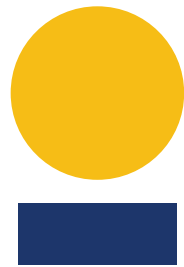


2022 ANNUAL REPORT





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



“Being there for our customers and communities with financial services solutions and education has produced another successful year.”

2022 was the Bank’s 110th consecutive year of business, continuing to build relationships, achieve goals, and contribute to making communities stronger. Once again, this year’s annual report will reflect the continued dedication of our employees who go the extra mile to serve, inform, and support our customers and are always willing to give back to the communities where we live and work. Thank you for all you do to help others reach their potential.

Year-to-date highlights are as follows:

- Net earnings were \$161 million or \$2.94 per share and \$2.85 per diluted share for the year ended December 31, 2022, as compared to \$151 million or \$2.71 per share and \$2.63 per diluted share for the year ended December 31, 2021.
- Total loans increased \$147.7 million to \$1.0 billion at December 31, 2022, compared to \$884.9 million at December 31, 2021.
- Core deposits were \$14 billion or 97.84% of total deposits at December 31, 2022, compared to \$14 billion or 98.14% of total deposits at December 31, 2021.

Peoples Bank continues to be a well-capitalized Bank with strong earnings and operating standards. In addition to extending our gratitude to our employees for our many successes, we must also recognize our board of directors who lead with extraordinary insights and vision. Thank you for your guidance and strength, and for helping us make a difference.

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

Many people rely on Peoples Bank. It’s important to be where we are needed most, and to be easily accessible for our customers. To that end, we relocated our Cornelius office to Huntersville, North Carolina. The new full-service branch opened for business on May 3, 2022, at 9617 Holly Point Drive. This location allows us to extend service to more people and local businesses. Also, it provides a drive-thru service and an easily accessible ATM for customers.

Our customers—both consumer and business—rely on lending solutions to get ahead in life and in business. Loans have the power to turn challenges into opportunities, and are often necessary to start a business, buy a home, achieve a goal, or pursue a passion. It’s a privilege to announce that our loan performance has been exceptional this year, particularly in our newer markets. Through our competitive loans and superior service, Peoples Bank has played a significant role in helping our communities flourish.

At Peoples Bank, we don’t just offer financial services solutions, we also educate. We want our customers to make smart decisions when it comes to saving, spending, and managing their finances. It’s important that our customers know we have the resources and knowledge to guide them to stronger financial wellness. Having made financial education a key focus, we launched our Financial Wellness Learning Center, which provides online financial education. Also, we provide resources to our community’s teachers to use in the classroom.

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

Financial Highlights

Dollars in Thousands Except Per Share Amounts

| | | 2022 | 2021 | Change |
|---|----|-----------|-----------|--------|
| Interest income | \$ | 54,431 | 47,179 | 15% |
| Interest expense | | 3,323 | 3,205 | 4% |
| Net interest earnings | | 51,108 | 43,974 | 16% |
| Provision for (recovery of) loan losses | | 1,472 | (1,163) | -227% |
| Net interest earnings after provision for loan losses | | 49,636 | 45,137 | 10% |
| Non-interest income | | 26,689 | 24,919 | 7% |
| Non-interest expense | | 56,030 | 51,127 | 10% |
| Income taxes | | 4,172 | 3,796 | 10% |
| Net earnings | \$ | 16,123 | 15,133 | 7% |
| Per Share of Common Stock | | | | |
| Basic net earnings | \$ | 2.94 | 2.71 | 8% |
| Diluted net earnings | | 2.85 | 2.63 | 8% |
| Cash dividends | | 0.87 | 0.66 | 32% |
| Market price at December 31 | | 32.56 | 27.59 | 18% |
| Book value at December 31 | | 19.24 | 25.89 | -26% |
| At Year-end | | | | |
| Loans, net | \$ | 1,022,114 | 875,514 | 17% |
| Available for sale securities | | 445,394 | 406,549 | 10% |
| Assets | | 1,620,927 | 1,624,193 | 0% |
| Deposits | | 1,435,215 | 1,412,748 | 2% |
| Shareholders' equity | | 105,195 | 142,369 | -26% |
| Key Performance Ratios | | | | |
| Return on average assets | | 0.97% | 0.96% | |
| Return on average shareholders' equity | | 13.01% | 10.24% | |
| Dividend payout ratio | | 30.61% | 24.83% | |
| Average shareholders' equity to total average assets | | 7.45% | 9.42% | |



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, 2022 and 2021, and the related consolidated statements of earnings, comprehensive income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2022 (not presented herein); and in our report, dated March 17, 2023, 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

Raleigh, North Carolina
March 17, 2023

Consolidated Balance Sheets

December 31, 2022 and December 31, 2021

(Dollars in thousands)

| | December 31, 2022 <i>(Audited)</i> | December 31, 2021 <i>(Audited)</i> |
|--|---|---|
| Assets | | |
| Cash and due from banks, including reserve requirements of \$0 at both 12/31/22 and 12/31/21 | \$ 50,061 | 44,711 |
| Interest-bearing deposits | 21,535 | 232,788 |
| Cash and cash equivalents | 71,596 | 277,499 |
| Investment securities available for sale | 445,394 | 406,549 |
| Other investments | 2,656 | 3,668 |
| Total securities | 448,050 | 410,217 |
| Mortgage loans held for sale | 211 | 3,637 |
| Loans | 1,032,608 | 884,869 |
| Less allowance for loan losses | (10,494) | (9,355) |
| Net loans | 1,022,114 | 875,514 |
| Premises and equipment, net | 18,205 | 16,104 |
| Cash surrender value of life insurance | 17,703 | 17,365 |
| Right of use lease asset | 5,116 | 4,612 |
| Accrued interest receivable and other assets | 37,932 | 19,245 |
| Total assets | \$ 1,620,927 | 1,624,193 |
| Liabilities and Shareholders' Equity | | |
| Deposits: | | |
| Noninterest-bearing demand | \$ 523,088 | 514,319 |
| Interest-bearing demand, MMDA & savings | 814,128 | 797,179 |
| Time, \$250,000 or more | 31,001 | 26,333 |
| Other time | 66,998 | 74,917 |
| Total deposits | 1,435,215 | 1,412,748 |
| Securities sold under agreements to repurchase | 47,688 | 37,094 |
| Junior subordinated debentures | 15,464 | 15,464 |
| Lease liability | 5,185 | 4,677 |
| Accrued interest payable and other liabilities | 12,180 | 11,841 |
| Total liabilities | 1,515,732 | 1,481,824 |
| 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 5,636,830 shares at December 31, 2022 and 5,661,569 shares at December 31, 2021 | 52,636 | 53,305 |
| Common stock, held by deferred compensation trust, at cost: 169,004 shares at December 31, 2022 and 162,193 shares at December 31, 2021 | (2,181) | (1,992) |
| Deferred compensation | 2,181 | 1,992 |
| Retained earnings | 100,156 | 88,968 |
| Accumulated other comprehensive income (loss) | (47,597) | 96 |
| Total shareholders' equity | 105,195 | 142,369 |
| Total liabilities and shareholders' equity | \$ 1,620,927 | 1,624,193 |

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

Consolidated Statements of Earnings

For the Years Ended December 31, 2022, 2021 and 2020

(Dollars in thousands, except per share amounts)

| | 2022 | 2021 | 2020 |
|--|-------------|-------------|-------------|
| Interest income: | | | |
| Interest and fees on loans | \$ 43,077 | 41,186 | 42,314 |
| Interest on due from banks | 2,223 | 258 | 127 |
| Interest on federal funds sold | - | - | 204 |
| Interest on investment securities: | | | |
| U.S. Government sponsored enterprises | 4,962 | 2,478 | 2,361 |
| States and political subdivisions | 4,075 | 3,146 | 2,691 |
| Other | 94 | 111 | 261 |
| Total interest income | 54,431 | 47,179 | 47,958 |
| Interest expense: | | | |
| Demand deposits, MMDA & savings deposits | 2,019 | 2,029 | 1,962 |
| Time deposits | 562 | 752 | 947 |
| FHLB borrowings | - | - | 357 |
| Junior subordinated debentures | 529 | 280 | 370 |
| Other | 213 | 144 | 200 |
| Total interest expense | 3,323 | 3,205 | 3,836 |
| Net interest income | 51,108 | 43,974 | 44,122 |
| Provision for (recovery of) loan losses | 1,472 | (1,163) | 4,259 |
| Net interest income after provision for loan losses | 49,636 | 45,137 | 39,863 |
| Non-interest income: | | | |
| Service charges | 5,290 | 3,921 | 3,528 |
| Other service charges and fees | 734 | 803 | 742 |
| Gain on sale of securities | - | - | 2,639 |
| Mortgage banking income | 393 | 2,505 | 2,469 |
| Insurance and brokerage commissions | 945 | 1,035 | 897 |
| Appraisal management fee income | 11,663 | 8,890 | 6,754 |
| Gain (loss) on sale of premises and equipment | (85) | 105 | - |
| Gain (loss) on sales and write-downs of other real estate, net | - | 21 | (47) |
| Miscellaneous | 7,749 | 7,639 | 5,932 |
| Total non-interest income | 26,689 | 24,919 | 22,914 |
| Non-interest expense: | | | |
| Salaries and employee benefits | 26,130 | 24,506 | 23,538 |
| Occupancy | 8,048 | 7,858 | 7,933 |
| Professional fees | 1,915 | 1,826 | 1,580 |
| Advertising | 693 | 536 | 787 |
| Debit card expense | 1,224 | 1,000 | 1,012 |
| FDIC insurance | 461 | 415 | 263 |
| Appraisal management fee expense | 9,264 | 7,112 | 5,274 |
| Other | 8,295 | 7,874 | 8,544 |
| Total non-interest expense | 56,030 | 51,127 | 48,931 |
| Earnings before income taxes | 20,295 | 18,929 | 13,846 |
| Income tax expense | 4,172 | 3,796 | 2,489 |
| Net earnings | \$ 16,123 | 15,133 | 11,357 |
| Basic net earnings per share | \$ 2.94 | 2.71 | 2.01 |
| Diluted net earnings per share | \$ 2.85 | 2.63 | 1.95 |
| Cash dividends declared per share | \$ 0.87 | 0.66 | 0.75 |

See accompanying Notes to Consolidated Financial Statements.
See Appendix A to the Peoples Bancorp of North Carolina, Inc. Proxy Statement 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

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
Clemson Legacy Designs
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 4, 2023.

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](https://www.PeoplesBankNC.com)