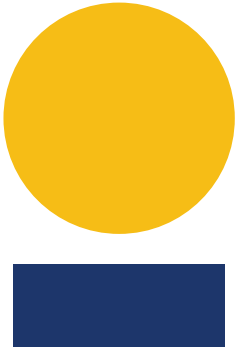


PeoplesBancorp



2 0 2 1
ANNUAL
REPORT



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



“Responding to the needs of our communities with meaningful solutions and compassionate service has resulted in another successful year.”

Our commitment to serve with purpose last year amid the continuing disruptions brought on by the pandemic resulted in more opportunities for Peoples Bank to continue to do right by others—and, in return, help the Bank achieve our vision. It is a privilege to present this 2021 Annual Report of business activity on behalf of Peoples Bancorp of North Carolina, Inc. In its 109th consecutive year of being presented, this report reflects the spirit, strength and quality of our employees who do extraordinary work every day to improve the lives of our customers and assist our communities.

Year-to-date highlights are as follows:

- Net earnings were a record \$151 million or \$2.71 per share and \$2.63 per diluted share for the year ended December 31, 2021, as compared to \$11.4 million or \$2.01 per share and \$1.95 per diluted share for the year ended December 31, 2020.
- The Bank originated 419 PPP loans, totaling \$291 million, during the year ended December 31, 2021. The Bank recognized \$3.4 million in PPP loan fee income during the year ended December 31, 2021, as compared to \$1.4 million in PPP loan fee income for the year ended December 31, 2020
- Core deposits were \$1.4 billion or 98.14% of total deposits at December 31, 2021, compared to \$1.2 billion or 97.92% of total deposits at December 31, 2020.

Over the years, our customers have learned to expect high standards with Peoples Bank—from the solutions we provide to the service we deliver. We thank our team of employees for delivering financial services to our customers. You meet every challenge with a can-do spirit, giving the best of your professional abilities. Your efforts and achievements do not go unnoticed. You make a real difference in the lives of our customers, in the businesses we support, and in the communities we serve.

By staying true to the values we were founded on, Peoples Bank continues to be a well-capitalized Bank, with strong earnings and operating standards. In addition to thanking our employees for the Bank’s many successes, we wish to extend our gratitude to our board of directors for your extraordinary leadership and commitment.

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

- The Bank is fortunate to be guided by passionate people who lead with wisdom, kindness, integrity, and diverse business insight. It’s truly an honor to recognize veteran banker Kimberly Boyd-Leaks on her recent appointment as the 11th member of the Board of Directors of the Company and the Bank. Kim has served the Bank for 27 years, most currently as Executive Vice President, Chief Retail Banking Support Officer. She is responsible for Human Resources, Marketing, Learning & Development, Call Center, Retail Sales Support and Customer Relationship Management (CRM) teams.

- When you’re a stable and progressive-thinking Bank, there will be opportunities for growth. Peoples Bank opened a new Loan Production Office in Winston-Salem on November 16, 2021. It’s exciting to be able to bring our exceptional service, new ideas and product offerings to this new market, in addition to the many North Carolina communities we already serve. By expanding our footprint, we can support and inspire more people, businesses and communities.

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 real estate lending.

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, 2021 and 2020, 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, 2021 (not presented herein); and in our report, dated March 18, 2022, 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.

Raleigh, North Carolina
March 18, 2022

Financial Highlights

Dollars in Thousands Except Per Share Amounts

| | 2021 | 2020 | Change |
|-------------------------------------------------------|-----------|--------|--------|
| Interest income | \$ 47,179 | 47,958 | -2% |
| Interest expense | 3,205 | 3,836 | -16% |
| Net interest earnings | 43,974 | 44,122 | 0% |
| Provision for loan losses | (1,163) | 4,259 | -127% |
| Net interest earnings after provision for loan losses | 45,137 | 39,863 | 13% |
| Non-interest income | 24,919 | 22,914 | 9% |
| Non-interest expense | 51,127 | 48,931 | 4% |
| Income taxes | 3,796 | 2,489 | 53% |
| Net earnings | \$ 15,133 | 11,357 | 33% |

Per Share of Common Stock

| | | | |
|-----------------------------|---------|-------|------|
| Basic net earnings | \$ 2.71 | 2.01 | 35% |
| Diluted net earnings | 2.63 | 1.95 | 35% |
| Cash dividends | 0.66 | 0.75 | -12% |
| Market price at December 31 | 27.59 | 23.02 | 20% |
| Book value at December 31 | 25.89 | 24.84 | 4% |

At Year-end

| | | | |
|-------------------------------|------------|-----------|-----|
| Loans, net | \$ 875,514 | 938,731 | -7% |
| Available for sale securities | 406,549 | 245,249 | 66% |
| Assets | 1,624,193 | 1,416,175 | 15% |
| Deposits | 1,412,748 | 1,221,086 | 16% |
| Shareholders' equity | 142,369 | 139,899 | 2% |

Key Performance Ratios

| | | |
|------------------------------------------------------|--------|--------|
| Return on average assets | 0.96% | 0.83% |
| Return on average shareholders' equity | 10.24% | 8.04% |
| Dividend payout ratio | 24.83% | 38.67% |
| Average shareholders' equity to total average assets | 9.42% | 10.35% |

Consolidated Balance Sheets

December 31, 2021 and December 31, 2020

(Dollars in thousands)

| | December 31, 2021 | December 31, 2020 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| Assets | | |
| Cash and due from banks, including reserve requirements of \$0 at both 12/31/21 and 12/31/20 | \$ 44,711 | 42,737 |
| Interest-bearing deposits | 232,788 | 118,843 |
| Cash and cash equivalents | 277,499 | 161,580 |
| Investment securities available for sale | 406,549 | 245,249 |
| Other investments | 3,668 | 4,155 |
| Total securities | 410,217 | 249,404 |
| Mortgage loans held for sale | 3,637 | 9,139 |
| Loans | 884,869 | 948,639 |
| Less allowance for loan losses | (9,355) | (9,908) |
| Net loans | 875,514 | 938,731 |
| Premises and equipment, net | 16,104 | 18,600 |
| Cash surrender value of life insurance | 17,365 | 16,968 |
| Other real estate | - | 128 |
| Right of use lease asset | 4,612 | 3,423 |
| Accrued interest receivable and other assets | 19,245 | 18,202 |
| Total assets | \$ 1,624,193 | 1,416,175 |
| Liabilities and Shareholders' Equity | | |
| Deposits: | | |
| Noninterest-bearing demand | \$ 514,319 | 456,980 |
| Interest-bearing demand, MMDA & savings | 797,179 | 657,834 |
| Time, \$250,000 or more | 26,333 | 25,771 |
| Other time | 74,917 | 80,501 |
| Total deposits | 1,412,748 | 1,221,086 |
| Securities sold under agreements to repurchase | 37,094 | 26,201 |
| Junior subordinated debentures | 15,464 | 15,464 |
| Lease liability | 4,677 | 3,471 |
| Accrued interest payable and other liabilities | 11,841 | 10,054 |
| Total liabilities | 1,481,824 | 1,276,276 |
| Commitments | | |
| Shareholders' equity: | | |
| 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 5,661,569 shares at December 31, 2021 and 5,787,504 shares at December 31, 2020 | 53,305 | 56,871 |
| Common stock, held by deferred compensation trust, at cost: 162,193 shares at December 31, 2021 and 155,469 shares at December 31, 2020 | (1,992) | (1,796) |
| Deferred compensation | 1,992 | 1,796 |
| Retained earnings | 88,968 | 77,628 |
| Accumulated other comprehensive income | 96 | 5,400 |
| Total shareholders' equity | 142,369 | 139,899 |
| Total liabilities and shareholders' equity | \$ 1,624,193 | 1,416,175 |

See accompanying Notes to Consolidated Financial Statements.
See Appendix A to the Peoples Bancorp of North Carolina, Inc. Proxy Statement, dated March 25, 2022, for a complete set of Consolidated Financial Statements

Consolidated Statements of Earnings

For the Years Ended December 31, 2021, 2020 and 2019

(Dollars in thousands, except per share amounts)

| | 2021 | 2020 | 2019 |
|----------------------------------------------------------------|-----------|--------|--------|
| Interest income: | | | |
| Interest and fees on loans | \$ 41,186 | 42,314 | 43,301 |
| Interest on due from banks | 258 | 127 | 213 |
| Interest on federal funds sold | - | 204 | 331 |
| Interest on investment securities: | | | |
| U.S. Government sponsored enterprises | 2,478 | 2,361 | 2,670 |
| States and political subdivisions | 3,146 | 2,691 | 2,915 |
| Other | 111 | 261 | 171 |
| Total interest income | 47,179 | 47,958 | 49,601 |
| Interest expense: | | | |
| Demand deposits, MMDA & savings deposits | 2,029 | 1,962 | 1,596 |
| Time deposits | 752 | 947 | 909 |
| FHLB borrowings | - | 357 | 205 |
| Junior subordinated debentures | 280 | 370 | 844 |
| Other | 144 | 200 | 203 |
| Total interest expense | 3,205 | 3,836 | 3,757 |
| Net interest income | 43,974 | 44,122 | 45,844 |
| Provision for (reduction of) loan losses | (1.163) | 4,259 | 863 |
| Net interest income after provision for loan losses | 45,137 | 39,863 | 44,981 |
| Non-interest income: | | | |
| Service charges | 3,921 | 3,528 | 4,576 |
| Other service charges and fees | 803 | 742 | 714 |
| Gain on sale of securities | - | 2,639 | 226 |
| Mortgage banking income | 2,505 | 2,469 | 1,264 |
| Insurance and brokerage commissions | 1,035 | 897 | 877 |
| Appraisal management fee income | 8,890 | 6,754 | 4,484 |
| Gain (loss) on sale of other assets | 105 | - | (239) |
| Gain (loss) on sales and write-downs of other real estate, net | 21 | (47) | (11) |
| Miscellaneous | 7,639 | 5,932 | 5,848 |
| Total non-interest income | 24,919 | 22,914 | 17,739 |
| Non-interest expense: | | | |
| Salaries and employee benefits | 24,506 | 23,538 | 23,238 |
| Occupancy | 7,858 | 7,933 | 7,364 |
| Professional fees | 1,826 | 1,580 | 1,490 |
| Advertising | 536 | 787 | 1,021 |
| Debit card expense | 1,000 | 1,012 | 890 |
| FDIC insurance | 415 | 263 | 119 |
| Appraisal management fee expense | 7,112 | 5,274 | 3,421 |
| Other | 7,874 | 8,544 | 7,974 |
| Total non-interest expense | 51,127 | 48,931 | 45,517 |
| Earnings before income taxes | 18,929 | 13,846 | 17,203 |
| Income tax expense | 3,796 | 2,489 | 3,136 |
| Net earnings | \$ 15,133 | 11,357 | 14,067 |
| Basic net earnings per share | \$ 2.71 | 2.01 | 2.43 |
| Diluted net earnings per share | \$ 2.63 | 1.95 | 2.36 |
| Cash dividends declared per share | \$ 0.66 | 0.75 | 0.66 |

See accompanying Notes to Consolidated Financial Statements.
See Appendix A to the Peoples Bancorp of North Carolina, Inc. Proxy Statement, dated March 25, 2022, for a complete set of Consolidated Financial Statements.

Our Leadership



Lance Sellers
President & CEO



Jeffrey N. Hooper
EVP, Chief Financial Officer



Bill Cable
EVP, Chief Operating Officer



Kim Boyd-Leaks
EVP, Chief Retail Banking
Support Officer



Tim Turner
EVP, Chief Credit Officer



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

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.

Kim Boyd-Leaks

EVP, Chief Retail Banking
Support Officer
Peoples Bank

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 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

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

The Annual Meeting of Shareholders of Peoples Bancorp will be conducted in a virtual-only format at 11:00 a.m. on Thursday, May 5, 2022.

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

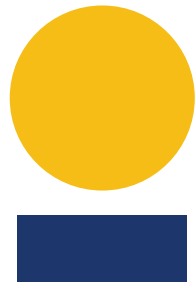
Peoples Bancorp of North Carolina, Inc.
518 West C Street
PO Box 467
Newton, NC 28658
828-464-5620

Stock Transfer Agent & Registrar

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

Independent Auditors

Elliott Davis, PLLC
5410 Trinity Road, Suite 320
Raleigh, NC 27607



PeoplesBankNC.com