

2017

Annual Report

BUILDING BLOCKS TO SUCCESS

Select Bancorp
Inc.

2017 Annual Report

BUILDING BLOCKS TO SUCCESS

P.O. Box 1988
DUNN, NC 28335
(910) 892-7080
SELECTBANK.COM





2017 Annual Report

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General Corporate Information

ANNUAL SHAREHOLDERS MEETING

The annual meeting of shareholders of Select Bancorp, Inc. will be held on May 22, 2018, at 10:00 a.m. at the Fairfield Inn & Suites, 688 Jackson 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 bid and ask quotes for our common stock. At December 31, 2017, there were 14,009,137 shares of common stock outstanding, which were held by approximately 1,149 shareholders.

The table below presents the high and low closing sales prices for Select Bancorp, Inc. stock for 2017 and 2016.

2017	High	Low
First Quarter	\$11.22	\$9.71
Second Quarter	12.25	10.91
Third Quarter	12.70	11.25
Fourth Quarter	12.64	11.55

2016	High	Low
First Quarter	\$8.18	\$7.70
Second Quarter	8.25	8.00
Third Quarter	8.72	7.89
Fourth Quarter	10.48	8.02

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 2017 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

<u>NORTH CAROLINA</u> <i>Burlington</i> 3158 S. Church St. <i>Charlotte</i> 13024 Ballantyne Corporate Pl., Suite 100 <i>Clinton</i> 111 Northeast Blvd. <i>Dunn</i> 700 W. Cumberland St. <i>Elizabeth City</i> 416 S. Hughes Blvd. <i>Fayetteville</i> 2818 Raeford Rd. <i>Goldsboro</i> 431 N. Spence Ave. <i>Greenville</i> 3600 Charles Blvd. <i>Leland</i> 1101 New Pointe Blvd. <i>Lillington</i> 818 McKinney Pkwy. <i>Lumberton</i> 4400 Fayetteville Rd.	<i>Morehead City</i> 168 N.C. 24 <i>New Bern Loan Production Office</i> 2300 Center Ave., Suite 3 <i>Raleigh</i> 4505 Falls of Neuse Rd., Suite 100 & 150 <i>Washington</i> 155 N. Market St., Suite 103 <i>Wilmington</i> 1001 Military Cutoff Rd., Suite 100 <i>Wilson Loan Production Office</i> 405 W. Nash St., Suite 207
<u>SOUTH CAROLINA</u> <i>Blacksburg</i> 203 W. Cherokee St. <i>Rock Hill</i> 201 Oakland Ave. <i>Six Mile</i> 115 N. Main St.	

Selected Financial Data

	At or for the year ended December 31,				
	2017	2016	2015	2014	2013
(Dollars in thousands, except per share data)					
OPERATING DATA:					
Total interest income	\$ 39,617	\$ 34,709	\$ 33,341	\$ 26,104	\$ 22,903
Total interest expense	5,106	3,733	3,542	4,519	5,258
Net interest income	34,511	30,976	29,799	21,585	17,645
Provision (Recovery) for loan losses	1,367	1,516	890	(194)	(325)
Net interest income after provision (recovery) for loan losses	33,144	29,460	28,909	21,779	17,970
Total non-interest income	3,072	3,222	3,292	2,675	2,629
Merger/acquisition related expenses	2,166	-	378	1,941	428
Other non-interest expense	25,153	22,281	21,852	18,719	15,427
Income before income taxes	8,897	10,401	9,971	3,794	4,744
Provision for income taxes	5,712	3,647	3,418	1,437	1,803
Net Income	3,185	6,754	6,553	2,357	2,941
Dividends on Preferred Stock	-	4	77	38	-
Net income available to common shareholders	\$ 3,185	\$ 6,750	\$ 6,476	\$ 2,319	\$ 2,941

PER SHARE DATA:					
Earnings per share - basic	\$ 0.27	\$ 0.58	\$ 0.56	\$ 0.26	\$ 0.43
Earnings per share - diluted	0.27	0.58	0.56	0.26	0.43
Market Price					
High	12.70	10.48	8.47	10.78	7.42
Low	9.71	7.70	6.62	6.25	5.43
Close	12.64	9.85	8.09	7.37	6.67
Book value	9.72	8.95	8.38	8.59	8.09
Tangible book value	7.72	8.29	7.67	7.82	8.07

SELECTED YEAR-END BALANCE SHEET DATA:					
Loans, gross of allowance	\$ 982,626	\$ 677,195	\$ 617,398	\$ 552,038	\$ 346,500
Allowance for loan losses	8,835	8,411	7,021	6,844	7,054
Other interest-earning assets	89,531	93,093	134,368	138,198	138,406
Goodwill	24,904	6,931	6,931	6,931	-
Core deposit intangible	3,101	810	1,241	1,625	182
Total assets	1,194,135	846,640	817,015	766,121	525,646
Deposits	995,044	679,661	651,161	618,902	448,458
Borrowings	47,651	60,129	58,376	46,324	18,677
Shareholders’ equity	136,115	104,273	104,702	97,685	56,004

SELECTED AVERAGE BALANCES:					
Total assets	\$ 898,943	\$ 829,315	\$ 765,274	\$ 631,905	\$ 555,354
Loans, gross of allowance	732,089	639,412	578,759	430,571	354,871
Total interest-earning assets	813,773	744,024	686,663	565,264	511,597
Goodwill	7,719	6,931	6,931	2,946	-
Core deposit intangible	640	1,020	1,330	884	237
Deposits	738,310	665,764	607,214	523,954	470,526
Total interest-bearing liabilities	787,073	723,111	659,676	554,405	413,419
Shareholders’ equity	108,709	102,110	102,068	73,660	55,701

SELECTED PERFORMANCE RATIOS:					
Return on average assets	0.35%	0.81%	0.86%	0.37%	0.53%
Return on average equity	2.93%	6.61%	6.42%	3.12%	5.28%
Net interest margin ⁽⁴⁾	4.14%	4.06%	4.34%	3.88%	3.46%
Net interest spread ⁽⁴⁾	4.09%	4.04%	4.18%	3.60%	3.22%
Efficiency ratio ⁽¹⁾	72.69%	65.15%	67.18%	77.16%	78.20%

ASSET QUALITY RATIOS:					
Nonperforming loans to period-end loans ⁽²⁾	0.71%	1.02%	1.41%	2.15%	4.58%
Allowance for loan losses to period-end loans ⁽³⁾	0.90%	1.24%	1.14%	1.24%	2.04%
Net loan charge-offs (recoveries) to average loans	0.13%	0.02%	0.12%	(0.03)%	0.15%

CAPITAL RATIOS:					
Total risk-based capital	11.86%	15.12%	16.01%	17.70%	19.26%
Tier 1 risk-based capital	11.04%	14.03%	15.04%	16.56%	18.00%
Common equity Tier 1 Capital	9.94%	12.48%	12.33%	-	-
Leverage ratio	12.64%	12.99%	13.81%	13.10%	12.62%
Tangible equity to assets	9.05%	11.40%	10.88%	11.65%	10.62%
Equity to assets ratio	11.40%	12.57%	13.68%	15.46%	10.65%

OTHER DATA:					
Number of banking offices	18	13	14	14	8
Number of full time equivalent employees	202	150	153	154	97

(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.

BUILDING BLOCKS TO SUCCESS

To Our Shareholders, Customers, Communities and Friends,

We believe that banking continues to be a people business and is a collaboration of customers, businesses, shareholders and friends to collectively promote the thriving communities in which we live. The responsibility to be a strong and robust financial keystone in the neighborhoods in which we operate is paramount in each decision made. As a result, banking has the ability to enhance communities in a way no other business can.

To that end, our journey in 2017 highlights achievements that were the result of many hours of dedication and commitment of our directors, management and staff. I am pleased to report the steps we took in 2017 continue to provide building blocks for successful relationships and your future association with Select Bank & Trust. Each year, as we have in the previous years, we built on the achievements of preceding years. We have embraced the prior themes “Forward Thinking / Future Focused” and “Deeply Invested / Delivering Results” as our standard to each shareholder, customer, community and friend. Every success and every bit of progress is a building block for your next step with us. As a result of these efforts, we have seen an increase in customers, branches, products, services, resources and efficiencies that allow us to be that keystone.

Last year was a big year for the bank. Select Bank completed the acquisition of Premara Financial Inc. and its subsidiary, Carolina Premier Bank on December 15, 2017. This partnership enhanced a solid community bank with an expanding branch network and more resources to serve our customers and communities. We now have 18 branches in North and South Carolina as well as two loan production offices and a new mortgage division.

For 2017, Select Bancorp, Inc. (the “Company”) reported net income of \$3.2 million, and basic and diluted earnings per share of \$0.27. Embedded in the Company’s net income numbers for the year are net after tax merger expenses of \$1.5 million, related to the acquisition of Premara Financial, Inc. In addition, due to the new tax legislation signed into law on December 22, 2017, the Company was required to calculate a “tax re-measurement” for the associated rate changes for its deferred taxes. This tax re-calculation resulted in an increase of approximately \$2.6 million of the income tax expenses for the year, which directly impacted the Company’s reported results.

Our strategy has been growth-oriented and efficiency driven, while delivering value to our shareholders. We continued that mission in 2017. While our 2017 results were impacted by the change in tax law during the fourth quarter, the required tax re-measurement is a non-cash flow expense. Ultimately, we expect the reduction in the corporate tax rate will have long-term benefits for our net income and should positively impact our operating performance in the quarters to come.

Among the major highlights and building blocks of 2017 were the acquisition of Premara Financial, Inc. and the accompanying entry into the Charlotte market and into South Carolina, the opening of a new branch in Wilmington in the Mayfaire district, and the opening of Select Mortgage, a division of Select Bank & Trust.

It has been our goal for some time to expand and 2017 was a year for growth and expansion. The merger added four banking offices, one in Charlotte and three in the South Carolina communities of Rock Hill, Blacksburg and Six Mile. We expect the recent merger will allow us to leverage our resources in ways neither bank could achieve on its own. We are also excited about the growth we have already experienced from our new Wilmington office, and we believe adding mortgages to our portfolio of products and services allows us to offer a customer all the financial services they need at their local community bank.

We keep building on our story. One block at a time. One new market at a time, one new merger at a time, and hiring the right people to lead those markets. And, that is exactly what we plan to do for many years to come. Select Bank will move forward with a strong platform, supportive investors, loyal customers, and a great group of talented employees. We’ll continue building blocks for a successful future with a strong technology base and a focus on offering customers the services they need to manage their finances in an ever-changing world. With a vision for the future, we’ll build on a successful foundation, ready for a bright tomorrow.

Thank you for being part of both our heritage and our future building blocks and our success. Without your support, we would not be here.

I hope you will join us for our Annual Shareholders Meeting on Tuesday, May 22, 2018, at Fairfield Inn & Suites in Dunn, NC. We look forward to seeing you there.



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, 2017 and 2016, 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, 2017 (not presented herein); and in our report dated March 16, 2018, 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, 2017 and 2016 and the related condensed consolidated statements of operations for each of the years in the three-year period ended December 31, 2017 is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

Dixon Hughes Goodman LLP

Dixon Hughes Goodman LLP
Raleigh, North Carolina
March 16, 2018



2017

CONDENSED CONSOLIDATED
BALANCE SHEETS &
STATEMENTS OF OPERATIONS



Select Bancorp, Inc. Condensed Consolidated Balance Sheets
December 31, 2017 and 2016

ASSETS

	2017	2016
<i>(In thousands, except share and per share data)</i>		
Cash and due from banks	\$ 16,554	\$ 14,372
Interest-earning deposits in other banks	37,996	40,342
Certificates of deposit	1,500	1,000
Federal funds sold	6,645	-
Investment securities available for sale, at fair value	63,774	62,257
Loans held for sale	98	-
Loans	982,626	677,195
Allowance for loan losses	(8,835)	(8,411)
NET LOANS	973,791	668,784
Accrued interest receivable	3,997	2,768
Stock in Federal Home Loan Bank of Atlanta ("FHLB"), at cost	2,490	2,251
Other non-marketable securities	1,019	703
Foreclosed real estate	1,258	599
Premises and equipment, net	18,268	17,931
Bank owned life insurance	28,431	22,183
Goodwill	24,904	6,931
Core deposit intangible ("CDI")	3,101	810
Assets held for sale	846	846
Other assets	9,463	4,863
TOTAL ASSETS	\$ 1,194,135	\$ 846,640

LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits:		
Demand	\$ 227,066	\$ 163,569
Savings	69,503	38,394
Money market and NOW	250,864	174,205
Time	447,611	303,493
TOTAL DEPOSITS	995,044	679,661
Short-term debt	28,279	37,090
Long-term debt	19,372	23,039
Accrued interest payable	427	221
Accrued expenses and other liabilities	14,898	2,356
TOTAL LIABILITIES	1,058,020	742,367

Shareholders' Equity

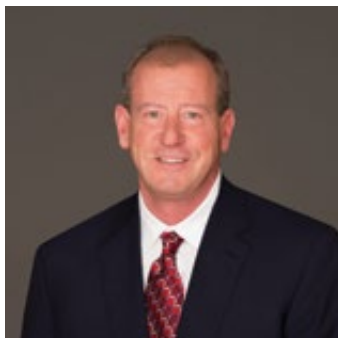
Preferred stock, no par value, 5,000,000 shares authorized; no preferred shares were issued and outstanding	-	-
Common stock, \$1 par value, 25,000,000 shares authorized; 14,009,137 and 11,645,413 shares issued and outstanding at December 31, 2017 and 2016, respectively	14,009	11,645
Additional paid-in capital	95,850	69,597
Retained earnings	25,858	22,673
Common stock issued to deferred compensation trust, at cost, 291,964 and 280,432 shares outstanding at December 31, 2017 and 2016, respectively	(2,518)	(2,340)
Directors' Deferred Compensation Plan Rabbi Trust	2,518	2,340
Accumulated other comprehensive income	398	358
TOTAL SHAREHOLDERS' EQUITY	136,115	104,273
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,194,135	\$ 846,640

Select Bancorp, Inc. Condensed Consolidated Statements of Operations
Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
<i>(In thousands, except share and per share data)</i>			
INTEREST INCOME			
Loans	\$ 37,849	\$ 33,058	\$ 31,576
Federal funds sold and interest-earning deposits in other banks	480	257	71
Investments	1,288	1,394	1,694
TOTAL INTEREST INCOME	39,617	34,709	33,341
INTEREST EXPENSE			
Money market, NOW and savings deposits	547	390	393
Time deposits	3,779	2,664	2,598
Short-term debt	357	127	65
Long-term debt	423	552	486
TOTAL INTEREST EXPENSE	5,106	3,733	3,542
NET INTEREST INCOME	34,511	30,976	29,799
PROVISION FOR LOAN LOSSES	1,367	1,516	890
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	33,144	29,460	28,909
NON-INTEREST INCOME			
Gain on the sale of securities	1	22	332
Service charges on deposit accounts	899	966	1,056
Other fees and income	2,172	2,234	1,904
TOTAL NON-INTEREST INCOME	3,072	3,222	3,292
NON-INTEREST EXPENSE			
Personnel	14,552	12,711	12,180
Occupancy and equipment	2,192	2,304	2,232
Deposit insurance	357	393	498
Professional fees	1,181	977	1,218
Core deposit intangible amortization	409	431	544
Merger/acquisition related expenses	2,166	-	378
Information systems	2,257	2,070	1,942
Foreclosure-related expenses	562	199	205
Other	3,643	3,196	3,033
TOTAL NON-INTEREST EXPENSE	27,319	22,281	22,230
INCOME BEFORE INCOME TAX	8,897	10,401	9,971
INCOME TAX	5,712	3,647	3,418
NET INCOME	3,185	6,754	6,553
DIVIDENDS ON PREFERRED STOCK	-	4	77
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 3,185	\$ 6,750	\$ 6,476
Basic	\$ 0.27	\$ 0.58	\$ 0.56
Diluted	\$ 0.27	\$ 0.58	\$ 0.56
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	11,763,050	11,610,705	11,502,800
Diluted	11,826,977	11,655,111	11,567,811



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



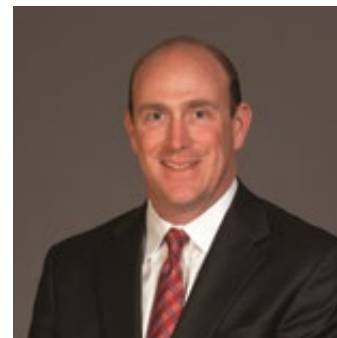
Charles R. Davis
Chairman
C.A. Short Company
Charlotte, NC



Alicia Speight Hawk
Director of Advancement
The Oakwood School
Greenville, NC



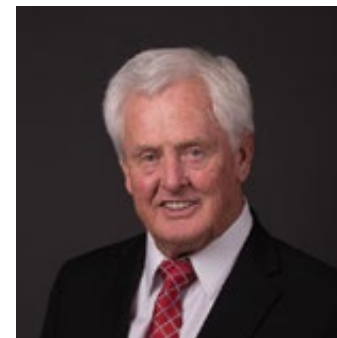
Gerald W. Hayes
Attorney and President
Hayes, Williams, Turner &
Daughtry, P.A.
Dunn, NC



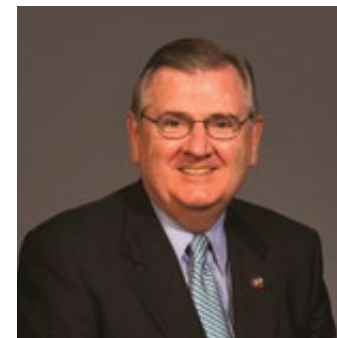
John W. McCauley.
Chief Executive Officer
Highland Paving Co., LLC
Vice President
McCauley-McDonald
Investments
Fayetteville, NC



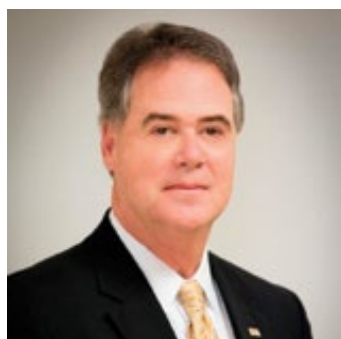
**Carlie C. "Mack"
McLamb, Jr.**
President
Carlie C's IGA, Inc.
Dunn, NC



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



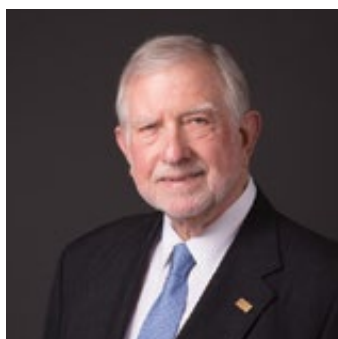
Anthony E. Rand
President
Rand & Gregory, P.A.
Fayetteville, NC



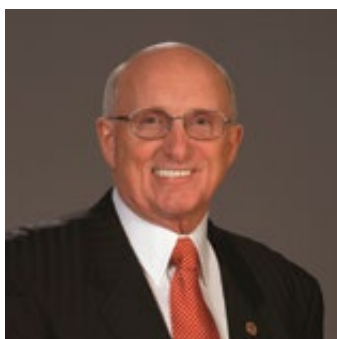
William L. Hedgepeth II
*President and
Chief Executive Officer*
Select Bancorp and
Select Bank & Trust
Dunn, NC



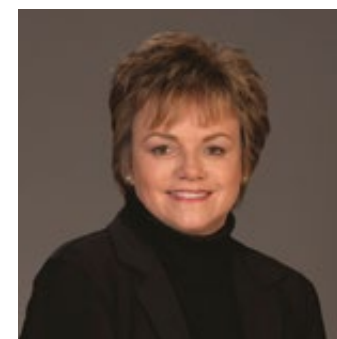
Ronald V. Jackson
President
Clinton Truck &
Tractor Company
Clinton, NC



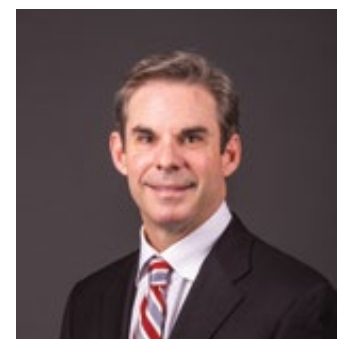
James H. Glen, Jr.
President
Glen and Hewett, LLC
Charlotte, NC



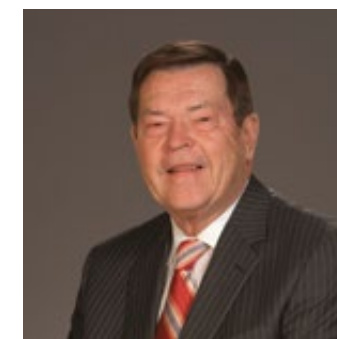
Oscar N. Harris
Certified Public Accountant
*Former Senior Partner
and President*
Oscar N. Harris & Associates, P.A.
Mayor, City of Dunn
Dunn, NC



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



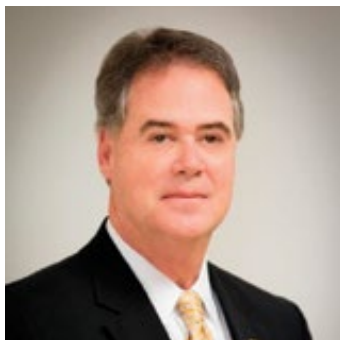
K. Clark Stallings
Manager
Stallings Group Ltd.
Greenville, NC



W. Lyndo Tippet
Certified Public Accountant
Former Secretary
State of North Carolina
Department of Transportation
Fayetteville, NC



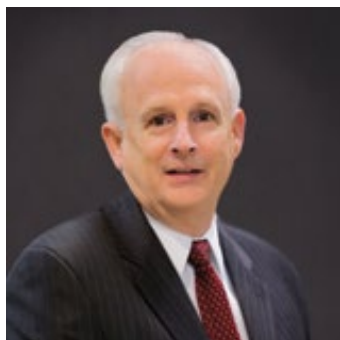
Seth M. Wilfong
Partner
Atlas Principals LLC
Charlotte, NC



William L. Hedgepeth II
President and Chief Executive Officer



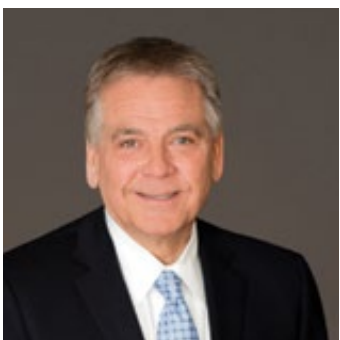
W. Keith Betts
Executive Vice President
Chief Banking Officer



Mark A. Jeffries
Executive Vice President
Chief Financial Officer



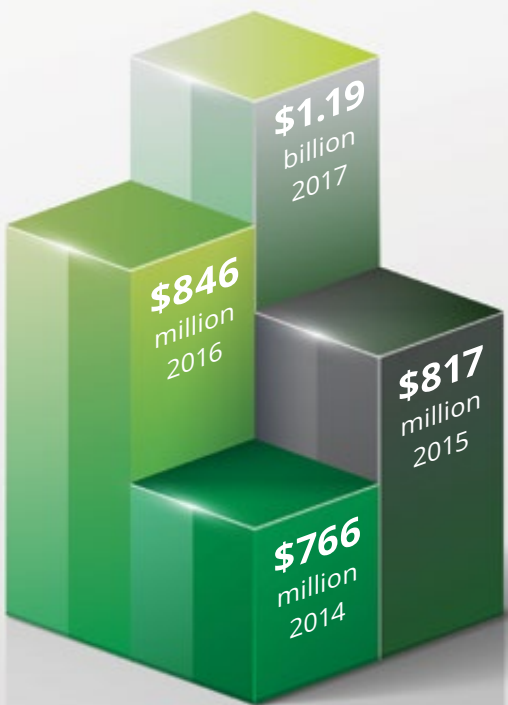
Lynn H. Johnson
Executive Vice President
Chief Operating Officer



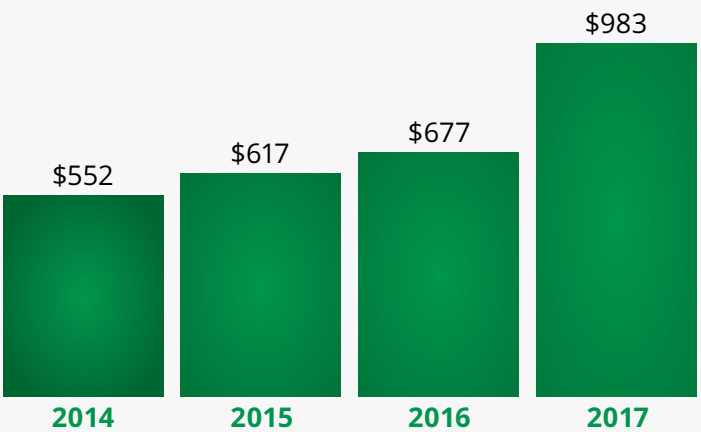
David Richard "Rick" Tobin, Jr.
Executive Vice President
Chief Credit Officer



TOTAL ASSETS



TOTAL LOANS
(in millions)



TOTAL DEPOSITS
(in millions)

