

PEOPLES BANCORP OF NORTH CAROLINA INC
Form S-1/A
June 21, 2012

As filed with the Securities and Exchange Commission on June 21, 2012

Registration No. 333-181347

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C.20549**

**PRE-EFFECTIVE AMENDMENT NO. 2 TO FORM S-1
REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933**

Peoples Bancorp of North Carolina, Inc.

(Exact Name of Registrant as Specified in Its Charter)

North Carolina
(State or Other Jurisdiction of
Incorporation or Organization)

6022
(Primary Standard Industrial
Classification Code Number)

56-2132396
(I.R.S. Employer
Identification Number)

**518 West C Street
Newton, North Carolina 28658
(828) 464-5620**

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

**Tony W. Wolfe
Peoples Bancorp of North Carolina, Inc.
518 West C Street
Newton, North Carolina 28658**

(828) 464-5620

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

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Greensboro, North Carolina 27401
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Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box:

If this Form is filed to register additional shares for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer
(Do not check if a smaller reporting company) Smaller reporting company

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered

	Amount to be registered	Proposed maximum offering price per unit	Proposed maximum aggregate offering price	Amount of registration fee ⁽⁵⁾
Fixed Rate Cumulative Perpetual Preferred Stock, Series A	25,054	\$ 1,000 ⁽¹⁾⁽²⁾	\$25,054,000.00	\$2,871.20
Warrant to Purchase Common Stock; and underlying shares of Common Stock	357,234 ⁽³⁾	\$ 10.52 ⁽⁴⁾	\$3,758,101.68	\$430.68
Total			\$28,812,101.68	\$3,301.88

Represents the liquidation preference amount per share of the preferred stock being registered for resale, which the (1) registrant sold to the United States Department of the Treasury (Treasury) pursuant to Treasury s Troubled Asset Relief Program Capital Purchase Program.

(2) Estimated in accordance with Rule 457(a).

In addition, there are being registered hereunder (a) a Warrant (Warrant) for the purchase of 357,234 shares of Common Stock with a per share exercise price of \$10.52 per share, (b) the 357,234 shares of Common Stock (3) issuable upon exercise of such Warrant and (c) such additional number of shares of Common Stock, of a currently indeterminable amount, as may from time to time become issuable by reason of stock splits, stock dividends and certain anti-dilution provisions set forth in such Warrant, which shares of Common Stock are registered hereunder pursuant to Rule 416.

Represents the exercise price applicable to each share of Common Stock for which the Warrant may be exercised.

(4) Calculated in accordance with Rules 457(c) and (i) with respect to the per share exercise price under the Warrant of \$10.52.

(5) Previously paid.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. Neither we nor the selling shareholder may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS SUPPLEMENT

Subject to Completion, Dated June 21, 2012

Registration No. 333-181347

(To Prospectus Dated _____, 2012)

25,054 Shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A Liquidation Preference Amount \$1,000 Per Share

This prospectus supplement relates to the offer and sale of 25,054 shares of our Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value (the Preferred Shares), liquidation preference amount \$1,000 per share, by the United States Department of the Treasury (Treasury). We issued the Preferred Shares to Treasury on December 23, 2008 as part of Treasury's Troubled Asset Relief Program Capital Purchase Program (the CPP) in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act).

We will not receive any proceeds from the sale of any Preferred Shares sold by Treasury.

Dividends on the Preferred Shares are payable quarterly in arrears on each February 15, May 15, August 15 and November 15. The initial dividend rate is 5% per annum through February 14, 2014, and will increase to 9% per annum on and after February 15, 2014 if not otherwise redeemed earlier for cash by us. Since issuing the Preferred Shares, we have declared and paid all accrued dividends on the Preferred Shares to and including the period ending May 14, 2012, which dividend was due on May 15, 2012. We may redeem the Preferred Shares, at any time, in whole or in part, at our option, subject to prior approval by the appropriate federal banking agency, for cash, for a redemption price equal to 100% of the liquidation preference amount per Preferred Share plus any accrued and unpaid dividends up to but excluding the date of redemption.

The Preferred Shares will not be listed for trading on any stock exchange or available for quotation on any national quotation system.

The public offering price and the allocation of the Preferred Shares in this offering will be determined by an auction process. During the auction period, potential bidders will be able to place bids to purchase Preferred Shares at any price at or above the minimum bid price of \$ _____ per share (such bid price to be in increments of \$0.01). The minimum size for any bid will be one Preferred Share. We intend to submit one or more bids to purchase Preferred Shares in the auction and have received approval of the Board of Governors of the Federal Reserve System (the Federal Reserve) to do so. In the event we bid, our bids will be for less than all of the Preferred Shares and may be made at a price or prices per share that is less than the liquidation preference per share. After the auction closes, if Treasury decides to sell any of the offered Preferred Shares, then the underwriters will agree to purchase such Preferred Shares in a firm

commitment underwriting and the public offering price of such Preferred Shares will equal the clearing price plus accrued dividends thereon. If bids are received for 100% or more of the offered Preferred Shares, the clearing price will be equal to the highest price at which all of the offered Preferred Shares can be sold in the auction. If bids are received for 100% or more of the offered Preferred Shares, and Treasury elects to sell any Preferred Shares in the auction, Treasury must sell all of the offered Preferred Shares at the clearing price. If bids are received for at least half, but less than all, of the offered Preferred Shares, then the clearing price will be equal to the minimum bid price of \$ per share, and Treasury may (but is not required to) sell, at the public offering price, the number of Preferred Shares it chooses to sell up to the number of bids received in the auction, so long as at least half of the offered Preferred Shares are sold. In certain cases, the bids of bidders may be pro-rated. If bids are received for less than half of the offered Preferred Shares, Treasury will not sell any Preferred Shares in this offering. Even if bids are received for at least half of the offered Preferred Shares, Treasury may decide not to sell any Preferred Shares or, in the case where bids are received for at least half, but less than all, of the offered Preferred Shares, may decide to sell a portion (but not less than half) of the offered Preferred Shares in the auction process. The method for submitting bids and a more detailed description of this auction process are described in Auction Process beginning on page S-32 of this prospectus supplement.

Investing in the Preferred Shares involves risks. You should read the Risk Factors section beginning on page S-10 of this prospectus supplement and page 6 of the accompanying prospectus and in our Annual Report on Form 10-K for the year ended December 31, 2011 before making a decision to invest in the Preferred Shares.

	Per Share	Total
Public offering price ⁽¹⁾	\$	\$
Underwriting discounts and commissions to be paid by Treasury ⁽²⁾	\$	\$
Proceeds to Treasury ⁽¹⁾	\$	\$

(1) Plus accrued dividends from and including May 15, 2012.

Treasury has agreed to pay all underwriting discounts and commissions and transfer taxes. We have agreed to pay (2) all transaction fees, if any, applicable to the sale of the Preferred Shares and certain fees and disbursements of counsel for Treasury incurred in connection with this offering.

None of the Securities and Exchange Commission (the SEC), the Federal Deposit Insurance Corporation (the FDIC), the Board of Governors of the Federal Reserve System (the Federal Reserve), any state or other securities commission or any other federal or state bank regulatory agency has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The Preferred Shares are not savings accounts, deposits or other obligations of any bank, thrift or other depository institution and are not insured or guaranteed by the FDIC or any other governmental agency or instrumentality.

The underwriters expect to deliver the Preferred Shares in book-entry form through the facilities of The Depository Trust Company and its participants against payment on or about _____, 2012.

Joint Book-Running Managers

BofA Merrill Lynch

Sandler O Neill + Partners, L.P.

25,054 Shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A Liquidation Preference Amount \$1,000,000

Co-Managers

Great Pacific Securities

Loop Capital Markets

Ramirez & Co., Inc.

The date of this prospectus supplement is _____, 2012.

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ABOUT THIS PROSPECTUS SUPPLEMENT

You should read this prospectus supplement, the accompanying prospectus and the additional information described under the headings "Where You Can Find More Information" and "Incorporation of Certain Information by Reference" before you make a decision to invest in the Preferred Shares. In particular, you should review the information under the heading "Risk Factors" set forth on page S-10 of this prospectus supplement, the information set forth under the heading "Risk Factors" set forth on page 6 in the accompanying prospectus and the information under the heading "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2011, which is incorporated by reference herein. You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any related free writing prospectus required to be filed with the SEC. Neither we nor Treasury nor the underwriters are making an offer to sell the Preferred Shares in any manner in which, or in any jurisdiction where, the offer or sale thereof is not permitted. We have not authorized any person to provide you with different or additional information. If any person provides you with different or additional information, you should not rely on it. You should assume that the information in this prospectus supplement, the accompanying prospectus, any such free writing prospectus and the documents incorporated by reference herein and therein is accurate only as of its date or the date which is specified in those documents. Our business, financial condition, capital levels, cash flows, liquidity, results of operations and prospects may have changed since any such date.

In this prospectus supplement, we frequently use the terms "we," "our" and "us" to refer to Peoples Bancorp of North Carolina, Inc. (the "Company") and its subsidiaries.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and documents incorporated by reference herein and therein contain "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Forward-looking statements are generally identifiable by the use of forward-looking terminology such as "anticipate," "believe," "continue," "could," "endeavor," "estimate," "expect," "goal," "intend," "may," "objective," "potential," "predict," "pro-forma," "project," "seek," "should," "will" and other expressions of future intent.

Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, actual results and performance could differ materially from those set forth 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 we serve, (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 environments 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 other filings with the SEC, including, but not limited to, those described in our Annual Report on Form 10-K for the year ended December 31, 2011.

We do not have a policy of updating or revising forward-looking statements except as otherwise required by law, and silence by management over time should not be construed to mean that actual events are occurring as estimated in such forward-looking statements. Further information on other factors that could affect us is included in the SEC filings incorporated by reference in this prospectus supplement. See also **Risk Factors** contained herein and therein.

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WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Exchange Act, and file with the SEC proxy statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as required of a U.S. listed company. You may read and copy any document we file at the SEC's public reference room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from the SEC's web site at www.sec.gov or on our website at www.peoplesbanknc.com. However, the information on, or that can be accessible through, our website does not constitute a part of, and is not incorporated by reference in, this prospectus supplement or the accompanying prospectus. Written requests for copies of the documents we file with the SEC should be directed to our Corporate Treasurer, A. Joseph Lampron, Jr. at jlampron@peoplesbanknc.com, or at the following address or telephone number: Peoples Bancorp of North Carolina, Inc., 518 West C Street, Newton, North Carolina 28658, telephone: (828) 464-5620.

This prospectus supplement and the accompanying prospectus are part of a registration statement on Form S-1 filed by us with the SEC under the Securities Act. As permitted by the SEC, this prospectus supplement and the accompanying prospectus do not contain all the information in the registration statement filed with the SEC. For a more complete understanding of this offering, you should refer to the complete registration statement, including exhibits, on Form S-1 that may be obtained as described above. Statements contained in this prospectus supplement and the accompanying prospectus about the contents of any contract or other document are not necessarily complete. If we have filed any contract or other document as an exhibit to the registration statement or any other document incorporated by reference in the registration statement, you should read the exhibit for a more complete understanding of the contract or other document or matter involved. Each statement regarding a contract or other document is qualified in its entirety by reference to the actual contract or other document.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to incorporate by reference the information that we file with it, which means that we can disclose important information to you by referring you to other documents. The information incorporated by reference is an important part of this prospectus supplement and the accompanying prospectus. We incorporate by reference the following documents (other than information furnished rather than filed in accordance with SEC rules):

the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011;
the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012;
the Company's Current Reports on Form 8-K filed on January 30, 2012, April 23, 2012, May 7, 2012 and June 15, 2012; and
the Company's Definitive Proxy Statement related to its 2012 annual meeting of shareholders, as filed with the SEC on April 2, 2012.

We will provide without charge, upon written or oral request, a copy of any or all of the documents that are incorporated by reference into this prospectus supplement and the accompanying prospectus and a copy of any or all other contracts or documents which are referred to in this prospectus supplement or the accompanying prospectus. Requests should be directed to our Corporate Treasurer, A. Joseph Lampron, Jr. at jlampron@peoplesbanknc.com, or at the following address or telephone number: Peoples Bancorp of North Carolina, Inc., 518 West C Street, Newton, North Carolina 28658, telephone: (828) 464-5620.

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SUMMARY

*This summary highlights selected information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus and may not contain all the information that you need to consider in making your investment decision to purchase the Preferred Shares. You should carefully read this entire prospectus supplement and the accompanying prospectus, as well as the information incorporated by reference herein and therein, before deciding whether to invest in the Preferred Shares. You should carefully consider the sections entitled **Risk Factors** in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein to determine whether an investment in the Preferred Shares is appropriate for you.*

The Company

Peoples Bancorp of North Carolina, Inc. is a registered bank holding company incorporated under the laws of North Carolina, and headquartered in Newton, North Carolina. Formed in 1999 to serve as the holding company for Peoples Bank, our principal source of income is dividends received from Peoples Bank. The bank, formed in 1912, is a North Carolina chartered commercial bank that serves the Catawba Valley and surrounding communities through 22 banking offices, including four offices focused on serving the Latino population under the name Banco de la Gente.

As of March 31, 2012, we had total consolidated assets of \$1.1 billion, net loans of \$641.7 million, deposits of \$807.8 million, investment securities of \$305.5 million, and shareholders' equity of \$104.4 million.

Our Common Stock is listed on the NASDAQ Global Market under the symbol PEBK. Our principal executive offices are located at 518 West C Street, Newton, North Carolina 28658. Our telephone number is (828) 464-5620. Our website is www.peoplesbanknc.com. Except for documents expressly incorporated by reference, information on, or that can be accessible through, our website does not constitute a part of, and is not incorporated by reference into, this prospectus supplement or the accompanying prospectus.

Additional information about us can be found in our Annual Report on Form 10-K for the year ended December 31, 2011, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, and other documents we have filed with the SEC that are incorporated by reference into this prospectus supplement or the accompanying prospectus. See **Where You Can Find More Information** and **Incorporation by Reference**.

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The Offering

The following summary contains basic information about the Preferred Shares and the auction process and is not intended to be complete and does not contain all the information that is important to you. For a more complete understanding of the Preferred Shares and the auction process, you should read the sections of this prospectus supplement entitled *Description of Preferred Shares* and *Auction Process* and any similar sections in the accompanying prospectus.

Issuer

Peoples Bancorp of North Carolina, Inc.

Preferred Shares Offered by

Treasury

25,054 shares of our Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value. The number of Preferred Shares to be sold will depend on the number of bids received in the auction described below and whether Treasury decides to sell any Preferred Shares in the auction process. See the section entitled *Auction Process* in this prospectus supplement.

Liquidation Preference

If we liquidate, dissolve or wind up (collectively, a *liquidation*), holders of the Preferred Shares will have the right to receive \$1,000 per share, plus any accrued and unpaid dividends (including dividends accrued on any unpaid dividends) to, but not including, the date of payment, before any payments are made to holders of our common stock or any other capital stock that ranks, by its terms, junior as to rights upon liquidation to the Preferred Shares.

Dividends

Dividends on the Preferred Shares are payable quarterly in arrears on each February 15, May 15, August 15 and November 15. The initial dividend rate is 5% per annum through February 14, 2014, and will increase to 9% per annum on and after February 15, 2014, if the Preferred Shares are not otherwise redeemed earlier for cash by us. Holders of Preferred Shares sold by Treasury in the auction, if any, that are record holders on the record date for the August 15, 2012 dividend payment date will be entitled to any declared dividends payable on such date. Since issuing the Preferred Shares, we have declared and paid all accrued dividends on the Preferred Shares to and including the period ending May 14, 2012, which dividend was due on May 15, 2012.

Maturity

The Preferred Shares have no maturity date.

Rank

The Preferred Shares rank (i) senior to common stock or any other capital stock that ranks, by its terms, junior as to dividend rights and/or rights upon liquidation to the Preferred Shares (collectively, the *Junior Stock*), (ii) equally with any shares of our capital stock whose terms do not expressly provide that such class or series will rank senior or junior to the Preferred Shares as to dividend rights and/or rights upon liquidation (collectively, the *Parity Stock*) and (iii) junior to all of our existing and future indebtedness and any future senior securities, in each case as to dividend rights and/or rights upon liquidation.

Priority of Dividends

So long as any of the Preferred Shares remain outstanding, we may not declare or pay a dividend or other distribution on our common stock or any other shares of Junior Stock (other than dividends payable solely in common stock) or Parity Stock (other than dividends paid on a pro rata basis with the Preferred Shares), and we generally may not directly or indirectly purchase, redeem or

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otherwise acquire any shares of common stock, Junior Stock or Parity Stock unless all accrued and unpaid dividends on the Preferred Shares for all past dividend periods are paid in full.

Redemption

We may redeem the Preferred Shares, at any time, in whole or in part, at our option, subject to prior approval by the appropriate federal banking agency, for a redemption price equal to 100% of the liquidation preference amount per Preferred Share plus any accrued and unpaid dividends (including dividends accrued on any unpaid dividends) to but excluding the date of redemption. Except with respect to our intent to submit one or more bids in the auction, we have no current intention to redeem the Preferred Shares in the near future, but may seek to redeem some or all of the Preferred Shares at a future date if we deem such redemption to be in our interest. The Federal Reserve evaluates redemption requests on a case-by-case basis and considers a variety of factors, including a company's current and prospective capital position and its ability to serve as a continued source of strength to its banking subsidiaries during stressed market conditions. We cannot predict whether the Federal Reserve would approve any future redemption request we were to make.

Voting Rights

Holders of the Preferred Shares generally have no voting rights. However, if we do not pay dividends on the Preferred Shares for six or more quarterly periods, whether or not consecutive, the holders of the Preferred Shares, voting as a single class with the holders of any other Parity Stock upon which like voting rights have been conferred and are exercisable, will be entitled to vote for the election of two additional directors to serve on our board of directors until all accrued and unpaid dividends (including dividends accrued on any unpaid dividends) on the Preferred Shares for all past dividend periods are paid in full. There is no limit on the number of nominations and a plurality of eligible voters would determine the election of the two new directors.

In addition, the affirmative vote of the holders of at least 66 2/3% of the outstanding Preferred Shares is required for us to authorize, create or increase the authorized number of shares of our capital stock ranking, as to dividends or amounts payable upon liquidation, senior to the Preferred Shares, to amend, alter or repeal any provision of our charter or the Certificate of Designations for the Preferred Shares in a manner that adversely affects the rights of the holders of the Preferred Shares or to consummate a binding share exchange or reclassification of the Preferred Shares or a merger or consolidation of us with another entity unless (x) the Preferred Shares remain outstanding or are converted into or exchanged for preference shares of the surviving entity or its ultimate parent and (y) the Preferred Shares remain outstanding or such preference shares have such terms that are not materially less favorable, taken as a whole, than the rights of the Preferred Shares immediately prior to such transaction, taken as a whole.

Auction Process

The public offering price and the allocation of the Preferred Shares in this offering will be determined through an auction process conducted by Merrill Lynch, Pierce, Fenner & Smith Incorporated and Sandler O'Neill & Partners, L.P., the joint book-running

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managers in this offering, in their capacity as the auction agents. The auction process will entail a modified Dutch auction mechanic in which bids may be submitted through the auction agents or one of the other brokers that is a member of the broker network, which are collectively referred to in this prospectus supplement as the network brokers, established in connection with the auction process. Each broker will make suitability determinations with respect to its own customers wishing to participate in the auction process. The auction agents will not provide bidders with any information about the bids of other bidders or auction trends, or with advice regarding bidding strategies, in connection with the auction process. We encourage you to discuss any questions regarding the bidding process and suitability determinations applicable to your bids with your broker.

We intend to submit one or more bids to purchase Preferred Shares in the auction and have received approval of the Federal Reserve to do so. In the event we bid, our bids will be for less than all of the Preferred Shares and may be made at a price or prices per share that is less than the liquidation preference per share. Depending on whether and the extent to which we are a successful bidder, our capital levels will be affected based on the aggregate purchase price paid for the Preferred Shares, after taking into account any gain recognized on the difference, if any, between the clearing price and the liquidation preference of \$1,000 per share. The capital ratios for the Company and Peoples Bank at March 31, 2012 are set forth in the table below.

Ratio	Company	Peoples Bank
Tier 1 risk-based capital ratio:	16.47 %	14.19 %
Total risk-based capital ratio:	17.75 %	15.48 %
Leverage ratio:	11.41 %	9.82 %

We do not intend to submit any bids for the purchase of Preferred Shares that, if successful, would result in the reduction of our capital ratios below the pro forma levels set forth in the table below.

Ratio	Company	Peoples Bank
Tier 1 risk-based capital ratio:		
Total risk-based capital ratio:		
Leverage ratio:		

There can be no assurance that one or more of our bids will be successful. For more information about the auction process, see Auction Process in this prospectus supplement.

Minimum Bid Size and Price Increments

This offering is being conducted using an auction process in which prospective purchasers are required to bid for the Preferred Shares. During the auction period, bids may be placed for Preferred Shares at any price at or above the minimum bid price of \$ per share (such bid price to be in increments of \$0.01) with a minimum bid size of one Preferred Share. See Auction Process in this prospectus supplement.

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Bid Submission Deadline

The auction will commence at 10:00 a.m., New York City time, on the date specified by the auction agents in a press release issued prior to the opening of the equity markets on such day, and will close at 6:30 p.m., New York City time, on the second business day immediately thereafter, which is referred to as the submission deadline.

Irrevocability of Bids

Bids that have not been modified or withdrawn by the time of the submission deadline are final and irrevocable, and bidders who submit bids that are accepted by Treasury will be obligated to purchase the Preferred Shares allocated to them. The auction agents are under no obligation to reconfirm bids for any reason, except as may be required by applicable securities laws; however, the auction agents, in their sole discretion, may require that bidders confirm their bids before the auction process closes. See Auction Process in this prospectus supplement.

Clearing Price

The price at which the Preferred Shares will be sold to the public will be the clearing price plus accrued dividends thereon. The clearing price will be determined as follows:

If valid, irrevocable bids are received for 100% or more of the offered Preferred Shares at the submission deadline, the clearing price will be equal to the highest price at which all of the offered Preferred Shares can be sold in the auction;

If valid, irrevocable bids are received for at least half, but less than all, of the offered Preferred Shares at the time of the submission deadline, the clearing price will be equal to the minimum bid price of \$ per share.

Even if bids are received for at least half of the offered Preferred Shares, Treasury may decide not to sell any Preferred Shares in the auction process or, in the case where bids are received for at least half, but less than all, of the Preferred Shares, may decide only to sell a portion (but not less than half) of the offered Preferred Shares in the auction process. If Treasury decides to sell Preferred Shares in the auction, after Treasury confirms its acceptance of the clearing price and the number of Preferred Shares to be sold, the auction agents and each network broker that has submitted a successful bid will notify successful bidders that the auction has closed and that their bids have been accepted by Treasury (subject, in some cases, to pro-ration, as described below). The clearing price and number of Preferred Shares to be sold are also expected to be announced by press release on the business day following the end of the auction. See Auction Process in this prospectus supplement.

Number of Preferred Shares to be Sold

If bids are received for 100% or more of the offered Preferred Shares, Treasury must sell all of the offered Preferred Shares if it chooses to sell any Preferred Shares. If bids are received for at least half, but less than all, of the offered Preferred Shares, then Treasury may, but is not required to, sell at the minimum bid price in the auction (which will be deemed to be the clearing price) the number of Preferred Shares it chooses to sell up to the number of bids received in the auction, so long as at least half of the offered

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Preferred Shares are sold. If bids are received for less than half of the offered Preferred Shares, Treasury will not sell any Preferred Shares in this offering. Even if bids are received for at least half of the offered Preferred Shares, Treasury may decide not to sell any Preferred Shares or, in the case where bids are received for at least half, but less than all, of the offered Preferred Shares, may decide only to sell a portion (but not less than half) of the offered Preferred Shares in the auction process. If Treasury elects to sell any Preferred Shares in the auction, Treasury must sell those shares at the clearing price plus accrued dividends thereon. In no event will Treasury sell more Preferred Shares than the number of Preferred Shares for which there are bids. See Auction Process in this prospectus supplement.

Allocation; Pro-Ration

If bids for 100% or more of the offered Preferred Shares are received and Treasury elects to sell Preferred Shares in the offering, then any accepted bids submitted in the auction above the clearing price will receive allocations in full, while any accepted bids submitted at the clearing price may experience pro-rata allocation. If bids for at least half, but less than all, of the offered Preferred Shares are received, and Treasury chooses to sell fewer Preferred Shares than the number of Preferred Shares for which bids were received, then all bids will experience equal pro-rata allocation. See Auction Process in this prospectus supplement.

Use of Proceeds

We will not receive any proceeds from the sale of any Preferred Shares sold by Treasury. See Use of Proceeds.

Listing

The Preferred Shares will not be listed for trading on any stock exchange nor will they be available for quotation on any national quotation system.

Risk Factors

See Risk Factors and other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus for a discussion of factors you should consider carefully before making a decision to invest in the Preferred Shares.

Auction Agents

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Sandler O'Neill & Partners, L.P.

Network Brokers

See page S-33 and S-34 for a list of brokers participating as network brokers in the auction process.

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Summary Consolidated Financial Data

The following tables present our selected consolidated financial data as of or for each of the five years ended December 31, 2011, and as of and for the three months ended March 31, 2012 and 2011. Financial data as of or for each of the five years ended December 31, 2011 is derived from our audited consolidated financial statements. Financial data as of or for the three months ended March 31, 2012 and 2011 is unaudited. However, in the opinion of our management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of our results of operations and financial condition for the unaudited periods have been made. No adjustments were made other than normal recurring entries. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results of operations that may be expected for the entire year. Furthermore, other historical results are not necessarily indicative of results for future periods.

You should read these tables together with the historical consolidated financial information contained in our consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2011, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, which have been filed with the SEC and are incorporated by reference in this prospectus supplement and the accompanying prospectus.

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Summary Consolidated Financial Data

Dollars in Thousands Except Per Share Amounts

	At or for the three months ended March 31,		At or for the years ended December 31,				
	2012	2011	2011	2010	2009	2008	2007
Summary of Operations							
Interest income	\$10,362	11,558	45,259	47,680	50,037	56,322	61,732
Interest expense	2,218	3,044	10,946	14,348	17,187	23,526	27,585
Net interest earnings	8,144	8,514	34,313	33,332	32,850	32,796	34,147
Provision for loan losses	2,049	2,950	12,632	16,438	10,535	4,794	2,038
Net interest earnings after provision for loan losses	6,095	5,564	21,681	16,894	22,315	28,002	32,109
Non-interest income	3,380	3,602	14,513	13,884	11,823	10,495	8,816
Non-interest expense	7,271	7,400	29,572	28,948	29,883	28,893	25,993
Earnings before taxes	2,204	1,766	6,622	1,830	4,255	9,604	14,932
Income taxes	545	405	1,463	(11)	1,339	3,213	5,340
Net earnings	1,659	1,361	5,159	1,841	2,916	6,391	9,592
Dividends and accretion of preferred stock	348	348	1,393	1,394	1,246		
Net earnings available to common shareholders	\$1,311	1,013	3,766	447	1,670	6,391	9,592
Selected Period Ending Balances							
Assets	\$1,053,327	1,072,046	1,067,063	1,067,652	1,048,494	968,762	907,262
Available for sale securities	299,303	271,570	321,388	272,449	195,115	124,916	120,968
Loans, net	641,731	695,756	653,893	710,667	762,643	770,163	713,174
Mortgage loans held for sale	6,256	2,415	5,146	3,814	2,840		
Interest-earning assets	994,267	1,009,447	1,004,131	1,010,983	988,017	921,101	853,878
Deposits	807,799	838,980	827,111	838,712	809,343	721,062	693,639
	941,897	957,330	820,452	850,233	826,838		

Interest-bearing
liabilities