



2019 ANNUAL REPORT
PeoplesBancorp



Our Promise

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

Our Vision

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

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



“Believing in our communities and having the capabilities to support them has resulted in a great year.”

When we commit to delivering exceptional service to our communities, the results speak. I'm pleased to present this 2019 Annual Report of business activity on behalf of Peoples Bancorp of North Carolina, Inc. In its 107th consecutive year of being presented, this report is a reflection of the dedication, integrity and work of our employees. Through their consistent service, this company continues to positively impact the lives of our customers while strengthening our collective communities.

Year-to-date highlights are as follows:

- Net earnings were a record \$14.1 million or \$2.37 basic net earnings per share and \$2.36 diluted net earnings per share for the year ended December 31, 2019, as compared to \$13.4 million or \$2.23 basic net earnings per share and \$2.22 diluted net earnings per share for the same period one year ago.
- Total loans increased \$45.9 million to \$849.9 million at December 31, 2019, compared to \$804.0 million at December 31, 2018.
- Core deposits were \$932.2 million or 96.45% of total deposits at December 31, 2019, compared to \$859.2 million or 97.95% of total deposits at December 31, 2018.
- Shareholders' equity was \$134.1 million, or 11.61% of total assets, at December 31, 2019, compared to \$123.6 million, or 11.31% of total assets, at December 31, 2018. The Company repurchased 90,354 shares of its common stock during the year ended December 31, 2019 under the Company's stock repurchase program, which was funded in February 2019.

Our team of employees are the reason our customers trust us to serve them. People do business with people they trust and who deliver. Our employees carry out our vision and deliver on our mission of striving to be exceptional at serving. Our customers depend on us to support them on their financial journeys. What we do here is more than transactional; we're building relationships and, providing financial services and information that can make a meaningful difference in our customer's lives.

To our shareholders: the exceptional service we deliver to our customers and employees aligns with our focus on maintaining the highest operating standards, including being a well-capitalized bank with strong earnings. In everything we do, we stay true to the core values and guiding principles upon which our bank was founded.

Here is a recap of some of our more noteworthy achievements and announcements this year.

Investment in Technology

To keep pace with the modern conveniences our customers expect, we made numerous investments in technology, such as installing new ATMs and making upgrades to existing ones. In addition, we upgraded our in-branch displays with video capabilities, refreshed our website design, and rolled out customer interaction tablets in some of our offices.

Brand Focus

The Peoples Bank brand continues to be embraced both internally and externally, from our human resources efforts to product promotions and community service. It's inspiring to be that bank that strives to be exceptional and encourages others to be exceptional too. Our 92% Customer Service Index score is proof of our continuing efforts to deliver on our brand promise.

Joe Lampron's Retirement

We'd like to recognize Joe Lampron for the incredible contributions he has made to our company and wish him well as he transitions into retirement, which is planned for mid-2020. Joe has been an exceptional member of our management team since 2001 and he has played a significant role in the successful financial performance of the bank during that time. We are fortunate to have had his expertise and leadership and hope that he enjoys this next phase of his life.

The Directors of Peoples Bancorp are instrumental to the success of our company. Their continued dedication to Peoples Bank is a consistent reminder for us to deliver on our mission. Please join me in thanking them for their hard work and 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 7, 2020 at Catawba Country Club beginning at 11 a.m. I look forward to seeing all shareholders at the Annual Meeting, so that I may have the privilege of personally thanking each and every one of you for your continued support. We hope you will continue to recommend our Bank and subsidiary companies to members of your 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, 2019 and 2018, 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, 2019 (not presented herein); and in our report, dated March 13, 2020, 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 13, 2020

Financial Highlights

Dollars in Thousands Except Per Share Amounts

	2019	2018	Change
Interest income	\$ 49,601	45,350	9%
Interest expense	3,757	2,146	75%
Net interest earnings	45,844	43,204	6%
Provision for loan losses	863	790	9%
Net interest earnings after provision for loan losses	44,981	42,414	6%
Non-interest income	17,739	16,166	10%
Non-interest expense	45,517	42,574	7%
Income taxes	3,136	2,624	20%
Net earnings	\$ 14,067	13,382	5%

Per Share of Common Stock

Basic net earnings	\$ 2.37	2.23	6%
Diluted net earnings	2.36	2.22	6%
Cash dividends	0.66	0.52	27%
Market price at December 31	32.85	24.46	34%
Book value at December 31	22.68	20.62	10%

At Year-end

Loans, net	\$ 843,194	797,578	6%
Available for sale securities	195,746	194,578	1%
Assets	1,154,882	1,093,251	6%
Deposits	966,517	877,213	10%
Shareholders' equity	134,120	123,617	8%

Key Performance Ratios

Return on average assets	1.23%	1.22%
Return on average shareholders' equity	10.45%	10.81%
Dividend payout ratio	28.00%	23.41%
Average shareholders' equity to total average assets	11.78%	11.31%

Consolidated Balance Sheets

For the years ended December 31, 2019 and 2018

(Dollars in thousands)

	December 31, 2019	December 31, 2018
Assets		
Cash and due from banks, including reserve requirements of \$13,210 at 12/31/19 and \$8,918 at 12/31/18	\$ 48,337	40,553
Interest-bearing deposits	720	2,817
Federal funds sold	3,330	-
Cash and cash equivalents	52,387	43,370
Investment securities available for sale	195,746	194,578
Other investments	4,231	4,361
Total securities	199,977	198,939
Mortgage loans held for sale	4,417	680
Loans	849,874	804,023
Less allowance for loan losses	(6,680)	(6,445)
Net loans	843,194	797,578
Premises and equipment, net	18,604	18,450
Cash surrender value of life insurance	16,319	15,936
Other real estate	-	27
Right of use lease asset	3,622	-
Accrued interest receivable and other assets	16,362	18,271
Total assets	\$ 1,154,882	1,093,251

Liabilities and Shareholders' Equity

Deposits:

Noninterest-bearing demand	\$ 338,004	298,817
NOW, MMDA & savings	516,757	475,223
Time, \$250,000 or more	34,269	16,239
Other time	77,487	86,934
Total deposits	966,517	877,213
Securities sold under agreements to repurchase	24,221	58,095
Junior subordinated debentures	15,619	20,619
Lease liability	3,647	-
Accrued interest payable and other liabilities	10,758	13,707
Total liability	1,020,762	969,634

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 5,912,300 shares at December 31, 2019 and 5,995,256 shares at December 31, 2018	59,813	62,096
Retained earnings	70,663	60,535
Accumulated other comprehensive income	3,644	986
Total shareholders' equity	134,120	123,617
Total liabilities and shareholders' equity	\$ 1,154,882	1,093,251

See Appendix A to the Peoples Bancorp of North Carolina, Inc. Proxy Statement, dated March 25, 2020, for a complete set of Consolidated Financial Statements.

Consolidated Statements of Earnings

For the Years Ended December 31, 2019, 2018 and 2017

(Dollars in thousands, except per share amounts)

	2019	2018	2017
Interest income:			
Interest and fees on loans	\$ 43,301	38,654	34,888
Interest on due from banks	213	304	219
Interest on federal funds sold	331	-	-
Interest on investment securities:			
U.S. Government sponsored enterprises	2,670	2,333	2,404
States and political subdivisions	2,915	3,877	4,236
Other	171	182	202
Total interest income	49,601	45,350	41,949
Interest expense:			
NOW, MMDA & savings deposits	1,596	769	598
Time deposits	909	472	466
FHLB borrowings	205	-	662
Junior subordinated debentures	844	790	590
Other	203	115	61
Total interest expense	3,757	2,146	2,377
Net interest income	45,844	43,204	39,572
Provision for (reduction of) loan losses	863	790	(507)
Net interest income after provision for loan losses	44,981	42,414	40,079
Non-interest income:			
Service charges	4,576	4,355	4,453
Other service charges and fees	714	705	593
Gain on sale of securities	226	15	-
Mortgage banking income	1,264	851	1,190
Insurance and brokerage commissions	877	824	761
Appraisal management fee income	4,484	3,206	3,306
Gain (loss) on sales and write-downs of other real estate	(11)	17	(239)
Miscellaneous	5,609	6,193	5,300
Total non-interest income	17,739	16,166	15,364
Non-interest expense:			
Salaries and employee benefits	23,238	21,530	20,058
Occupancy	7,364	7,170	6,701
Professional fees	1,490	1,525	1,236
Advertising	1,021	922	1,195
Debit card expense	890	994	1,248
FDIC insurance	119	328	347
Appraisal management fee expense	3,421	2,460	2,526
Other	7,974	7,645	7,917
Total non-interest expense	45,517	42,574	41,228
Earnings before income taxes	17,203	16,006	14,215
Income tax expense	3,136	2,624	3,947
Net earnings	\$ 14,067	13,382	10,268
Basic net earnings per share	\$ 2.37	2.23	1.71
Diluted net earnings per share	\$ 2.36	2.22	1.69
Cash dividends declared per share	\$ 0.66	0.52	0.44

See Appendix A to the Peoples Bancorp of North Carolina, Inc. Proxy Statement, dated March 25, 2020, 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 and Treasurer
Denver Equipment Company 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

George S. Earp
Senior Vice President, Finance Director

Jeffery P. Gniadek
Senior Vice President, Area Executive – Hickory

Jan G. Griffin
Senior Vice President, Director of Loan Operations

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, Treasury Services Manager

Heather A. Allen
First Vice President, BSA Officer

Kimberly D. Bazzle
First Vice President, Marketing Director

David C. Brown
First Vice President, Investment Manager

Leslie D. Hambrick
First Vice President, Chief Internal Auditor

M. Beth LaBarbera
First Vice President, Regional Sales Manager

John J. Noonan
First Vice President, CBRES Manager

Connie P. Ollis
First Vice President, Compliance Officer

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

James Veasey
First Vice President, Business Development Officer

Ryan M. Waddle
First Vice President, Area Executive - Mooresville

Margaret C. Ward
First Vice President, Human Resources Director

Vice Presidents

Melissa R. Aldrich
Vice President, Business Center Manager - Hiddenite

Carol R. Allen
Vice President, Business Center Manager – Maiden

William Armstrong, Jr.
Vice President, Mortgage Underwriter

Kevin M. Brady
Vice President, Mortgage Sales Manager

Velvet L. Burton
Vice President, Service Center Manager

Lorena Castro
Vice President, Business Center Manager - South Boulevard

Jeanine L. Cohoon
Vice President, Marketing Channel Analyst

Wendy E. Cordero-Jones
Vice President, Mortgage Lending Manager

Roger G. Decato
Vice President, Commercial Banking Portfolio Manager

Tammy Deel
Vice President, Review & Quality Control Manager

Zachary M. Dellinger
Vice President, Business Development Officer

Cathleen H. Dillingham
Vice President, Learning & Development Manager

James R. Durham
Vice President, Financial Advisor

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 Manager

Vanessa Horvath
Vice President, Business Development Officer

Mitchell B. Johnson
Vice President, Business Center Manager - Triangle

Kacee King
Vice President, Business Center Manager II - Mooresville

Graziella La Rosa
Vice President, Business Center Manager II - Raleigh

David S. Lewis Jr.
Vice President, Business Development Officer

Mark N. Lewis
Vice President, Business Development Officer

Ryan T. Link
Vice President, Senior Credit Analyst

George "Marty" Lowder
Vice President, Finance 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

Kyle Merck
Vice President Service Delivery Manager

Amy Morton
Vice President, Business Center Manager - Conover

Paula M. Parker
Vice President, Business Center Manager – CVB

Lynn H. Poole
Vice President, Business Center Manager – Catawba

Krissy O. Price
Vice President, Shareholder Services & Assistant Corporate Secretary

Andrew R. Puntch
Vice President, Application & Project Management Manager

C. Randy Rodgers
Vice President, Financial Advisor

Sandra B. Shuford
Vice President, Data Management & Computer Operations Manager

Shawn D. Sigmon
Vice President, Review & Quality Origination System Analyst

John W. Somers
Vice President, Business Center Manager – Lincolnton

Jon Bradley Southers
Vice President, Commercial Credit Administration

Michael K. Stroud
Vice President, Staff Appraiser

Allison J. Taylor
Vice President, Business Center Manager - Springs Road

Tony J. Thomas
Vice President, Business Development Officer

Lisa G. Treadaway
Vice President, Organizational Architect

Adam P. Turbyfill
Vice President, Business Development Officer

Jennifer K. Turner
Vice President, Credit Administration Loan Review Officer

Freda B. Turnmire
Vice President, Business Center Manager - West Lincoln

Dominick Vertorano
Vice President, Business Center Manager - Cornelius

William Walton
Vice President, Tech Support Unit & Architect Manager

Tandra D. Wilkinson
Vice President, Loan Balancing & Servicing Manager

Joshua Williams
Vice President, Business Development Officer I - Cornelius

Peoples Bank Subsidiaries' Board of Directors and Officers

Community Bank Real Estate Solutions, LLC

Board of Directors

Robert C. Abernethy
David E. Reitzel
Dan Ray Timmerman, Sr.
Lance A. Sellers

Officers

David E. Reitzel
President
Lance A. Sellers
Vice President
John Noonan
Vice President
Krissy O. Price
Secretary
A. Joseph Lampron, Jr.
Treasurer

Peoples Investment Services, Inc.

Board of Directors

Robert C. Abernethy
Billy L. Price, Jr., M.D.
David C. Brown
Larry E. Robinson
Douglas S. Howard
Lance A. Sellers
William D. Cable, Sr.

Officers

David C. Brown
President
Lance A. Sellers
Vice President and Assistant Secretary
Krissy O. Price
Secretary
A. Joseph Lampron, Jr.
Treasurer

Real Estate Advisory Services, Inc.

Board of Directors

Robert C. Abernethy
Dan Ray Timmerman, Sr.
David E. Reitzel
Lance A. Sellers

Officers

David E. Reitzel
President
Lance A. Sellers
Vice President
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 7, 2020 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

