

**2015** | Annual Report

**Peoples Bancorp**  
OF NORTH CAROLINA, INC.



# 2015

## ANNUAL REPORT

### OUR VISION

To be the **Bank of Choice** in our **communities**, including **employees, customers** and **shareholders**.

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**Lance A. Sellers**  
President and Chief  
Executive Officer

## FROM THE PRESIDENT

For the one hundred and third year, Peoples Bancorp of North Carolina, Inc., is pleased to present an Annual Report of business activity. We are very aware that shareholder loyalty along with the outstanding performance of the Company's employees have made it possible for us to be successful for such a long time.

The highlight of this year's Annual Report would be our earnings, which were the highest annual earnings in the history of the Company. Net earnings for last year were \$9.6 million. You'll see more performance results in the paragraphs below.

Year-to-date net earnings as of December 31, 2015 were \$9.6 million, or \$1.73 basic net earnings per share and \$1.72 diluted net earnings per share, as compared to \$9.4 million, or \$1.67 basic net earnings per share and \$1.66 diluted net earnings per share for the same period one year ago. The increase in year-to-date earnings is primarily attributable to an increase in net interest income and an increase in non-interest income, which were partially offset by a decrease in the credit to the provision for loan losses and an increase in non-interest expense. The Bank continues to make progress in addressing the issues identified in the FDIC Consent Order issued in August, 2015 and expects that it will be able to undertake and implement all required actions within the required time period.

An ongoing focus for us is the preservation of our capital base. We are committed to maintaining a capital ratio that exceeds regulatory guidelines and results in our designation as a "well-capitalized" financial institution. So we are glad to report, as of December 31, 2015 shareholders' equity was \$104.9 million, or 10.1% of total assets, compared to \$98.7 million, or 9.5% of total assets, as of December 31, 2014. This increase is primarily due to an increase in retained earnings due to net income, which was partially offset by a decrease in common stock due to 102,050 shares of common stock repurchased during 2015 under the Company's stock repurchase program implemented in September 2014.

Total assets were \$1.0 billion as of December 31, 2015 and 2014. Non-performing assets declined to \$9.2 million or 0.88% of total assets at December 31, 2015, compared to \$12.7 million or 1.2% of total assets at December 31, 2014. The decline in non-performing assets is due to a \$2.3 million decrease in non-accrual loans and a \$1.3 million decrease in other real estate owned properties. The allowance for loan losses at December 31, 2015 was \$9.6 million or 1.4% of total loans, compared to \$11.1 million or 1.7% of total loans at December 31, 2014. Management believes the current level of the allowance for loan losses is adequate; however, there is no assurance that additional adjustments to the allowance will not be required because of changes in economic conditions, regulatory requirements or other factors.

Deposits amounted to \$832.2 million as of December 31, 2015, compared to \$814.7 million at December 31, 2014. Core deposits, which include noninterest-bearing demand deposits, NOW, MMDA, savings and non-brokered certificates of deposit of denominations less than \$250,000, increased \$45.4 million to \$801.2 million at December 31, 2015, as compared to \$755.8 million at December 31, 2014. We are pleased with the continued level of growth in core deposits as such deposits represent the most cost effective way to fund our earning assets. Certificates of deposit in amounts of \$250,000 or more totaled \$26.9 million at December 31, 2015, as compared to \$47.9 million at December 31, 2014. The decrease in certificates of deposit in amounts of \$250,000 or more is attributable to a \$7.1 million decrease in wholesale certificates of deposit combined with a decrease in retail certificates of deposit which was expected as part of the Bank's pricing strategy to allow maturing high cost certificates of deposit to roll-off.

Our Bank's vision is to become "the Bank of Choice" in all the communities we serve. We're encouraged that our past performance indicates we are the right bank at the right time for many of the families and businesses in our footprint. We continue to make the investment in products, services and people to accomplish our mission, which is to provide exceptional customer service while selling to customer needs. Our employees consistently earn high marks from our customers, and I want to congratulate each of them for the hard work to make our Company a success.

The Directors of Peoples Bancorp play a direct and critical role in the success of our Company. They consistently look for ways to enhance shareholder value by their diligence and hard work. 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, created in response to the Dodd-Frank Act to assist community banks across the country with appraisal management services.

The Annual Shareholders Meeting is scheduled for Thursday, May 5, 2016, at the Catawba Country Club beginning at 11:00 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 AUDIT



### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Peoples Bancorp of North Carolina, Inc. and subsidiaries as of December 31, 2015, and the related consolidated statement of earnings, comprehensive income, shareholders' equity, and cash flow for the year then ended; and in our report dated March 14, 2016, 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 Decosimo, PLLC*

Charlotte, North Carolina  
March 14, 2016

## REPORT OF AUDIT



### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Peoples Bancorp of North Carolina, Inc. as of December 31, 2014, and the related consolidated statements of earnings, comprehensive income (loss), changes in shareholders' equity and cash flows for the year ended (not presented herein); and in our report dated March 25, 2015, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying 2014 condensed consolidated financial statements is fairly stated, in all material respects, in relation to the basic 2014 consolidated financial statements from which it has been derived.

*Porter Keadle Moore, LLC*

Atlanta, Georgia  
March 25, 2015

**CONSOLIDATED BALANCE SHEETS**

December 31, 2015 and 2014 (dollars in thousands)

	2015	2014
<b>ASSETS</b>		
Cash and due from banks, including reserve requirements of \$14,587 at 12/31/15 and \$12,569 at 12/31/14	\$ 29,194	51,213
Interest-bearing deposits	10,569	17,885
Cash and cash equivalents	39,763	69,098
Investment securities available for sale	268,530	281,099
Other investments	3,636	4,031
Total securities	272,166	285,130
Mortgage loans held for sale	4,149	1,375
Loans	689,091	651,891
Less allowance for loan losses	(9,589)	(11,082)
Net loans	679,502	640,809
Premises and equipment, net	16,976	17,000
Cash surrender value of life insurance	14,546	14,125
Other real estate	739	2,016
Accrued interest receivable and other assets	10,640	10,941
Total assets	\$ 1,038,481	1,040,494
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Non-interest bearing demand	\$ 244,231	210,758
NOW, MMDA & savings	431,052	407,504
Time, \$250,000 or more	26,891	47,872
Other time	130,001	148,566
Total deposits	832,175	814,700
Securities sold under agreements to repurchase	27,874	48,430
FHLB borrowings	43,500	50,000
Junior subordinated debentures	20,619	20,619
Accrued interest payable and other liabilities	9,449	8,080
Total liabilities	933,617	941,829
Commitments		
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 5,510,538 shares at 12/31/15 and 5,612,588 shares at 12/31/14	46,171	48,088
Retained earnings	53,183	45,124
Accumulated other comprehensive income	5,510	5,453
Total shareholders' equity	104,864	98,665
Total liabilities and shareholders' equity	\$ 1,038,481	1,040,494

See Appendix A to the Peoples Bancorp of North Carolina, Inc. Proxy Statement, dated March 25, 2016, for a complete set of Consolidated Financial Statements.



## CONSOLIDATED STATEMENTS OF EARNINGS

For the Years Ended December 31, 2015, 2014 and 2013  
(dollars in thousands, except per share amounts)

2015      2014      2013

### INTEREST INCOME:

Interest and fees on loans	\$	31,098	30,305	30,194
Interest on due from banks		26	65	85
Interest on investment securities:				
U.S. Government sponsored enterprises		2,616	2,995	1,639
States and political subdivisions		4,600	4,677	4,427
Other		326	378	351
Total interest income		38,666	38,420	36,696

### INTEREST EXPENSE:

NOW, MMDA & savings deposits		432	499	732
Time deposits		870	1,188	1,650
FHLB borrowings		1,735	2,166	2,518
Junior subordinated debentures		402	389	398
Other		45	45	55
Total interest expense		3,484	4,287	5,353
Net interest income		35,182	34,133	31,343
(Reduction of) provision for loan losses		(17)	(699)	2,584
Net interest income after provision for loan losses		35,199	34,832	28,759

### NON-INTEREST INCOME:

Service charges		4,647	4,961	4,566
Other service charges and fees		931	1,080	1,172
Gain on sale of securities		—	266	614
Mortgage banking income		1,130	804	1,228
Insurance and brokerage commissions		714	701	661
Gain/(loss) on sales and write-downs of other real estate		245	(622)	(581)
Miscellaneous		5,645	4,974	4,992
Total non-interest income		13,312	12,164	12,652

### NON-INTEREST EXPENSE:

Salaries and employee benefits		18,285	17,530	16,851
Occupancy		6,288	6,251	5,539
Professional fees		1,468	1,401	1,088
Advertising		784	804	685
Debt card expense		988	905	823
FDIC insurance		681	739	864
Other		7,284	8,041	6,991
Total non-interest expense		35,778	35,671	32,841
Earnings before income taxes		12,733	11,325	8,570
Income tax expense		3,100	1,937	1,879
Net earnings		9,633	9,388	6,691
Dividends and accretion of preferred stock		—	—	656
Net earnings available to common shareholders	\$	9,633	9,388	6,035
Basic net earnings per common share	\$	1.73	1.67	1.08
Diluted net earnings per common share	\$	1.72	1.66	1.07
Cash dividends declared per common share	\$	0.28	0.18	0.12

See Appendix A to the Peoples Bancorp of North Carolina, Inc. Proxy Statement, dated March 25, 2016, 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 Medical Consultants, PLLC

**Larry E. Robinson**

President and Chief Executive Officer  
The Blue Ridge Distributing Company, Inc.

**W. Gregory Terry**

General Manager  
Drum and Willis-Reynolds  
Funeral Homes and 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 Bancorp Officers

**Lance A. Sellers**

President and  
Chief Executive Officer

**A. Joseph Lampron, Jr.**

Executive Vice President, Chief Financial  
Officer, Corporate Treasurer and  
Assistant Corporate Secretary

**William D. Cable, Sr.**

Executive Vice President,  
Corporate Secretary and Assistant  
Corporate Treasurer

### Peoples Bank Officers

**Lance A. Sellers**

President and Chief Executive  
Officer

**A. Joseph Lampron, Jr.**

Executive Vice President,  
Chief Financial Officer

**William D. Cable, Sr.**

Executive Vice President,  
Chief Operating Officer

**Kimberly L. Boyd**

Senior Vice President,  
Chief Banking Support Officer

**Jeffrey P. Gniadek**

Senior Vice President, Area  
Executive

**Rafael Intriago**

Senior Vice President,  
Banco de la Gente Retail Director

**Walter C. Joyce**

Senior Vice President,  
Chief Technology Director

**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

**Timothy P. Turner**

Senior Vice President,  
Commercial Credit

**Angela J. Abernethy**

First Vice President, Treasury  
Management Manager

**Kimberly D. Bazzle**

First Vice President,  
Marketing Director

**J. LaShae Bock**

First Vice President,  
Human Resources Director

**David C. Brown**

First Vice President,  
Certified Financial Planner

**George S. Earp**

First Vice President, Finance  
Director

**Jan G. Griffin**

First Vice President,  
Loan Operations Director

**Leslie D. Hambrick**

First Vice President, Internal  
Auditor

**M. Beth LaBarbera**

First Vice President,  
Regional Sales Manager

**Connie P. Ollis**

First Vice President,  
Compliance/Security Officer

**Lucretia K. Rogers**

First Vice President,  
Regional Sales Manager

**Carol S. Shinn**

First Vice President, Deposit  
Operations Director

**Robert C. Sieg**

First Vice President, BSA Officer

**Kyle E. Sigmon**

First Vice President, Consumer  
Credit

**Jody G. Street**

First Vice President,  
Area Executive, Newton

**Ryan M. Waddle**

Vice President, Business  
Development Officer, Mooresville

**Carol R. Allen**

Vice President, Business Center  
Manager, Maiden

**Suzanne I. Blackwell**

Vice President, Mortgage Sales  
Manager

**Velvet L. Burton**

Vice President, Service Center  
Manager

**Martha P. Connors**

Vice President, Banco de la Gente,  
Regional Sales Manager

**Wendy E. Cordero**

Vice President, Banco de la Gente  
Mortgage Manager

**Kay F. Deal**

Vice President, Business Center  
Manager, Conover

**Roger G. Decato**

Vice President, Business  
Development Officer, Newton

**Zachary M. Dellinger**

Vice President, Business  
Development Officer, Lincolnton

**James R. Durham**

Vice President, Financial Advisor

**Heather N. Edwards**

Vice President, Business Center  
Manager, Mooresville

**Barbara W. Erwin**

Vice President, Commercial Credit

**Tommie A. Hall**

Vice President, Loan  
Documentation

**Lamona J. Harbinson**

Vice President, Electronic Banking  
Manager

**Maria F. Hoyos**

Vice President, Banco de la Gente,  
Regional Sales Manager

**Paul B. Jones**

Vice President, Mortgage  
Underwriter

**David S. Lewis, Jr.**

Vice President, Business  
Development Officer, Viewmont

**Brenda K. Mash**

Vice President, Business Center  
Manager, Denver

**Bruce E. Meisner**

Vice President, REAS Manager

**Vickie E. Miller**

Vice President, Retail Support  
Coordinator

**Tammy L. Mitchell**

Vice President, Learning &  
Development Manager

**Wendy H. Moran**

Vice President, Business  
Development Officer, Cornelius

**John J. Noonan**

Vice President, CBRES Manager

**Paula M. Parker**

Vice President, Business Center  
Manager, Catawba Valley Blvd

**Wesley S. Pittman**

Vice President, Business Center  
Manager, Lincolnton/West Lincolnton

**Lynn H. Poole**

Vice President, Business Center  
Manager, Catawba

**Krissy O. Price**

Vice President, Assistant Corporate  
Secretary

**Andrew R. Puntch**

Vice President, Application &  
Project Management Manager

**Jeanette R. Ringley**

Vice President, Business Center  
Manager, Newton

**Sandra B. Shuford**

Vice President, Data Management  
Manager

**Shawn D. Sigmon**

Vice President, Mortgage  
Department Manager

**John W. Somers**

Vice President, Business Center  
Manager, Lincolnton

**Robert D. Spencer**

Vice President, Business Center  
Manager, Viewmont

**Dominick Vertorano**

Vice President, Business Center  
Manager, Cornelius

**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, Triangle

## SUBSIDIARIES

Peoples Bancorp Subsidiary  
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 Bank Subsidiaries' Board of  
Directors and Officers

### 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

Lance A. Sellers - President  
David C. Brown - 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  
Bruce Meisner - 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 11:00 a.m. on Thursday, May 5, 2016, at the Catawba Country Club located at 1154 Country Club Road, 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 Decosimo, PLLC  
700 East Morehead Street, Suite 400  
Charlotte, NC 28202

# Peoples Bancorp

OF NORTH CAROLINA, INC.

## CORE VALUES

### Employees

We are valued so we add value.

### Integrity

We are fair and truthful.

### Exceptional Customer Service

We surpass our customers' expectations.

### Accountability

We are accountable for our own actions and each other.

### Progressive and Positive

We see change as an opportunity.

#### Catawba

106 North Main Street  
Catawba, NC 28609  
(828) 241-3123

#### Catawba Valley Boulevard

2050 Catawba Valley Blvd. SE  
Hickory, NC 28602  
(828) 322-6372

#### Claremont

3261 East Main Street  
Claremont, NC 28610  
(828) 459-7152

#### Conover

213 1st Street West  
Conover, NC 28613  
(828) 464-8456

#### Cornelius

9624-I Bailey Road  
Cornelius, NC 28031  
(704) 237-9270

#### Denver

6125 Highway 16 South  
Denver, NC 28037  
(704) 483-3050

#### Hiddenite

5153 NC Highway 90 East  
Hiddenite, NC 28636  
(828) 632-0118  
(704) 585-6631

#### Lincolnton

1910 East Main Street  
Lincolnton, NC 28092  
(704) 732-0097

#### Maiden

200 Island Ford Road  
Maiden, NC 28650  
(828) 428-9874

#### Mooresville

1074 River Highway  
Mooresville, NC 28117  
(704) 658-3600

#### Newton

420 West A Street  
Newton, NC 28658  
(828) 464-5663

#### Springs Road

3310 Springs Road NE  
Hickory, NC 28601  
(828) 256-9229

#### Triangle

142 Highway 16 South  
Denver, NC 28037  
(704) 483-7727  
(704) 827-2370

#### Viewmont

1333 2nd Street NE  
Hickory, NC 28601  
(828) 345-6262

#### West Lincoln

760 Highway 27 West  
Lincolnton, NC 28092  
(704) 736-1447

#### Abernethy Laurels

**Satellite Location**  
102 Leonard Avenue  
Newton, NC 28658  
(828) 464-3077

#### Denver Loan Production Office

3754 Highway 16 North  
Denver, NC 28037  
(704) 489-8940

#### Banco de la Gente

6350 South Boulevard  
Charlotte, NC 28217  
(704) 554-7494

#### Banco de la Gente

4451-A Central Avenue  
Charlotte, NC 28205  
(704) 531-4571

#### Banco de la Gente

501 West Roosevelt Boulevard  
Monroe, NC 28110  
(704) 261-2020

#### Banco de la Gente

3023-105 Capital Boulevard  
Raleigh, NC 27604  
(919) 747-8000

#### Banco de la Gente

**Loan Production Office**  
2000 Avondale Drive  
Durham, NC 27704  
(919) 747-8003

#### Banco de la Gente

**Loan Production Office**  
3015 Waughtown Street  
Winston-Salem, NC 27107  
(336) 602-9704

#### Peoples Bancorp Center

518 West C Street  
PO Box 467  
Newton, NC 28658  
(828) 464-5620  
Toll-free (800) 948-7195

#### Banco de la Gente

**Administrative Office**  
800 East Arrowood Road  
Charlotte, NC 28217  
(704) 909-5460

#### Customer Service Center

(828) 466-1765  
Toll-free (877) 802-1212

[TheRealPeoplesBank.com](http://TheRealPeoplesBank.com)