



**PeoplesBancorp**

2017 Annual Report

## Our Promise

We strive to be exceptional and inspire others to be exceptional too.

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## Our Vision

To be the bank that's exceptional at serving our communities, including employees, customers and shareholders.

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## Our Mission

To provide exceptional customer service while selling to customer needs.

## Our Core Values:

### **Employees**

We are informed, encouraged, and committed.

### **Integrity**

We are fair and truthful.

### **Exceptional Customer Service**

We surpass our customers' expectations.

### **Accountability**

We are accountable for our own actions and bank goals.

### **Progressive and Positive**

We see change as an opportunity.



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## From the President



“Our Bank is an institution that honors people, serves with integrity, and supports community.”

It is against the backdrop of our Bank’s continued commitment to being exceptional that I present the 2017 Annual Report of business activity on behalf of Peoples Bancorp of North Carolina, Inc. In its 105th consecutive year of being presented, this report is a reflection of the efforts of our employees, who demonstrate daily a determination to do the right thing by our customers and our communities through their enduring service to the Company. Year-to-date highlights are as follows:

- Net earnings were a record \$10.3 million or \$1.71 basic net earnings per share and \$1.69 diluted net earnings per share for the year ended December 31, 2017, as compared to \$9.2 million or \$1.53 basic net earnings per share and \$1.50 diluted net earnings per share for the same period one year ago.
- 2017 net earnings reflect the following non-recurring expenses:
  - \$508,000 penalties on FHLB borrowing prepayments included in other non-interest expense
  - \$588,000 charge to income tax expense due to the revaluation of deferred taxes as required due to the passing of the Tax Cuts and Jobs Act in December, 2017
- Total loans increased \$36.0 million to \$759.8 million at December 31, 2017, compared to \$723.8 million at December 31, 2016.
- Core deposits were \$887.5 million or 97.9% of total deposits at December 31, 2017, compared to \$865.4 million or 96.9% of total deposits at December 31, 2016.
- As of December 31, 2017 shareholders’ equity was \$116.0 million, or 10.6% of total assets, compared to \$107.4 million, or 9.9% of total assets, as of December 31, 2016. This increase is primarily due to an increase in retained earnings due to net income.

Our Bank is focused on making an impact on the lives of our communities, including employees, customers and shareholders.

We want our employees to feel empowered and inspired to make a difference. They fill an invaluable role for our Bank. They connect with customers, listen to their challenges, understand their needs, and create solutions. We want to be that same support for them. We honor their commitment to our Bank and want to see them grow, realizing that their feedback and growth is vital to our continued success. We are always in search of attracting new employees, and seeking passionate people who want to share their talents and help our customers prosper.

Our customers look to our Bank to support them in life and in business. It's a great privilege and honor to partner with them during some of their most significant life events. They trust us to look out for their best interest, and to guide them on their financial journey. When we're exceptional at what we do, we can help them be exceptional at what they do. We want our customers to be grateful for our partnership, so that they tell others about us too.

Our final community is our shareholders. We want our shareholders to understand that we're focused on maintaining the highest operating standards, including being a well-capitalized bank with strong earnings. We have additional strengths that aren't as easily measured. Our Bank is an institution that honors people, serves with integrity, and supports community. We sell to customers' needs and give our best in all of our endeavors, staying true to the values upon which our Bank was founded.

Our new brand launch last year was met with great enthusiasm and support. It helped us tell the story of our Bank, the how and why we serve, as well as emphasize our strength and stability. Our community is listening and gaining a better understanding of all that we have to offer. We're continuing to educate, introducing new products and reaching more people where they are. It's inspiring to be a part of Peoples Bank, the bank that is striving to be exceptional every day.

The Directors of Peoples Bancorp play a direct and critical role in the success of our Company. They consistently endeavor to enhance shareholder value through their diligence, hard work and acumen. Please join me in thanking them for their commitment. In addition to the Bank, which operates as a wholly owned subsidiary of the Company, we would like to remind you of our three subsidiary companies:

Peoples Investment Services, Inc., licensed financial advisors who provide access to investment products, which include stocks, bonds, mutual funds, annuities, and other suitable monetary investments through our affiliation with Raymond James Financial Services, Inc.

Real Estate Advisory Services, Inc., which provides real estate appraisals (both residential and commercial) to Peoples Bancorp's market area, thereby becoming a valued partner with respect to mortgage-related transactions.

Community Bank Real Estate Solutions, LLC, assists community banks across the country with appraisal management services.

The Annual Shareholders Meeting is scheduled for May 3, 2018 at Catawba Country Club beginning at 11 a.m. I hope each and every shareholder will attend the Annual Meeting. I want to express my appreciation for the loyalty and support of each of our shareholders, whom we hope will recommend our Bank and subsidiary companies to members of their communities.

Sincerely,



**Lance A. Sellers**

President and Chief Executive Officer



## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Peoples Bancorp of North Carolina, Inc.:

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Peoples Bancorp of North Carolina, Inc. as of December 31, 2017 and 2016, and the related consolidated statements of earnings, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017 (not presented herein); and in our report, dated March 15, 2018, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

*Elliott Davis, PLLC*

Charlotte, North Carolina  
March 15, 2018

# Financial Highlights

Dollars in Thousands Except Per Share Amounts

		2017	2016	Change
Interest income	\$	41,949	39,809	5%
Interest expense		2,377	3,271	-27%
Net interest earnings		39,572	36,538	8%
Provision for loan losses		(507)	(1,206)	-58%
Net interest earnings after provision for loan losses		40,079	37,744	6%
Non-interest income		12,838	13,976	-8%
Non-interest expense		38,702	39,982	-3%
Income taxes		3,947	2,561	54%
Net earnings	\$	10,268	9,177	12%

## Per Share of Common Stock \*

Basic net earnings	\$	1.71	1.53	12%
Diluted net earnings		1.69	1.50	13%
Cash dividends		0.44	0.35	26%
Market price at December 31		30.69	22.79	35%
Book value at December 31		19.34	18.03	7%

## At Year-end

Loans, net	\$	753,398	716,261	5%
Available for sale securities		229,321	249,946	-8%
Assets		1,092,166	1,087,991	0%
Deposits		906,952	892,918	2%
Shareholders' equity		115,975	107,428	8%

## Key Performance Ratios

Return on average assets	0.93%	0.85%
Return on average shareholders' equity	8.78%	8.11%
Dividend payout ratio	25.67%	22.95%
Average shareholders' equity to total average assets	10.64%	10.51%

\* Shares outstanding and per share computations have been restated to reflect a 10% stock dividend paid during the fourth quarter of 2017.

# Consolidated Balance Sheets

For the years ended December 31, 2017 and 2016

(Dollars in thousands)

	December 31, <b>2017</b>	December 31, <b>2016</b>
<b>Assets</b>		
Cash and due from banks, including reserve requirements of \$7,472 at 12/31/17 and \$6,075 at 12/31/16	\$ 53,186	53,613
Interest-bearing deposits	4,118	16,481
Cash and cash equivalents	57,304	70,094
Investment securities available for sale	229,321	249,946
Other investments	1,830	2,635
Total securities	231,151	252,581
Mortgage loans held for sale	857	5,709
Loans	759,764	723,811
Less allowance for loan losses	(6,366)	(7,550)
Net loans	753,398	716,261
Premises and equipment, net	19,911	16,452
Cash surrender value of life insurance	15,552	14,952
Other real estate	118	283
Accrued interest receivable and other assets	13,875	11,659
Total assets	\$ 1,092,166	1,087,991

## Liabilities and Shareholders' Equity

### Deposits:

Noninterest-bearing demand	\$ 285,406	271,851
NOW, MMDA & savings	498,445	477,054
Time, \$250,000 or more	18,756	26,771
Other time	104,345	117,242
Total deposits	906,952	892,918

Securities sold under agreements to repurchase	37,757	36,434
FHLB borrowings	-	20,000
Junior subordinated debentures	20,619	20,619
Accrued interest payable and other liabilities	10,863	10,592
Total liabilities	976,191	980,563

Commitments (Note 10)

### Shareholders' equity:

Series A preferred stock, \$1,000 stated value; authorized

5,000,000 shares; no shares issued and outstanding - -

Common stock, no par value; authorized

20,000,000 shares; issued and outstanding 5,995,256 shares at December 31, 2017 and 5,417,800 shares at December 31, 2016 62,096 44,187

Retained earnings 50,286 60,254

Accumulated other comprehensive income 3,593 2,987

    Total shareholders' equity 115,975 107,428

    Total liabilities and shareholders' equity \$ 1,092,166 1,087,991

See Appendix A to the Peoples Bancorp of North Carolina, Inc. Proxy Statement, dated March 23, 2018, for a complete set of Consolidated Financial Statements.



# Consolidated Statements of Earnings

For the Years Ended December 31, 2017, 2016 and 2015

(Dollars in thousands, except per share amounts)

	2017	2016	2015
<b>Interest income:</b>			
Interest and fees on loans	\$ 34,888	32,452	31,098
Interest on due from banks	219	123	26
Interest on investment securities:			
U.S. Government sponsored enterprises	2,404	2,531	2,616
States and political subdivisions	4,236	4,454	4,600
Other	202	249	326
Total interest income	41,949	39,809	38,666
<b>Interest expense:</b>			
NOW, MMDA & savings deposits	598	495	432
Time deposits	466	586	870
FHLB borrowings	662	1,661	1,735
Junior subordinated debentures	590	485	402
Other	61	44	45
Total interest expense	2,377	3,271	3,484
Net interest income	39,572	36,538	35,182
(Reduction of) provision for loan losses	(507)	(1,206)	(17)
Net interest income after provision for loan losses	40,079	37,744	35,199
<b>Non-interest income:</b>			
Service charges	4,453	4,497	4,647
Other service charges and fees	593	890	931
Gain on sale of securities	-	729	-
Mortgage banking income	1,190	1,428	1,130
Insurance and brokerage commissions	761	632	714
Gain (loss) on sales and write-downs of other real estate	(239)	64	245
Miscellaneous	6,080	5,736	5,645
Total non-interest income	12,838	13,976	13,312
<b>Non-interest expense:</b>			
Salaries and employee benefits	20,058	19,264	18,285
Occupancy	6,701	6,765	6,288
Professional fees	1,236	2,439	1,468
Advertising	1,195	1,136	784
Debit card expense	1,248	1,141	988
FDIC insurance	347	494	681
Other	7,917	8,743	7,284
Total non-interest expense	38,702	39,982	35,778
Earnings before income taxes	14,215	11,738	12,733
Income tax expense	3,947	2,561	3,100
Net earnings	\$ 10,268	9,177	9,633
Basic net earnings per share	\$ 1.71	1.53	1.57
Diluted net earnings per share	\$ 1.69	1.50	1.56
Cash dividends declared per share	\$ 0.44	0.35	0.25

See Appendix A to the Peoples Bancorp of North Carolina, Inc. Proxy Statement, dated March 23, 2018, for a complete set of Consolidated Financial Statements.

# Directors and Officers

## Peoples Bank and Peoples Bancorp Board of Directors

### **Robert C. Abernethy**

**Chairman of the Board**  
*Peoples Bancorp of North Carolina, Inc. and Peoples Bank*  
**President, Secretary and Treasurer**  
*Carolina Glove Company, Inc.*

### **James S. Abernethy**

**President and Assistant Secretary**  
*Midstate Contractors, Inc.*

### **Douglas S. Howard**

**Vice President, Secretary and Treasurer**  
*Denver Equipment of Charlotte, Inc.*

### **John W. Lineberger, Jr.**

**President**  
*Lincoln Bonded Warehouse Company*

### **Gary E. Matthews**

**President and Director**  
*Matthews Construction Company, Inc.*

### **Billy L. Price, Jr., M.D.**

**Practitioner of Internal Medicine**  
*BL Price Jr Medical Consultants, PLLC*

### **Larry E. Robinson**

**Chairman of the Board  
and Chief Executive Officer**  
*The Blue Ridge Distributing  
Company, Inc.*

### **W. Gregory Terry**

**President**  
*DFH Holdings*  
**Operator/General Manager**  
*Drum & Willis-Reynolds  
Funeral Home & Crematory*

### **Dan Ray Timmerman, Sr.**

**Chairman of the Board and  
Chief Executive Officer**  
*Timmerman Manufacturing, Inc.*

### **Benjamin I. Zachary**

**President, Treasurer,  
General Manager and Director**  
*Alexander Railroad Company*

## Corporate Officers

### **Lance A. Sellers**

**President and  
Chief Executive Officer (CEO)**

### **William D. Cable, Sr.**

**Executive Vice President,  
Chief Operating Officer (COO)**

### **A. Joseph Lampron, Jr.**

**Executive Vice President,  
Chief Financial Officer (CFO)**

## Senior Vice Presidents

### **Kimberly L. Boyd**

Senior Vice President,  
Chief Banking Support Officer

### **Jeffery P. Gniadek**

Senior Vice President,  
Area Executive - Hickory

### **Rafael Intriago**

Senior Vice President,  
Metro Market Executive

### **Walter C. Joyce**

Senior Vice President,  
Chief Technology Officer

### **James O. Perry**

Senior Vice President,  
Chief Retail Officer

### **David E. Reitzel**

Senior Vice President,  
Real Estate Administration

### **Daniel F. Richard**

Senior Vice President,  
Area Executive - Triangle

### **Mark W. Sigmon**

Senior Vice President,  
Area Executive - Denver

### **Jody G. Street**

Senior Vice President  
Area Executive - Newton

### **Timothy P. Turner**

Senior Vice President,  
Chief Credit Officer

## First Vice Presidents

### **Angela J. Abernethy**

First Vice President,  
Compliance Quality Analyst

### **Heather A. Allen**

First Vice President, BSA Officer

### **Kimberly D. Bazzle**

First Vice President,  
Marketing Director

### **David C. Brown**

First Vice President,  
Certified Financial Planner

### **Martha P. Connors**

First Vice President  
Sales Relationship Manager - Metro Region

### **George S. Earp**

First Vice President,  
Finance Director

### **Jan G. Griffin**

First Vice President,  
Director of Loan Operations

### **Leslie D. Hambrick**

First Vice President,  
Chief Internal Auditor

### **Maria Fernanda Hoyos**

First Vice President  
Sales Relationship Manager - Raleigh Region

### **M. Beth LaBarbera**

First Vice President,  
Regional Sales Manager

### **John J. Noonan**

First Vice President  
CBRES Appraisal/Compliance Manager

### **Connie P. Ollis**

First Vice President,  
Compliance/Security Manager

### **Lucretia K. Rogers**

First Vice President,  
Regional Sales Manager

### **Carol S. Shinn**

First Vice President,  
Director of Deposit Operations

### **Kyle E. Sigmon**

First Vice President,  
Consumer Credit Administration

### **Ryan M. Waddle**

First Vice President,  
Area Executive - Mooresville

### **Margaret C. Ward**

First Vice President  
Human Resources Director

## Vice Presidents

### **Sandy R. Abernathy**

Vice President,  
Business Center Manager - Claremont

### **Melissa R. Aldrich**

Vice President,  
Business Center Manager - Hiddenite

### **Carol R. Allen**

Vice President,  
Business Center Manager - Maiden

### **Steven D. Brown**

Vice President,  
Business Center Manager - Conover

### **Velvet L. Burton**

Vice President, Service  
Center Manager

### **Jeanine L. Cohoon**

Vice President,  
Marketing Channel Analyst

### **Wendy E. Cordero-Jones**

Vice President, Banco Mortgage Lending  
Manager

### **Roger G. Decato**

Vice President, Business Development  
Officer

### **Zachary M. Dellinger**

Vice President, Business Development  
Officer

### **Cathleen H. Dillingham**

Vice President, Learning  
& Development Associate

### **James R. Durham**

Vice President, Financial Advisor

### **Heather N. Edwards**

Vice President, Business Center Manager -  
Mooresville

### **Rhonda L. Fleming**

Vice President, Business Development  
Officer

### **Maria P. Gibbs**

Vice President, Business  
Development Officer

### **Lauren K. Hammond**

Vice President, Marketing Specialist

### **Lamona J. Harbinson**

Vice President, E-Services  
Management Manager

### **Vanessa Horvath**

Vice President, Business Development  
Officer

### **David S. Lewis Jr.**

Vice President,  
Senior Lending Officer

### **Ryan T. Link**

Vice President, Senior Credit Analyst

### **George "Marty" Lowder**

Vice President,  
Financial Analyst

### **Brenda K. Mash**

Vice President, Business  
Center Manager - Denver

### **Joshua E. McKinney**

Vice President, Business  
Development Officer - Hickory

### **Bruce E. Meisner**

Vice President,  
REAS Manager

### **Vickie E. Miller**

Vice President,  
Retail Support Coordinator

### **Paula M. Parker**

Vice President, Business Center Manager  
- CVB

### **Lynn H. Poole**

Vice President, Business Center Manager  
- Catawba

### **Kristina O. Price**

Vice President, Assistant  
Corporate Secretary

### **Andrew R. Puntch**

Vice President, Application & Project  
Management Manager

### **Jeanette E. Ringley**

Vice President, Business Center Manager  
- Newton

### **C. Randy Rogers**

Vice President, Financial Advisor

### **Sandra B. Shuford**

Vice President, Data  
Management & Computer  
Ops Manager

### **Shawn D. Sigmon**

Vice President, Mortgage Loan  
Origination System Analyst

### **John W. Somers**

Vice President, Business  
Center Manager - Lincolnton

### **Jon Bradley Southers**

Vice President, Commercial Credit  
Administrator

### **Robert D. Spencer**

Vice President, Business  
Center Manager - Viewmont

### **Allison J. Taylor**

Vice President, Business Center Manager -  
Springs Road

### **Lisa G. Treadaway**

Vice President,  
Organizational Architect

### **Adam P. Turbyfill**

Vice President,  
Business Development Officer

### **Jennifer K. Turner**

Vice President,  
Credit Admin Loan  
Review Officer

### **Dominick Vertorano II**

Vice President, Business  
Center Manager - Cornelius

### **Joleen M. Wallace**

Vice President, Mortgage Underwriter

### **Tandra D. Wilkinson**

Vice President, Loan Balancing & Service  
Manager

## Peoples Bank Subsidiaries' Board of Directors and Officers

### Community Bank Real Estate Solutions, LLC

#### Board of Directors Officers      Officers

Robert C. Abernethy	David E. Reitzel President
David E. Reitzel	Lance A. Sellers Vice President
Dan Ray Timmerman, Sr.	John Noonan Vice President
Lance A. Sellers	Krissy O. Price Secretary
	A. Joseph Lampron, Jr. Treasurer

### Peoples Investment Services, Inc.

#### Board of Directors                      Officers

Robert C. Abernethy	Lance A. Sellers President
Billy L. Price, Jr., M.D.	David C. Brown Vice President and Assistant Secretary
David C. Brown	Krissy O. Price Secretary
Larry E. Robinson	A. Joseph Lampron, Jr. Treasurer
Douglas S. Howard	
Lance A. Sellers	
William D. Cable, Sr.	

### Real Estate Advisory Services, Inc.

#### Board of Directors                      Officers

Robert C. Abernethy	David E. Reitzel President
Dan Ray Timmerman, Sr.	Lance A. Sellers Vice President
David E. Reitzel	Bruce Meisner Vice President
Lance A. Sellers	Krissy O. Price Secretary
	A. Joseph Lampron, Jr. Treasurer

## Shareholder and General Information

### Annual Meeting

The Annual Meeting of Shareholders of Peoples Bancorp will be held at 11 a.m. on May 3, 2018 at Catawba Country Club located at 1154 Country Club Rd, Newton, North Carolina.

### Shareholders' Luncheon

Shareholders in attendance at the Annual Meeting are cordially invited to remain for a luncheon to be served immediately upon adjournment.

### Common Stock

Peoples Bancorp common stock is listed on the NASDAQ (National Association of Securities Dealers Automated Quotations) Global Market, where our symbol is PEBK.

### Dividend Reinvestment & Stock Purchase

Peoples Bancorp offers a Dividend Reinvestment and Stock Purchase Plan for the benefit of the Company's shareholders. The Plan provides for the full or partial reinvestment of cash dividends, optional cash purchases of the Company's stock, safekeeping of the share certificates, liquidation of shares, and gifting of shares and enrollment of the designated recipients.

Broadridge Corporate Issuer Solutions, Inc. is the Plan Administrator. For more information, one may call Peoples Bancorp at 828-464-5620 or 800-948-7195 or contact the Plan Administrator at 855-263-4988.

Shareholders of Peoples Bancorp are entitled to receive dividends when and as declared by the Board of Directors out of funds legally available therefore.

Such dividend payments are declared based upon the guidelines of North Carolina and federal banking law.

### Corporate Office

Peoples Bancorp of North Carolina, Inc.  
518 West C Street  
PO Box 467  
Newton, NC 28658  
828-464-5620

### Stock Transfer Agent & Registrar

Broadridge Corporate Issuer Solutions, Inc.  
P.O. Box 1342  
Brentwood, NY 11717  
www.broadridge.com

### Independent Auditors

Elliott Davis, PLLC  
500 East Morehead Street, Suite 700  
Charlotte, NC 28202

