



**PeoplesBancorp**

2020 Annual Report



Our community recently lost an exceptional member. Christine Sigmon "Teen" Abernethy died on November 30, 2020 at age 94. She was a devoted mother to her sons and a loving wife to Julius (J.W.) Abernethy, Jr. who served on the Board of Peoples Bank from January 1962 until his death on December 11, 1991.

Mrs. Abernethy was the principal shareholder of Peoples Bank and a dedicated supporter of the bank and the communities we serve. She continued to be involved in her family's business as the chairwoman of Carolina Glove Co. and serving on the board of Carolina Mills. We offer our condolences to the family of Mrs. Abernethy as we applaud her extraordinary contributions to our community.

## 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.”

While in the past year we experienced unexpected challenges, brought on by the COVID-19 pandemic, Peoples Bank remained committed to serving our communities. Despite the disruptions of the last year, I'm pleased to present this 2020 Annual Report of business activity on behalf of Peoples Bancorp of North Carolina, Inc. In its 108th consecutive year of being presented, this report reflects the exceptional dedication and commitment of our employees. Through their commitment to 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 \$11.4 million or \$1.95 basic and diluted net earnings per share for the year ended December 31, 2020, as compared to \$14.1 million or \$2.37 basic net earnings per share and \$2.36 diluted net earnings per share for the same period one year ago.
- Total loans increased \$98.7 million to \$948.6 million at December 31, 2020, compared to \$849.9 million at December 31, 2019.
- The Bank originated 1,127 Small Business Administration (SBA) Paycheck Protection Program (PPP) loans, totaling \$99.0 million, during the year ended December 31, 2020. The Bank has received \$4 million in fees from the SBA for PPP for loans originated as of December 31, 2020. The Bank has recognized \$1.4 million PPP loan fee income as of December 31, 2020.
- Core deposits were \$1.2 billion or 97.89% of total deposits at December 31, 2020, compared to \$932.2 million or 96.45% of total deposits at December 31, 2019.

Our customers trust us to deliver exceptional service and solutions that help support them in their lives and with their businesses. We thank our team of employees for the trust our customers place in us. Your work ethic and resilience embody our mission of striving to be exceptional in how we serve.

We remain committed to providing exceptional customer service, while maintaining our bank's integrity. We're also proud to continue to be a well-capitalized bank, with strong earnings and operating standards. Peoples Bank strives to never lose sight of the core values upon which our bank is founded. We thank our shareholders for your support, appreciate our board of directors for their leadership, and value our employees who uphold these commitments on a daily basis.

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

- The COVID-19 pandemic presented the bank with challenges and opportunities. We are proud of our employees for overcoming obstacles, supporting each other, and serving our customers. Our bank was quick to respond to these unprecedented times by implementing measures that included:

- Deploying a large portion of our employees to work remotely to allow for appropriate social distancing and expanded safety measures in our Corporate and branch locations.
- Installing partitions to support face to face service interactions.
- Enhancing safety protocols and sanitation measures throughout the bank for the safety of our employees and customers.
- Extending payment adjustments and broad scale fee exceptions to assist in alleviating financial pressure from customers.
- Assisting local businesses in the PPP program and continue to work closely with these customers as a partner for them throughout the process.
- We made the following changes in our Executive Team:
  - Jeff Hooper joined Peoples Bank in March 2020 as our CFO, with the planned retirement of Joe Lampron in June 2020. Jeff came to the bank with an extensive background in both accounting and the financial services industry and has been a valuable addition to our team.
  - Kim Boyd Leaks, Jim Perry and Tim Turner were each promoted to Executive Vice President.
  - Our new Raleigh office opened in August 2020 and is prepared to fully service both retail and commercial customers.

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 the Peoples Bank 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.

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, 2020 and 2019, and the related consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2020 (not presented herein); and in our report, dated March 19, 2021, 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 19, 2021

## Financial Highlights

Dollars in Thousands Except Per Share Amounts

|   | 2020      | 2019   | Change |
|---|-----------|--------|--------|
| Interest income                                       | \$ 47,958 | 49,601 | -3%    |
| Interest expense                                      | 3,836     | 3,757  | 2%     |
| Net interest earnings                                 | 44,122    | 45,844 | -4%    |
| Provision for loan losses                             | 4,259     | 863    | 394%   |
| Net interest earnings after provision for loan losses | 39,863    | 44,981 | -11%   |
| Non-interest income                                   | 22,914    | 17,739 | 29%    |
| Non-interest expense                                  | 48,931    | 45,517 | 8%     |
| Income taxes  | 2,489     | 3,136  | -21%   |
| Net earnings  | \$ 11,357 | 14,067 | -19%   |

### Per Share of Common Stock

|                             |         |       |      |
|-----------------------------|---------|-------|------|
| Basic net earnings          | \$ 1.95 | 2.37  | -18% |
| Diluted net earnings        | 1.95    | 2.36  | -17% |
| Cash dividends              | 0.75    | 0.66  | 14%  |
| Market price at December 31 | 23.02   | 32.85 | -30% |
| Book value at December 31   | 24.17   | 22.68 | 7%   |

### At Year-end

|                               |            |           |     |
|-------------------------------|------------|-----------|-----|
| Loans, net                    | \$ 938,731 | 843,194   | 11% |
| Available for sale securities | 245,249    | 195,746   | 25% |
| Assets                        | 1,414,855  | 1,154,882 | 23% |
| Deposits                      | 1,221,086  | 966,517   | 26% |
| Shareholders' equity          | 139,899    | 134,120   | 4%  |

### Key Performance Ratios

|  |        |        |
|--|--------|--------|
| Return on average assets                             | 0.83%  | 1.23%  |
| Return on average shareholders' equity               | 8.04%  | 10.45% |
| Dividend payout ratio                                | 38.67% | 28.00% |
| Average shareholders' equity to total average assets | 10.35% | 11.78% |

## Consolidated Balance Sheets

December 31, 2020 and December 31, 2019

(Dollars in thousands)

|  | December 31,<br><b>2020</b><br>(Audited) | December 31,<br><b>2019</b><br>(Audited) |
|--|--|--|
| <b>Assets</b>  |  |  |
| Cash and due from banks, including reserve requirements of \$0 at 12/31/20 and \$13,210 at 12/31/19  | \$ 42,737                                | 48,337                                   |
| Interest-bearing deposits  | 118,843                                  | 720                                      |
| Federal funds sold   | -  | 3,330                                    |
| Cash and cash equivalents  | 161,580                                  | 52,387                                   |
| Investment securities available for sale   | 245,249                                  | 195,746                                  |
| Other investments  | 4,155                                    | 4,231                                    |
| Total securities   | 249,404                                  | 199,977                                  |
| Mortgage loans held for sale   | 9,139                                    | 4,417                                    |
| Loans  | 948,639                                  | 849,874                                  |
| Less allowance for loan losses   | (9,908)                                  | (6,680)                                  |
| Net loans  | 938,731                                  | 843,194                                  |
| Premises and equipment, net  | 18,600                                   | 18,604                                   |
| Cash surrender value of life insurance   | 16,968                                   | 16,319                                   |
| Other real estate  | 128                                      | -  |
| Right of use lease asset   | 3,423                                    | 3,622                                    |
| Accrued interest receivable and other assets   | 16,882                                   | 16,362                                   |
| Total assets   | \$ 1,414,855                             | 1,154,882                                |
| <b>Liabilities and Shareholders' Equity</b>  |  |  |
| <b>Deposits:</b>   |  |  |
| Noninterest-bearing demand   | \$ 456,980                               | 338,004                                  |
| NOW, MMDA & savings  | 657,834                                  | 516,757                                  |
| Time, \$250,000 or more  | 25,771                                   | 34,269                                   |
| Other time   | 80,501                                   | 77,487                                   |
| Total deposits   | 1,221,086                                | 966,517                                  |
| Securities sold under agreements to repurchase   | 26,201                                   | 24,221                                   |
| Junior subordinated debentures   | 15,464                                   | 15,619                                   |
| Lease liability  | 3,471                                    | 3,647                                    |
| Accrued interest payable and other liabilities   | 8,734                                    | 10,758                                   |
| Total liabilities  | 1,274,956                                | 1,020,762                                |
| Commitments  |  |  |
| <b>Shareholders' equity:</b>   |  |  |
| Preferred stock, no par value; authorized 5,000,000 shares; no shares issued and outstanding   | -  | -  |
| Common stock, no par value; authorized 20,000,000 shares; issued and outstanding 5,787,504 shares at December 31, 2020 and 5,912,300 shares at December 31, 2019 | 56,871                                   | 59,813                                   |
| Retained earnings  | 77,628                                   | 70,663                                   |
| Accumulated other comprehensive income   | 5,400                                    | 3,644                                    |
| Total shareholders' equity   | 139,899                                  | 134,120                                  |
| Total liabilities and shareholders' equity   | \$ 1,414,855                             | 1,154,882                                |

See accompanying Notes to Consolidated Financial Statements.

See Appendix A to the Peoples Bancorp of North Carolina, Inc. Proxy Statement, dated March 24, 2021, for a complete set of Consolidated Financial Statements

## Consolidated Statements of Earnings

For the Years Ended December 31, 2020, 2019 and 2018

(Dollars in thousands, except per share amounts)

|  | <b>2020</b> | <b>2019</b> | <b>2018</b> |
|--|-------------|-------------|-------------|
| <b>Interest income:</b>  |             |             |             |
| Interest and fees on loans                                     | \$ 42,314   | 43,301      | 38,654      |
| Interest on due from banks                                     | 127         | 213         | 304         |
| Interest on federal funds sold                                 | 204         | 331         | -           |
| Interest on investment securities:                             |             |             |             |
| U.S. Government sponsored enterprises                          | 2,361       | 2,670       | 2,333       |
| States and political subdivisions                              | 2,691       | 2,915       | 3,877       |
| Other  | 261         | 171         | 182         |
| Total interest income  | 47,958      | 49,601      | 45,350      |
| <b>Interest expense:</b>                                       |             |             |             |
| NOW, MMDA & savings deposits                                   | 1,962       | 1,596       | 769         |
| Time deposits  | 947         | 909         | 472         |
| FHLB borrowings  | 357         | 205         | -           |
| Junior subordinated debentures                                 | 370         | 844         | 790         |
| Other  | 200         | 203         | 115         |
| Total interest expense   | 3,836       | 3,757       | 2,146       |
| Net interest income  | 44,122      | 45,844      | 43,204      |
| Provision for loan losses                                      | 4,259       | 863         | 790         |
| Net interest income after provision for loan losses            | 39,863      | 44,981      | 42,414      |
| <b>Non-interest income:</b>                                    |             |             |             |
| Service charges  | 3,528       | 4,576       | 4,355       |
| Other service charges and fees                                 | 742         | 714         | 705         |
| Gain on sale of securities                                     | 2,639       | 226         | 15          |
| Mortgage banking income  | 2,469       | 1,264       | 851         |
| Insurance and brokerage commissions                            | 897         | 877         | 824         |
| Appraisal management fee income                                | 6,754       | 4,484       | 3,206       |
| Gain (loss) on sales and write-downs of other real estate, net | (47)        | (11)        | 17          |
| Miscellaneous  | 5,932       | 5,609       | 6,193       |
| Total non-interest income                                      | 22,914      | 17,739      | 16,166      |
| <b>Non-interest expense:</b>                                   |             |             |             |
| Salaries and employee benefits                                 | 23,538      | 23,238      | 21,530      |
| Occupancy  | 7,933       | 7,364       | 7,170       |
| Professional fees  | 1,580       | 1,490       | 1,525       |
| Advertising  | 787         | 1,021       | 922         |
| Debit card expense   | 1,012       | 890         | 994         |
| FDIC insurance   | 263         | 119         | 328         |
| Appraisal management fee expense                               | 5,274       | 3,421       | 2,460       |
| Other  | 8,544       | 7,974       | 7,645       |
| Total non-interest expense                                     | 48,931      | 45,517      | 42,574      |
| Earnings before income taxes                                   | 13,846      | 17,203      | 16,006      |
| Income tax expense   | 2,489       | 3,136       | 2,624       |
| Net earnings   | \$ 11,357   | 14,067      | 13,382      |
| Basic net earnings per share                                   | \$ 1.95     | 2.37        | 2.23        |
| Diluted net earnings per share                                 | \$ 1.95     | 2.36        | 2.22        |
| Cash dividends declared per share                              | \$ 0.75     | 0.66        | 0.52        |

See accompanying Notes to Consolidated Financial Statements.

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## Executive Leadership Team



**Lance Sellers**

President & CEO



**Jeffrey Hooper**

EVP, Chief Financial Officer  
Finance, Internal Audit, Investment Services



**Bill Cable**

EVP, Chief Operating Officer

BSA, Compliance, Deposit Operations, Digital Banking Services, Information Technology, Loan Operations, Treasury Management, Mortgage Department, Mail Courier Services



**Kim Boyd Leaks**

EVP, Chief Retail Banking Support Officer

Retail Sales Support, CRM Administrations, Human Resources, Learning & Development, Marketing, Service Center



**Jim Perry**

EVP, Chief Retail Banking Officer  
Retail Banking Centers, Mortgage Sales



**Tim Turner**

EVP, Chief Credit Officer  
Commercial Credit, Consumer Credit

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  
Hole-In-One Advantage, LLC  
Director/Consultant  
Drum & Willis-Reynolds  
Funeral Homes & 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

### 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  
Jeffrey N. Hooper  
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  
Jeffrey N. Hooper  
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  
John Noonan  
Vice President  
Krissy O. Price  
Secretary  
Jeffrey N. Hooper  
Treasurer

### Shareholder and General Information

#### Annual Meeting

This year, out of an abundance of caution and to continue to deal with the unprecedented health impact of COVID-19, the Annual Meeting of Shareholders of Peoples Bancorp will be conducted in a virtual-only format at 11:00 a.m. on Thursday, May 6, 2021.

#### 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

## **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.