	(462)	(475)	(1,080)	(1,555)
FHLB / FRB Borrowings	(212)	(140)	(352)	(23)	(203)	(226)
Trust Preferred Securities	-	(9)	(9)	-	(40)	(40)
Other	3	(13)	(10)	(4)	(70)	(74)
Total interest expense	(329)	(737)	(1,066)	(437)	(1,906)	(2,343)
Net interest income	$ 1,363	1,580	2,943	$ 561	(233)	328

Net interest income on a tax equivalent basis totaled $36.5 million in 2014 as compared to $33.5 million in 2013. The interest rate spread, which represents the rate earned on interest-earning assets less the rate paid on interest-bearing liabilities, was 3.70% in 2014, an increase from the 2013 net interest spread of 3.37%. The net yield on interest-earning assets in 2014 increased to 3.84% from the 2013 net yield on interest-earning assets of 3.53%.

Tax equivalent interest income increased $1.9 million or 5% in 2014 primarily due to an increase in interest income resulting from an increase in the yield on investment securities and an increase in the average outstanding principal balance of loans. The yield on interest-earning assets increased to 4.29% in 2014 from 4.09% in 2013. The average outstanding principal balance of loans increased $16.5 million to $631.0 million in 2014 compared to $614.5 million in 2013.

Interest expense decreased $1.1 million or 20% in 2014 compared to 2013. The increase in interest expense is primarily due to a decrease in the average rate paid on interest-bearing liabilities. The cost of funds decreased to 0.59% in 2014 from 0.72% in 2013. The decrease in the cost of funds was primarily attributable to decreases in the average rate paid on interest-bearing deposit accounts and a reduction in interest-bearing liabilities. Average interest-bearing liabilities decreased by $9.4 million to $731.8 million in 2014 compared to $741.2 million in 2013. The decrease in average interest-bearing liabilities in 2014 was primarily attributable to a $22.7 million decrease in certificates of deposit, which was partially offset by a $16.4 million increase in interest-bearing checking and savings accounts.

In 2013 net interest income on a tax equivalent basis increased to $33.5 million from $33.2 million in 2012. The interest rate spread was 3.37% in 2013, an increase from the 2012 net interest spread of 3.23%. The net yield on interest-earning assets in 2013 increased to 3.53% from the 2012 net yield on interest-earning assets of 3.44%.

Provision for Loan Losses. Provisions for loan losses are charged to income in order to bring the total allowance for loan losses to a level deemed