

2015 ANNUAL REPORT

*FORWARD THINKING | FUTURE FOCUSED*



**Select Bancorp**  
Inc.



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## GENERAL CORPORATE INFORMATION

### ANNUAL SHAREHOLDERS MEETING

The annual meeting of shareholders of Select Bancorp, Inc. will be held on May 24, 2016, at 10:00 a.m. at the Fairfield Inn & Suites, 513 Spring Branch Road, Dunn, NC 28334.

### MARKET FOR COMMON STOCK

The common stock of Select Bancorp, Inc. is listed on the NASDAQ Global Market under the trading symbol "SLCT." Raymond James & Associates, Inc.; Automated Trading Desk Financial Services; B-Trade Services; Citadel Securities; Domestic Securities; Hill Thompson Magid & Company; Hudson Securities; J. P. Morgan Securities; FIG Partners; Knight Capital Americas, L.P.; Monroe Financial Partners; UBS Securities; Sandler O'Neill & Partners, L.P.; and Scott & Stringfellow provide bids and ask quotes for our common stock. At December 31, 2015, there were 11,583,011 shares of common stock outstanding, which were held by approximately 1,343 shareholders.

The table below presents the high and low closing sales prices for Select Bancorp, Inc. stock for 2015 and 2014.

2015	High	Low
First Quarter	\$7.56	\$6.62
Second Quarter	7.57	6.85
Third Quarter	8.25	6.94
Fourth Quarter	8.47	7.30

2014	High	Low
First Quarter	\$7.00	\$6.30
Second Quarter	7.50	6.26
Third Quarter	10.78	6.25
Fourth Quarter	7.97	6.60

### INDEPENDENT AUDITORS

Dixon Hughes Goodman LLP  
2501 Blue Ridge Road, Suite 500, Raleigh, NC 27607

### FORM 10-K

A copy of Select Bancorp, Inc.'s 2015 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is available without charge to shareholders upon written request to Brenda B. Bonner, Vice President, Corporate Secretary, Select Bancorp, Inc., 700 West Cumberland Street, Dunn, NC 28334.

### EQUAL OPPORTUNITY EMPLOYER

As an equal opportunity employer, Select Bank & Trust, a wholly-owned subsidiary of Select Bancorp, Inc., pledges to protect applicants and employees from discrimination in hiring, promotion, discharge, pay, fringe benefits, job training, classification, referral and other aspects of employment on the basis of race, color, religion, sex, national origin, age, disability, genetics or veteran status.

### CORPORATE HEADQUARTERS

700 West Cumberland Street  
Dunn, NC 28334-2633  
(910) 892-7080  
SelectBank.com

### STOCK TRANSFER AGENT

Computershare Transfer Agency  
P.O. Box 30170  
College Station, TX 77842-3170  
(800) 522-6645

### REGULATORY AND SECURITIES COUNSEL

Wyrick Robbins Yates & Ponton LLP  
4101 Lake Boone Trail, Suite 300  
Raleigh, NC 27607

### SELECT BANK & TRUST OFFICE LOCATIONS

<i>Burlington</i> 3158 South Church Street	<i>Leland</i> 1101 New Pointe Boulevard
<i>Clinton</i> 111 Northeast Boulevard	<i>Lillington</i> 818 McKinney Parkway
<i>Dunn</i> 700 W. Cumberland St.	<i>Lumberton</i> 4400 Fayetteville Road
<i>Elizabeth City</i> 416 South Hughes Boulevard	<i>Morehead City</i> 168 N.C. 24
<i>Fayetteville</i> 2818 Raeford Road	<i>Raleigh</i> 8470 Falls of Neuse Road Suite 100
<i>Goldsboro</i> 431 N. Spence Avenue	<i>Washington</i> 155 N. Market Street, Suite 103
<i>Greenville</i> 3600 Charles Boulevard 3800 East 10th Street	

## SELECTED FINANCIAL HIGHLIGHTS

(unaudited)

At or for the year ended December 31,

	2015	2014	2013	2012	2011
(Dollars in thousands, except for share data)					
<b>Operating Data:</b>					
Total interest income	\$ 33,341	\$ 26,104	\$ 22,903	\$ 25,132	\$ 30,383
Total interest expense	3,542	4,519	5,258	6,632	8,425
Net interest income	29,799	21,585	17,645	18,500	21,958
Provision (Recovery) for loan losses	890	(194)	(325)	(2,597)	6,218
Net interest income after provision (recovery) for loan losses	28,909	21,779	17,970	21,097	15,740
Total non-interest income	3,292	2,675	2,629	3,598	2,817
Merger related expenses	378	1,941	428	-	-
Other non-interest expense	21,852	18,719	15,427	17,236	19,105
Income (loss) before income taxes	9,971	3,794	4,744	7,459	(548)
Provision for income taxes (benefit)	3,418	1,437	1,803	2,822	(385)
Net Income (loss)	6,553	2,357	2,941	4,637	(163)
Dividends on Preferred Stock	77	38	-	-	-
Net income (loss) available to common shareholders	\$ 6,476	\$ 2,319	\$ 2,941	\$ 4,637	\$ (163)
<b>Per Share Data:</b>					
Earnings (loss) per share - basic	\$ 0.56	\$ 0.26	\$ 0.43	\$ 0.67	\$ (0.02)
Earnings (loss) per share - diluted	0.56	0.26	0.43	0.67	(0.02)
Market Price					
High	8.47	10.78	7.42	6.14	6.00
Low	6.62	6.25	5.43	1.89	1.84
Close	8.09	7.37	6.67	5.60	2.00
Book value	8.38	8.59	8.09	7.84	7.22
Tangible book value	7.67	7.82	8.07	7.79	7.14
<b>Selected Year-End Balance Sheet Data:</b>					
Loans, gross of allowance	\$ 617,398	\$ 552,038	\$ 346,500	\$ 367,892	\$ 417,624
Allowance for loan losses	7,021	6,844	7,054	7,897	10,034
Other interest-earning assets	134,368	138,198	138,406	183,679	128,800
Goodwill	6,931	6,931	-	-	-
Core deposit intangible	1,241	1,625	182	298	545
Total assets	817,015	766,121	525,646	585,453	589,651
Deposits	651,161	618,902	448,458	498,559	501,377
Borrowings	58,376	46,324	18,677	30,220	36,249
Shareholders' equity	104,702	97,685	56,004	54,179	49,546
<b>Selected Average Balances:</b>					
Total assets	\$ 765,274	\$ 631,905	\$ 555,354	\$ 574,610	\$ 624,015
Loans, gross of allowance	578,759	430,571	354,871	391,648	451,358
Total interest-earning assets	686,663	565,264	511,597	532,193	565,867
Goodwill	6,931	2,946	-	-	-
Core deposit intangible	1,330	884	237	389	621
Deposits	607,214	523,954	470,526	481,387	533,000
Total interest-bearing liabilities	521,346	554,405	413,419	442,554	494,520
Shareholders' equity	102,068	73,660	55,701	52,769	50,094
<b>Selected Performance Ratios:</b>					
Return on average assets	0.86%	0.37%	0.53%	0.81%	(0.03)%
Return on average equity	6.42%	3.12%	5.28%	8.79%	(0.33)%
Net interest margin (4)	4.34%	3.88%	3.46%	3.57%	3.91%
Net interest spread (4)	4.18%	3.60%	3.22%	3.34%	3.70%
Efficiency ratio (1)	67.18%	77.16%	78.20%	78.00%	77.10%
<b>Asset Quality Ratios:</b>					
Nonperforming loans to period-end loans (2)	1.41%	2.15%	4.58%	3.27%	4.70%
Allowance for loan losses to period-end loans (3)	1.14%	1.24%	2.04%	2.15%	2.40%
Net loan charge-offs (recoveries) to average loans	0.12%	(0.03)%	0.15%	(0.12)%	1.37%
<b>Capital Ratios:</b>					
Total risk-based capital	16.01%	17.70%	19.26%	16.60%	13.49%
Tier 1 risk-based capital	15.04%	16.56%	18.00%	15.34%	12.22%
Common equity Tier 1 Capital	12.33%	-	-	-	-
Leverage ratio	13.81%	13.10%	12.62%	10.78%	9.14%
Tangible equity to assets	10.88%	11.65%	10.62%	9.20%	8.31%
Equity to assets ratio	13.68%	15.46%	10.65%	9.25%	8.40%
<b>Other Data:</b>					
Number of banking offices	14	14	8	7	9
Number of full time equivalent employees	153	154	97	111	116

(1) Efficiency ratio is calculated as non-interest expenses divided by the sum of net interest income and non-interest income.

(2) Nonperforming loans consist of non-accrual loans and restructured loans.

(3) Allowance for loan losses to period-end loans ratio excludes loans held for sale.

(4) Fully taxable equivalent basis.

## TO OUR SHAREHOLDERS, CUSTOMERS, AND FRIENDS:



At the beginning of each year, I pause to reflect on our accomplishments of the past year as well as our objectives for the new year. In 2015, our company performed in the top 20% of all North Carolina banking corporations as we fully integrated the 2014 merger between New Century Bancorp, Inc. and Select Bancorp, Inc. Total assets for the company grew to \$817 million, total deposits grew to \$651 million and total loans were \$617 million, reflecting growth of 6.64%, 5.21% and 11.84%, respectively, over the previous year. For the year 2015, we posted net income of \$6.6 million, a 178% increase over the \$2.3 million reported for 2014. We are pleased with our balance

sheet growth as well as our solid earnings performance. Our return on average assets of 0.86% and our return on average equity of 6.42% compare very favorably with peer averages. As approved by the Board of Directors in 2015, we exited the Small Business Lending Fund program in January 2016, redeeming all \$7.6 million of SBLF preferred stock. Our capital position remains strong and our asset quality continues to exemplify our strong credit culture.

Our emphasis during 2015 was to maximize efficiencies while seeking objectives to expand into geographic areas that support our growth objectives. During 2015, we consolidated several locations, combining the Burlington and Gibsonville financial centers as well as combining the two separate Fayetteville financial centers. These consolidations will provide operational efficiency while maintaining our commitment to providing the highest level of service to the communities we serve. In October, we opened our new banking center in Elizabeth City to enhance our commitment to our customers in the northeastern portion of the state. In December, we expanded our market footprint by adding locations in Morehead City and Leland. Both of these markets will complement our existing branch network. We ended the year with 14 financial centers. Our banking centers reach from Lumberton to Elizabeth City across to Burlington and down to Leland in southeastern North Carolina.



As we live in an ever changing world and a rapidly changing industry, we must keep our focus on the present while embracing the future. Technology, competition and regulations continue to evolve. Looking ahead, I believe we are well positioned for 2016. We continually review our personnel, procedures, products and systems to ensure that we are effectively and efficiently delivering high quality financial services to the communities we serve. This year we have established high loan and deposit growth goals focusing on greater absorption in our respective markets. We will continue to seek new markets through either branch acquisition or corporate acquisition, as well as enhancing our focus on existing growth markets such as Raleigh and the Wilmington area. We will continue to strive to be the bank of choice in the communities in which we operate by attracting experienced bankers that provide exceptional customer service and competitive products.

Henry David Thoreau said, "What you get by achieving your goals is not as important as what you become by achieving your goals." We are committed to providing high quality financial services and building lasting customer relationships. We are confident that our relationship banking strategy can drive the growth of loans, deposits and fee income and that our diverse geographic footprint is well situated to drive sustainable growth. We believe that our mission statement, vision and core values, along with our experienced management team and staff, position us well to continue to enhance shareholder value. Thank you for your continued support as we strive to achieve superior results for you, our valued shareholder.

Sincerely,



William L. Hedgepeth II  
President and Chief Executive Officer



To the Shareholders and the Board of Directors  
Select Bancorp, Inc.  
Dunn, North Carolina

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Select Bancorp, Inc. and Subsidiary (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2015 (not presented herein); and in our report dated March 24, 2016, we expressed an unqualified opinion on those consolidated financial statements. The accompanying condensed consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the information set forth in the condensed consolidated financial statements in relation to the consolidated financial statements from which they have been derived.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of December 31, 2015 and 2014 and the related condensed consolidated statements of operations for each of the years in the three-year period ended December 31, 2015 is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

*Dixon Hughes Goodman LLP*

Raleigh, North Carolina  
March 24, 2016



2015

CONDENSED CONSOLIDATED  
BALANCE SHEETS &  
STATEMENTS OF OPERATIONS

SELECT BANCORP, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2015 AND 2014

	2015	2014
	<i>(In thousands, except share and per share data)</i>	
<b>ASSETS</b>		
Cash and due from banks	\$ 12,567	\$ 14,417
Interest-earning deposits in other banks	49,842	22,810
Certificates of deposit	1,000	1,000
Federal funds sold and repurchase agreements	-	20,183
Investment securities available for sale, at fair value	80,709	102,235
Loans	617,398	552,038
Allowance for loan losses	<u>(7,021)</u>	<u>(6,844)</u>
	NET LOANS	545,194
	610,377	
Accrued interest receivable	2,350	2,416
Stock in Federal Home Loan Bank of Atlanta ("FHLB"), at cost	2,112	1,524
Other non-marketable securities	705	896
Foreclosed real estate	1,401	1,585
Premises and equipment, net	19,078	17,599
Bank owned life insurance	21,592	20,966
Goodwill	6,931	6,931
Core deposit intangible	1,241	1,625
Assets held for sale	846	-
Other assets	<u>6,264</u>	<u>6,740</u>
	TOTAL ASSETS	\$ 766,121
	\$ 817,015	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Demand	\$ 148,304	\$ 129,831
Savings	37,353	37,000
Money market and NOW	179,450	166,511
Time	<u>286,054</u>	<u>285,560</u>
	TOTAL DEPOSITS	618,902
	651,161	
Short-term debt	29,673	20,733
Long-term debt	28,703	25,591
Accrued interest payable	232	276
Accrued expenses and other liabilities	<u>2,544</u>	<u>2,934</u>
	TOTAL LIABILITIES	668,436
	712,313	
<b>Shareholders' Equity</b>		
Preferred stock, no par value, 5,000,000 shares authorized; 7,645 and 7,645 shares outstanding December 31, 2015 and 2014, respectively	7,645	7,645
Common stock, \$1 par value, 25,000,000 shares authorized; 11,583,011 and 11,377,980 shares issued and outstanding at December 31, 2015 and 2014, respectively	11,583	11,378
Additional paid-in capital	69,061	68,406
Retained earnings	15,923	9,447
Common stock issued to deferred compensation trust, at cost 253,538 and 259,551 shares at December 31, 2015 and 2014, respectively	(2,139)	(2,121)
Directors' Deferred Compensation Plan Rabbi Trust	2,139	2,121
Accumulated other comprehensive income	<u>490</u>	<u>809</u>
	TOTAL SHAREHOLDERS' EQUITY	97,685
	104,702	
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 766,121
	\$ 817,015	

SELECT BANCORP, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

	2015	2014	2013
INTEREST INCOME			
	<i>(In thousands, except share and per share data)</i>		
Loans	\$ 31,576	\$ 24,288	\$ 21,147
Federal funds sold and interest-earning deposits in other banks	71	157	204
Investments	1,694	1,659	1,552
TOTAL INTEREST INCOME	33,341	26,104	22,903
INTEREST EXPENSE			
Money market, NOW and savings deposits	393	326	425
Time deposits	2,598	3,793	4,498
Short-term debt	65	59	40
Long-term debt	486	341	295
TOTAL INTEREST EXPENSE	3,542	4,519	5,258
NET INTEREST INCOME	29,799	21,585	17,645
PROVISION FOR (RECOVERY OF) LOAN LOSSES	890	(194)	(325)
NET INTEREST INCOME AFTER PROVISION FOR (RECOVERY OF) LOAN LOSSES	28,909	21,779	17,970
NON-INTEREST INCOME			
Fees from pre-sold mortgages	-	-	73
Gain (loss) on the sale of securities	332	(46)	-
Service charges on deposit accounts	1,056	996	1,061
Other fees and income	1,904	1,725	1,495
TOTAL NON-INTEREST INCOME	3,292	2,675	2,629
NON-INTEREST EXPENSE			
Personnel	12,180	10,213	8,111
Occupancy and equipment	2,232	1,726	1,518
Deposit insurance	498	404	430
Professional fees	1,218	1,238	1,155
Core deposit intangible amortization	544	347	116
Merger/aquisition-related expenses	378	1,941	428
Information systems	1,942	1,527	1,309
Foreclosure related expenses	205	480	388
Other	3,033	2,784	2,400
TOTAL NON-INTEREST EXPENSE	22,230	20,660	15,855
INCOME BEFORE INCOME TAX	9,971	3,794	4,744
INCOME TAX	3,418	1,437	1,803
NET INCOME	6,553	2,357	2,941
DIVIDENDS ON PREFERRED STOCK	77	38	-
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 6,476	\$ 2,319	\$ 2,941
Basic	\$ 0.56	\$ 0.26	\$ 0.43
Diluted	\$ 0.56	\$ 0.26	\$ 0.43
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	11,502,800	8,870,114	6,918,814
Diluted	11,567,811	8,974,384	6,919,760



## BOARD OF DIRECTORS



**J. Gary Ciccone**  
*Chairman of the Board*  
*Partner*  
Nimocks, Ciccone, & Townsend  
Fayetteville, NC



**James H. Glen, Jr.**  
*President*  
Glen and Hewett, LLC  
Charlotte, NC



**Oscar N. Harris**  
*Certified Public Accountant*  
*Senior Partner and President*  
Oscar N. Harris & Associates, P.A.  
*Mayor, City of Dunn*  
Dunn, NC



**Alicia Speight Hawk**  
*Co-Director of Development*  
The Oakwood School  
Greenville, NC



**Gerald W. Hayes**  
*Attorney and President*  
Hayes, Williams, Turner & Daughtry, P.A.  
Dunn, NC



**William L. Hedgepeth II**  
*President and Chief Executive Officer*  
Select Bancorp and Select Bank & Trust  
Dunn, NC



Ronald V. Jackson  
*President*  
Clinton Truck & Tractor Company  
Clinton, NC



John W. McCauley  
*Chief Executive Officer*  
Highland Paving Co., LLC  
*Vice President*  
McCauley-McDonald Investments  
Fayetteville, NC



Carlie C. "Mack" McLamb, Jr.  
*President*  
Carlie C's IGA, Inc.  
Dunn, NC



V. Parker Overton  
*Founder*  
Overton's Sports Center  
Real Estate Investment Developer  
Greenville, NC



Anthony E. Rand  
*President*  
Rand & Gregory, P.A.  
Fayetteville, NC



Sharon L. Raynor  
*President*  
LIFE, Inc.  
Goldsboro, NC



K. Clark Stallings  
*Member/Manager*  
Stallings Group, Ltd.  
Greenville, NC



W. Lyndo Tippet  
W. Lyndo Tippet, CPA  
*Former Secretary*  
State of North Carolina  
Department of Transportation  
Fayetteville, NC

# EXECUTIVE MANAGEMENT



William L. Hedgepeth II  
*President*  
Chief Executive Officer



Gary J. Brock  
Executive Vice President  
Chief Banking Officer



Mark A. Jeffries  
Executive Vice President  
Chief Financial Officer



Lynn H. Johnson  
Executive Vice President  
Chief Administrative Officer

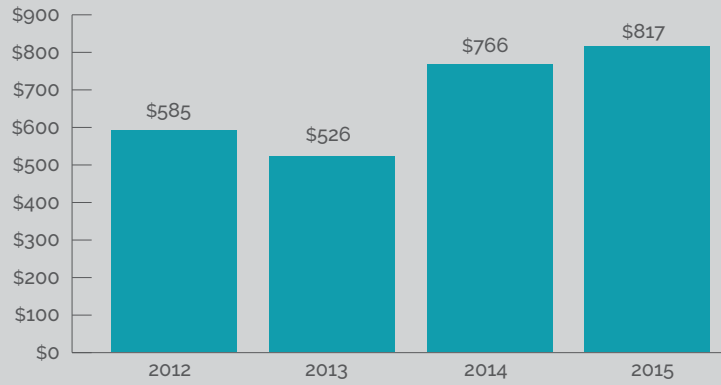


David Richard "Rick" Tobin, Jr.  
Executive Vice President  
Chief Credit Officer

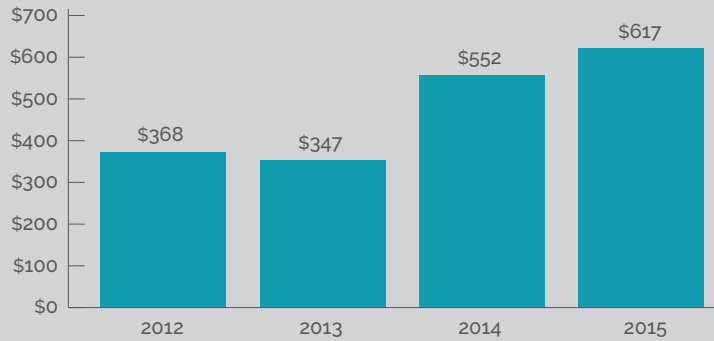


# OUR PERFORMANCE

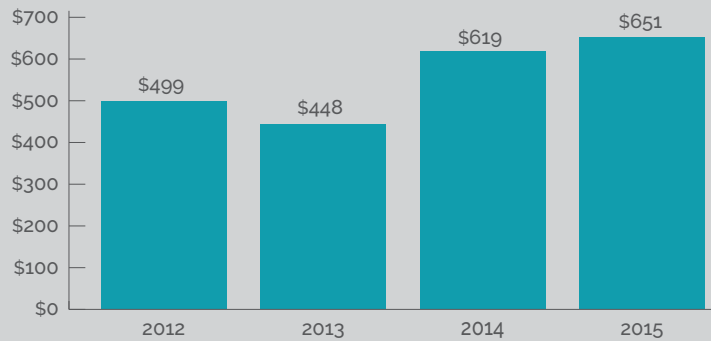
TOTAL ASSETS  
(in millions)



TOTAL LOANS  
(in millions)



TOTAL DEPOSITS  
(in millions)



2 0 1 5   A N N U A L   R E P O R T

*FORWARD THINKING | FUTURE FOCUSED*



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DUNN, NC 28335

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[SELECTBANK.COM](http://SELECTBANK.COM)