Risk Factors Comparison 2024-03-07 to 2023-03-17 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us and our business. If any of these risks were to materialize, our business, financial condition or results of operations could be materially and adversely affected. RISK FACTORS RELATED TO OUR BUSINESS ~~The lingering economic impact of the COVID- 19 pandemic combined with the current inflationary pressures could adversely affect our financial condition and results of operations. The COVID- 19 pandemic caused significant economic disruption throughout the United States. Although the economic activity has improved and there is growth in demand for goods and services, the lingering impact the COVID- 19 pandemic has created certain adverse and persistent macroeconomic consequences, including labor shortages and disruptions of global supply chain, which may continue for some time and which have contributed to rising inflationary pressures and the risk of recession. As a result of the lingering impact of the COVID- 19 pandemic and the related adverse economic consequences, we could be subject to the following risks, among others, any of which individually or in combination with others could have a material, adverse effect on our business, financial condition, liquidity, and results of operations: · Demand for our products and services may decline, making it difficult to grow assets and income; · If we have high levels of unemployment for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income; · Collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase; · Limitations may be placed on our ability to foreclose on properties we hold as collateral; · Our allowance for credit losses may have to be increased if borrowers experience financial difficulties which will adversely affect our net income; · The net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us; · Our cybersecurity risks are increased if employees work remotely; · We rely on third- party vendors for certain services and the unavailability of a critical service could have an adverse effect on us; and · FDIC premiums may increase if the FDIC experiences additional resolution costs. 15Unfavorable~~ -- **Unfavorable** economic conditions could adversely affect our business. Our business is subject to periodic fluctuations based on national, regional and local economic conditions. These fluctuations are not predictable, cannot be controlled, and may have a material adverse impact on our operations and financial condition. Our banking operations are primarily locally oriented and community- based. Our retail and commercial banking activities are primarily concentrated within the same geographic footprint. Our market is primarily based in the Catawba Valley region of North Carolina and surrounding communities. ~~Worsening~~ **Adverse** economic conditions within our markets could have a material adverse effect on our financial condition, results of operations and cash flows. Accordingly, we expect to continue to be dependent upon local business conditions as well as conditions in the local residential and commercial real estate markets we serve. Unfavorable changes in unemployment, real estate values, interest rates, inflation and other factors could weaken the economies of the communities we serve. While economic growth and business activity has been generally favorable in our market area in recent years, there can be no assurance that economic conditions will recover to pre- pandemic levels, and these conditions could worsen. In addition, unfavorable global economic conditions, including the **lingering** effects of the COVID- 19 pandemic ~~discussed above~~, have had a negative impact on financial markets and could adversely impact our customers, which in turn could lead to lower business activity and higher loan delinquencies. Weakness in any of our market areas could have an adverse impact on our earnings, and consequently our financial condition and capital adequacy. Inflation can have an adverse impact on our customers and their ability to repay. Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money. ~~Recently~~ **In recent years**, there has been a pronounced rise in inflation and the Federal Reserve has raised certain benchmark interest rates in an effort to combat this trend. Our customers may also be affected by inflation and the rising costs of goods and services used in their households and businesses, which could have a negative impact on their ability to repay their loans with us. ~~Recessionary~~ **15Recessionary** conditions could result in increases in our level of nonperforming loans and / or reduce demand for our products and services, which would lead to lower revenue, higher loan losses and lower earnings. Recessionary conditions and / or ~~continued~~ negative developments in the domestic and international credit markets may significantly affect the markets in which we do business, the value of our loans and investments, and our ongoing operations, costs and profitability. Declines in real estate values and sales volumes and increased unemployment levels may result in higher than expected loan delinquencies, increases in our levels of nonperforming and classified assets and a decline in demand for our products and services. These negative events may cause us to incur losses and may adversely affect our capital, liquidity, and financial condition. We are subject to credit risk and may incur losses if loans are not repaid. There are inherent risks associated with our lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where we operate as well as those across the United States and abroad. Increases in interest rates and / or ~~weakening~~ **negative** economic conditions could adversely impact the ability of borrowers to repay outstanding loans and the value of the collateral securing these loans. We seek to mitigate the risks inherent in our loan portfolio by adhering to specific underwriting practices. Although we believe that our underwriting criteria are appropriate for the various kinds of loans we make, we may incur losses on loans that meet our underwriting criteria, and these losses may exceed the amounts set aside as reserves in our allowance for ~~loan~~ **credit** losses. Our loan portfolio includes loans with a higher risk of loss. We originate commercial real estate loans, commercial loans, construction and land development loans, and residential mortgage loans primarily within our market area. Commercial real estate, commercial, and construction and land development loans tend to involve larger loan balances to a single borrower or groups of related borrowers and are most susceptible to a risk of loss during a downturn in the business cycle. These loans also have historically had greater credit risk than other loans for the following reasons: · Commercial Real Estate Loans. Repayment is dependent on income being generated in amounts sufficient to cover operating expenses and debt service. These loans also involve greater risk because they are generally not fully amortizing over the loan period, but rather have a balloon payment due at maturity. A borrower' s ability to make a balloon payment typically will depend on being able to either refinance the loan or timely sell the underlying property. · Commercial Loans. Repayment is generally dependent upon the successful operation of the borrower' s business. In addition, the collateral securing the loans may depreciate over time, be difficult to appraise, be illiquid, or fluctuate in value based on the success of the business. · Construction and land development loans. The risk of loss is largely dependent on the initial estimate of whether the property' s value at completion equals or exceeds the cost of property construction and the availability of take- out financing. During the construction phase, a number of factors can result in delays or cost overruns. If the estimate is inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan, sale of the property, or by seizure of collateral. · Single- family residential loans. Declining home sales volumes, decreased real estate values and higher than normal levels of unemployment could contribute to losses on these loans. ~~16A~~ **A** significant amount of the Bank' s business is concentrated in lending which is secured by property located in the Catawba Valley and surrounding areas. In addition to the financial strength and cash flow characteristics of the borrower in each case, the Bank often secures its loans with real estate collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If the Bank is required to liquidate the collateral securing a loan during a period of reduced real estate values to satisfy the debt, the Bank' s earnings and capital could be adversely affected. Additionally, with most of the Bank' s loans concentrated in the Catawba Valley and surrounding areas, a decline in local economic conditions could adversely affect the values of the Bank' s real estate collateral. Consequently, a decline in local economic conditions may have a greater effect on the Bank' s earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are more geographically diverse. ~~Our~~ **16Our** use of appraisals in deciding whether to make a loan on or secured by real property does not ensure the value of the real property collateral. In considering whether to make a loan secured by real property, we typically require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made. If the appraisal does not reflect the amount that may be obtained upon any sale or foreclosure of the property, we may not realize an amount equal to the indebtedness secured by the property. Our allowance for ~~loan~~ **credit** losses may be insufficient and could therefore reduce earnings. The risk of credit losses on loans varies with, among other things, general economic conditions, the creditworthiness of the borrower over the term of the loan and, in the case of a collateralized loan, the value and marketability of the collateral for the loan. Management maintains an allowance for ~~loan~~ **credit** losses based upon, among other things, historical experience, an evaluation of economic conditions and regular reviews of delinquencies and loan portfolio quality. Management believes it has established the allowance in accordance with U. S. Generally Accepted Accounting Principles (" GAAP ") and in consideration of the current economic environment. Although management uses the best information available to make evaluations, significant future additions to the allowance may be necessary based on changes in economic and other conditions, thus adversely affecting the operating results of the Company. If management' s assumptions and judgments prove to be incorrect and the allowance for ~~loan~~ **credit** losses is inadequate to absorb future losses, or if the bank regulatory authorities require the Bank to increase the allowance for ~~loan~~ **credit** losses as a part of their examination process, the Bank' s earnings and capital could be significantly and adversely affected. For further discussion related to our process for determining the appropriate level of the allowance for ~~loan~~ **credit** losses, see " Allowance for ~~Loan~~ **Credit** Losses " within " Item 7. Management' s Discussion and Analysis of Financial Condition and Results and Operation " of the Annual Report, which is included in this Form 10- K as Exhibit (13). ~~In addition, the measure of our allowance for loan losses is dependent on the adoption of new accounting standards. The FASB issued an Accounting Standards Update related to CECL, the new credit impairment model, which was implemented by the Company for reporting periods beginning on January 1, 2023. This new model requires financial institutions to estimate and develop a provision for credit losses at origination for the lifetime of the loan, as opposed to reserving for probable incurred losses up to the balance sheet date. Under the CECL model, credit deterioration will be reflected in the income statement in the period of origination or acquisition of the loan, with changes in expected credit losses due to further credit deterioration or improvement reflected in the periods in which the expectation changes. 17The CECL framework is expected to result in earlier recognition of credit losses and is expected to be significantly influenced by the composition, characteristics and quality of the Company' s loan portfolio, as well as the prevailing economic conditions and forecasts. The Company will initially apply the impact of the new guidance through a cumulative- effect adjustment to retained earnings as of the beginning of the year of implementation. The CECL standard provides significant flexibility and requires a high degree of judgment with regards to pooling financial assets with similar risk characteristics and adjusting the relevant historical loss information in order to develop an estimate of expected lifetime losses. Providing for losses over the life of the Bank' s loan portfolio is a change to the previous method of providing allowances for loan losses that are probable and incurred. This change may require us to increase our allowance for loan losses rapidly in future periods, and greatly increases the types of data we need to collect and review to determine the appropriate level of the allowance for loan losses. It may also result in even small changes to future forecasts having a significant impact on the allowance, which could make the allowance more volatile, and regulators may impose additional capital buffers to absorb this volatility.~~ If our non- performing assets increase, our earnings will suffer. Our non- performing assets adversely affect our net income in various ways. We do not record interest income on non- accrual loans or real estate owned. We must reserve for probable losses, which is established through a current period charge to the provision for loan losses as well as from time to time, as appropriate, the write down of the value of properties in our other real estate owned portfolio to reflect changing market values. Additionally, there are legal fees associated with the resolution of problem assets as well as carrying costs such as taxes, insurance and maintenance related to our other real estate owned. Further, the resolution of non- performing assets requires the active involvement of management, which can distract them from more profitable activity. Finally, if our estimate for the recorded allowance for ~~loan~~ **credit** losses proves to be incorrect and our allowance is inadequate, we will have to increase the allowance accordingly. Changes in interest rates affect profitability and assets. Changes in prevailing interest rates may hurt the Bank' s business. The Bank derives its income primarily from the difference or " spread " between the interest earned on loans, securities and other interest- earning assets, and interest paid on deposits, borrowings and other interest- bearing liabilities. In general, the larger the spread, the more the Bank earns. When market rates of interest change, and in particular during periods of rapid rate movements as experienced in 2022 **and 2023** , the interest the Bank receives on its assets and the interest the Bank pays on its liabilities will fluctuate. This can cause decreases in the " spread " and can adversely affect the Bank' s income. Changes in market interest rates could reduce the value of the Bank' s financial assets. Fixed- rate investments, mortgage- backed and related securities and mortgage loans generally decrease in value as interest rates rise. In addition, interest rates affect how much money the Bank lends. For example, when interest rates rise, the cost of borrowing increases and the loan originations tend to decrease. If the Bank is unsuccessful in managing the effects of changes in interest rates, the financial condition and results of operations could suffer. A small number of large deposit relationships provide a significant level of funding for the Bank. The Bank' s five largest deposit relationships, including securities sold under agreements to repurchase, amounted to $ ~~117~~ **134** . ~~0~~ **5** million at December 31, ~~2022~~ **2023** . These balances represent ~~7~~ **9** . ~~89~~ **10** % of total deposits and securities sold under agreements to repurchase combined at December 31, ~~2022~~ **2023** . Total deposits for the five largest relationships referenced above amounted to $ ~~85~~ **108** . **4 million, or** 7 ~~million, or 5~~ . ~~97~~ **79** % of total deposits at December 31, ~~2022~~ **2023** . Total securities sold under agreements to repurchase for the five largest relationships referenced above amounted to $ ~~31~~ **26** . ~~4~~ **2** million, or ~~65~~ **30** . ~~76~~ **17** % of total securities sold under agreements to repurchase at December 31, ~~2022~~ **2023** . Withdrawals of deposits by any one of our largest depositors could force us to rely more heavily on borrowings and other sources of funding for our business and withdrawal demands, adversely affecting our net interest margin and results of operations. We may also be forced, as a result of any withdrawal of deposits, to rely more heavily on other, potentially more expensive and less stable funding sources. Consequently, the occurrence of any of these events could have a material adverse effect on our business, results of operations, financial condition and future prospects. ~~We~~ **17We** may not be able to retain or grow our deposit base, which could adversely impact our funding costs. Like many financial institutions, the Bank relies on customer deposits as its primary source of funding for its lending activities, and the Bank continues to seek customer deposits to maintain this funding base. The Bank' s future growth will largely depend on its ability to retain and grow its deposit base. As of December 31, ~~2022~~ **2023** , the Bank had $ 1. 4 billion in deposits. The Bank' s deposits are subject to potentially dramatic fluctuations in availability or price due to certain factors outside of its control, such as increasing competitive pressures for deposits, changes in interest rates and returns on other investment classes, customer perceptions of its financial health and general reputation, and a loss of confidence by customers in the Bank or the banking sector generally, which could result in significant outflows of deposits within short periods of time or significant changes in pricing necessary to maintain current customer deposits or attract additional deposits. The availability of deposits can also be impacted by regulatory changes (e. g., changes in FDIC insurance, the liquidity coverage ratio, etc.), changes in the financial condition of the Bank, or the banking industry in general, and other events which can impact the perceived safety and soundness or economic benefits of bank deposits. Any loss by the Bank of its deposit base could limit its lending ability resulting in lower loan originations, which could have a material adverse effect on the Bank' s business, financial condition and results of operations. Increases in FDIC insurance premiums may adversely affect our net income and profitability. The Company is generally unable to control the amount of premiums that the Bank is required to pay for FDIC insurance. If there are bank or financial institution failures that exceed the FDIC' s expectations, the Bank may be required to pay higher FDIC premiums than those currently in force. Any future increases or required prepayments of FDIC insurance premiums may adversely impact the Company' s earnings and financial condition. ~~18Cybersecurity~~ -- **Cybersecurity** incidents could disrupt business operations, result in the loss of critical and confidential information, and adversely impact our reputation and results of operations. Global cybersecurity threats and incidents can range from uncoordinated individual attempts to gain unauthorized access to information technology (IT) systems to sophisticated and targeted measures known as advanced persistent threats, directed at the Company and / or its third- party service providers. While we have experienced, and expect to continue to experience, these types of threats and incidents, none of them to date have been material to the Company. Although we employ comprehensive measures to prevent, detect, address and mitigate these threats (including access controls, employee training, data encryption, vulnerability assessments, continuous monitoring of our IT networks and systems and maintenance of backup and protective systems), cybersecurity incidents, depending on their nature and scope, could potentially result in the misappropriation, destruction, corruption or unavailability of critical data and confidential or proprietary information (our own or that of third parties) and the disruption of business operations. The potential consequences of a material cybersecurity incident include reputational damage, litigation with third parties and increased cybersecurity protection and remediation costs, which in turn could materially adversely affect our results of operations. Our business continuity plans or data security systems could prove to be inadequate, resulting in a material interruption in, or disruption to, our business and a negative impact on our results of operations. We rely heavily on communications and information systems to conduct our business. Our daily operations depend on the operational effectiveness of our technology. We rely on our systems to accurately track and record our assets and liabilities. Any failure, interruption or breach in security of our computer systems or outside technology, whether due to severe weather, natural disasters, acts of war or terrorism, criminal activity, cyberattacks or other factors, could result in failures or disruptions in general ledger, deposit, loan, customer relationship management, and other systems leading to inaccurate financial records. This could materially affect our business operations and financial condition. ~~While~~ **18While** we have disaster recovery and other policies and procedures designed to prevent or limit the effect of any failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions, or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our results of operations. In addition, the Bank provides its customers the ability to bank online and through mobile banking. The secure transmission of confidential information over the Internet is a critical element of online and mobile banking. While we use qualified third- party vendors to test and audit our network, our network could become vulnerable to unauthorized access, computer viruses, phishing schemes and other security issues. The Bank may be required to spend significant capital and other resources to alleviate problems caused by security breaches or computer viruses. To the extent that the Bank' s activities or the activities of its customers involve the storage and transmission of confidential information, security breaches and viruses could expose the Bank to claims, litigation, and other potential liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in the Bank' s systems and could adversely affect its reputation and its ability to generate deposits. Additionally, we outsource the processing of our core data system, as well as other systems such as online banking, to third party vendors. Prior to establishing an outsourcing relationship, and on an ongoing basis thereafter, management monitors key vendor controls and procedures related to information technology, which includes reviewing reports of service auditor' s examinations. If our third- party provider encounters difficulties or if we have difficulty in communicating with such third party, it will significantly affect our ability to adequately process and account for customer transactions, which would significantly affect our business operations. In the normal course of business, we process large volumes of transactions involving millions of dollars. If our internal controls fail to work as expected, if our systems are used in an unauthorized manner, or if our employees subvert our internal controls, we could experience significant losses. We process large volumes of transactions on a daily basis involving millions of dollars and are exposed to numerous types of operational risk. Operational risk includes the risk of fraud by persons inside or outside the Company, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems and breaches of the internal control system and compliance requirements. This risk also includes potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards. ~~19We~~ **We** establish and maintain systems of internal operational controls that provide us with timely and accurate information about our level of operational risk. Although not foolproof, these systems have been designed to manage operational risk at appropriate, cost- effective levels. Procedures exist that are designed to ensure that policies relating to conduct, ethics, and business practices are followed. From time to time, losses from operational risk may occur, including the effects of operational errors. We continually monitor and improve our internal controls, data processing systems, and corporate- wide processes and procedures, but there can be no assurance that future losses will not occur. Financial services companies depend on the accuracy and completeness of information about customers and counterparties. In deciding whether to extend credit or enter into other transactions, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports, and other financial information. We may also rely on representations of those customers, counterparties, or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, financial advisors and consultants, credit reports, or other financial information could cause us to enter into unfavorable transactions, which could have a material adverse effect on our financial condition and results of operations. We are subject to extensive regulation, which could have an adverse effect on our operations. The Company and the Bank are subject to extensive regulation and supervision from the Commissioner, the FDIC and the Federal Reserve. This regulation and supervision is intended primarily to enhance the safe and sound operation of the Bank and for the protection of the FDIC insurance fund and our depositors and borrowers, rather than for holders of our equity securities. In the past, our business has been materially affected by these regulations. This trend is likely to continue in the future. ~~Regulatory~~ **19Regulatory** authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on operations, the classification of our assets and the determination of the level of allowance for ~~loan~~ **credit** losses. Changes in the regulations that apply to us, or changes in our compliance with regulations, could have a material impact on our operations. We face a risk of noncompliance with the Bank Secrecy Act and other anti- money laundering statutes and regulations and related enforcement actions. The federal BSA, the USA Patriot Act and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti- money laundering programs and file suspicious activity and currency transaction reports as appropriate. The Financial Crimes Enforcement Network (" FINCEN "), established by the Treasury to administer the BSA, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U. S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. There is also increased scrutiny of compliance with the rules enforced by the OFAC. Federal and state bank regulators also have begun to focus on compliance with BSA and AML regulations. If our policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that we have already acquired or may acquire in the future are deficient, we would be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans, which would negatively impact our business, financial condition and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. We are subject to federal and state fair lending laws, and failure to comply with these laws could lead to material penalties. Federal and state fair lending laws and regulations, such as the Equal Credit Opportunity Act and the Fair Housing Act, impose nondiscriminatory lending requirements on financial institutions. The Department of Justice, the Consumer Finance Protection Bureau and other federal and state agencies are responsible for enforcing these laws and regulations. Private parties may also have the ability to challenge an institution' s performance under fair lending laws in private class action litigation. A successful challenge to our performance under the fair lending laws and regulations could adversely impact our CRA rating and result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on or delays in approving merger and acquisition activity and restrictions on expansion activity, which could negatively impact our reputation, business, financial condition and results of operations. ~~20Consumers~~ -- **Consumers** may decide not to use banks to complete their financial transactions. Technology and other changes are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds or general- purpose reloadable prepaid cards. Consumers can also complete transactions such as paying bills and / or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as " disintermediation, " could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations. The soundness of other financial institutions could adversely affect us. Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, and investment banks. Defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. We can make no assurance that any such losses would not materially and adversely affect our business, financial condition or results of operations. ~~Liquidity~~ **20Liquidity** risk could impair our ability to fund operations and jeopardize our financial condition. Liquidity is essential to our business. We rely on a number of different sources in order to meet our potential liquidity demands. Our primary sources of liquidity are increases in deposit accounts, cash flows from loan payments and our securities portfolio. Borrowings also provide us with a source of funds to meet liquidity demands. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities or on terms which are acceptable to us could be impaired by factors that affect us specifically, or the financial services industry or economy in general. Factors that could detrimentally impact our access to liquidity sources include adverse regulatory action against us or a decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of the recent turmoil faced by banking organizations or deterioration in credit markets. ~~21Risks~~ -- **Risks** related to decline in value of investment securities portfolio. At December 31, ~~2022~~ **2023**, unrealized losses in our available for sale investment securities portfolio totaled $ ~~62~~ **51**. 3 million. These unrealized losses arose due to changing interest rates and are considered to be temporary; however, in the event that we sell these securities while they are in an unrealized loss position, we will recognize a corresponding loss. In January and February 2023, we sold securities available for sale totaling $ 53. 5 million, which resulted in gross losses of $ 2. 7 million and gross gains of $ 177, 000. In the event that we decide to sell additional securities while they are in an unrealized loss position, we will experience additional losses, which could have a material adverse effect on our earnings and financial condition. We could experience losses due to competition with other financial institutions. We face substantial competition in all areas of our operations from a variety of different competitors, both within and beyond our principal markets, many of which are larger and may have more financial resources. Such competitors primarily include national, regional and internet banks within the various markets in which we operate. We also face competition from many other types of financial institutions, including, without limitation, thrifts, credit unions, finance companies, brokerage firms, insurance companies and other financial intermediaries, such as online lenders and banks. The financial services industry could become even more competitive as a result of legislative and regulatory changes and continued consolidation. In addition, as customer preferences and expectations continue to evolve, technology has lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Many of our competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than we can. Our ability to compete successfully depends on a number of factors, including, among other things: · the ability to develop, maintain, and build upon long- term customer relationships based on top quality service, high ethical standards, and safe, sound assets; · the ability to expand our market position; · the scope, relevance, and pricing of products and services offered to meet customer needs and demands; · the rate at which we introduce new products and services relative to our competitors; · customer satisfaction with our level of service; and · industry and general economic trends. Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our financial condition and results of operations. ~~Failure~~ **21Failure** to keep pace with technological change could adversely affect our business. The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology- driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology- driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations. We rely on other companies to provide key components of our business infrastructure. Third party vendors provide key components of our business infrastructure such as internet connections, network access and core application processing. While we have selected these third- party vendors carefully, we do not control their actions. Any problems caused by these third parties, including as a result of their not providing us their services for any reason or their performing their services poorly, could adversely affect our ability to deliver products and services to our customers and otherwise to conduct our business and could negatively impact our reputation. Replacing these third- party vendors could also entail significant delay and expense. ~~22Negative~~ -- **Negative** publicity could damage our reputation. Reputation risk, or the risk to our earnings and capital from negative public opinion, is inherent in our business. Negative public opinion could adversely affect our ability to keep and attract customers and expose us to adverse legal and regulatory consequences. Negative public opinion could result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance, regulatory compliance, mergers and acquisitions, and disclosure, sharing or inadequate protection of customer information, and from actions taken by government regulators and community organizations in response to that conduct. Our reputation could also be adversely impacted by negative public opinion regarding the financial services industry in general. Loss of key personnel could adversely impact results. The success of the Bank has been and will continue to be greatly influenced by the ability to retain the services of existing senior management. The Bank has benefited from consistency within its senior management team, with two of its top three executives averaging ~~26~~ **27** years of service with the Bank. The unexpected loss of the services of any of the key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse impact on the business and financial results of the Bank. We may be subject to examinations by taxing authorities which could adversely affect our results of operations. In the normal course of business, we may be subject to examinations from federal and state taxing authorities regarding the amount of taxes due in connection with investments we have made and the businesses in which we are engaged. Recently, federal and state taxing authorities have become increasingly aggressive in challenging tax positions taken by financial institutions. The challenges made by taxing authorities may result in adjustments to the timing or amount of taxable income or deductions or the allocation of income among tax jurisdictions. If any such challenges are made and are not resolved in our favor, they could have an adverse effect on our financial condition and results of operations ~~. As discussed in Item 3. Legal Proceedings, the North Carolina Department of Revenue is seeking to disallow certain tax credits taken by the Bank in prior tax years from an investment made by the Bank. While the Bank purchased a Guaranty Agreement along with the investment, which we believe limits our potential exposure, in the event the tax credits are ultimately disallowed, there can be no assurance that the guarantor will perform under the Guaranty Agreement or that we will recover all of any of these potential losses under the Guaranty Agreement. This could have a material adverse effect on our results of operations and financial condition~~. Changes in our accounting policies or in accounting standards could materially affect how we report our financial results and condition. Our accounting policies are fundamental to understanding our financial results and condition. Some of these policies require use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Some of our accounting policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. From time to time the FASB and the SEC change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our external financial statements. These changes are beyond our control, can be hard to predict and could materially impact how we report our results of operations and financial condition. We could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements in material amounts. ~~Our~~ **22Our** internal controls may be ineffective. Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations, and financial condition. ~~23Impairment of~~ **Credit losses on** investment securities or deferred tax assets could require charges to earnings, which could result in a negative impact on our results of operations. In assessing the impairment of investment securities, management considers the ~~length of time and~~ extent to which the fair value has been less than cost, the financial condition and near- term prospects of the issues, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery of fair value in the near term. In assessing the future ability of the Company to realize the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The impact of each of these impairment matters could have a material adverse effect on our business, results of operations, and financial condition. Because we engage in lending secured by real estate and may be forced to foreclose on the collateral property and own the underlying real estate, we may be subject to the increased costs associated with the ownership of real property, which could result in reduced net income. Since we originate loans secured by real estate, we may have to foreclose on the collateral property to protect our investment and may thereafter own and operate such property, in which case we are exposed to the risks inherent in the ownership of real estate. The amount that we, as a mortgagee, may realize after a default is dependent upon factors outside of our control, including, but not limited to: · general or local economic conditions; · environmental cleanup liability; · neighborhood values; · interest rates; · real estate tax rates; · operating expenses of the mortgaged properties; · supply of and demand for rental units or properties; · ability to obtain and maintain adequate occupancy of the properties; · zoning laws; · governmental rules, regulations and fiscal policies; and · acts of God. Certain expenditures associated with the ownership of real estate, principally real estate taxes and maintenance costs, may adversely affect the income from the real estate. Therefore, the cost of operating real property may exceed the rental income earned from such property, and we may have to advance funds in order to protect our investment or we may be required to dispose of the real property at a loss. We are subject to losses due to errors, omissions or fraudulent behavior by our employees, clients, counterparties or other third parties. We are exposed to many types of operational risk, including the risk of fraud by employees and third parties, clerical recordkeeping errors and transactional errors. Our business is dependent on our employees as well as third- party service providers to process a large number of increasingly complex transactions. We could be materially and adversely affected if employees, clients, counterparties or other third parties caused an operational breakdown or failure, either as a result of human error, fraudulent manipulation or purposeful damage to any of our operations or systems. ~~In~~ **23In** deciding whether to extend credit or to enter into other transactions with clients and counterparties, we may rely on information furnished to us by or on behalf of clients and counterparties, including financial statements and other financial information, which we do not independently verify. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to a client, we may assume that the client' s audited financial statements conform with GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the client. Our financial condition and results of operations could be negatively affected to the extent we rely on financial statements that do not comply with GAAP or are materially misleading, any of which could be caused by errors, omissions, or fraudulent behavior by our employees, clients, counterparties, or other third parties. ~~24Our~~ -- **Our** articles of incorporation and bylaws, and certain banking laws may have an anti- takeover effect. Provisions of our articles of incorporation and bylaws, and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. The combination of these provisions may prohibit a non- negotiated merger or other business combination, which, in turn, could adversely affect the market price of our common stock. RISKS RELATED TO THE COMPANY' S STOCK Our stock price can be volatile. Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. Our stock price can fluctuate significantly in response to a variety of factors including the risk factors discussed elsewhere in this report that are outside of our control and which may occur regardless of our operating results. Future sales of our stock by our shareholders or the perception that those sales could occur may cause our stock price to decline. Although our common stock is listed for trading in The NASDAQ Global Select Market under the symbol " PEBK ", the trading volume in our common stock is lower than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the relatively low trading volume of our common stock, significant sales of our common stock in the public market, or the perception that those sales may occur, could cause the trading price of our common stock to decline or to be lower than it otherwise might be in the absence of those sales or perceptions. Our common stock is not FDIC insured. The Company' s common stock is not a savings or deposit account or other obligation of any bank and is not insured by the FDIC or any other governmental agency and is subject to investment risk, including the possible loss of principal. Investment in our common stock is inherently risky for the reasons described in this " Risk Factors " section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, holders of our common stock may lose some or all of their investment. We may reduce or eliminate dividends on our common stock. Although we have historically paid a quarterly cash dividend to the holders of our common stock, holders of our common stock are not entitled to receive dividends. Downturns in the domestic and global economies could cause our Board of Directors to consider, among other things, reducing or eliminating dividends paid on our common stock. This could adversely affect the market price of our common stock. Furthermore, as a bank holding company, our ability to pay dividends is subject to the guidelines of the Federal Reserve regarding capital adequacy and dividends before declaring or paying any dividends. Dividends also may be limited as a result of safety and soundness considerations. ~~We~~ **24We** may need additional access to capital, which we may be unable to obtain on attractive terms or at all. We may need to incur additional debt or equity financing in the future to make strategic acquisitions or investments, for future growth or to fund losses or additional provision for loan losses in the future. Our ability to raise additional capital, if needed, will depend in part on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we may be unable to raise additional capital, if and when needed, on terms acceptable to it, or at all. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired and our stock price negatively affected.