



PeoplesBancorp

2018 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



“When we blend intellect and passion, there are no limits to what we can accomplish.”

The value of always striving to be exceptional cannot be underestimated. To that end, I am pleased to announce the 2018 Annual Report of business activity on behalf of Peoples Bancorp of North Carolina, Inc. In its 106th consecutive year of being presented, this report reflects the efforts of our employees who consistently demonstrate superior standards in service to our customers, our communities and the Company. Year-to-date highlights are as follows:

- Net earnings were a record \$13.4 million or \$2.23 basic net earnings per share and \$2.22 diluted net earnings per share for the year ended December 31, 2018, as compared to \$10.3 million or \$1.71 basic net earnings per share and \$1.69 diluted net earnings per share for the same period one year ago.
- Total loans increased \$44.2 million to \$804.0 million at December 31, 2018, compared to \$759.8 million at December 31, 2017.
- Core deposits were \$859.2 million or 98.0% of total deposits at December 31, 2018, compared to \$887.4 million or 97.9% of total deposits at December 31, 2017.
- As of December 31, 2018 shareholders' equity was \$123.6 million, or 11.3% of total assets, compared to \$116.0 million, or 10.6% of total assets, as of December 31, 2017. This increase is primarily due to an increase in retained earnings due to net income.

This year was an especially exciting one for our Bank as we opened a new full-service branch in Cary. It's inspiring to be able to offer our services as a trusted financial partner to the small businesses and consumers within this growing market. We're confident that the Cary community will find exceptional value in what our Bank can offer them.

We're continuously striving to make a difference in the lives of our communities, including employees, customers and shareholders.

We want our employees to know they fill an invaluable role for our Bank. It takes a special blend of talent, commitment, optimism and passion to be there for our customers and empower them with creative solutions. By serving with integrity, our employees build lasting relationships. It's only fitting that our employees receive that same dedication to excellence for their own growth and success. Passionate people are the foundation of this Bank, so we invest in their success. In addition, we are always looking to attract new employees who want to help others progress.

Our customers look to our Bank to be their financial guide in both life and business. It's a privilege to be a trusted partner during our customers' achievements and significant moments in life. It's an honor to have the opportunity to help lead the way toward a better future. When we deliver exceptional service, it creates a ripple effect in the community.

Our final community is our shareholders. It's important that our shareholders trust us to continue to uphold the highest operating standards, including being a well-capitalized bank with strong earnings. We are here to champion the exceptional strength of people and communities—to help people live their best lives. Our Bank is an institution that honors the past while looking toward the future for innovative ways to meet the needs of all of our communities. When we blend intellect and passion, there are no limits to what we can accomplish.

The Directors of Peoples Bancorp play a direct and critical role in the success of our Company. They consistently endeavor to enhance shareholder value through their diligence, hard work and acumen. 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, assists community banks across the country with appraisal management services.

The Annual Shareholders Meeting is scheduled for May 2, 2019 at Catawba Country Club beginning at 11 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 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, 2018 and 2017, 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, 2018 (not presented herein); and in our report, dated March 14, 2019, 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 14, 2019

Financial Highlights

Dollars in Thousands Except Per Share Amounts

	2018	2017	Change
Interest income	\$ 45,350	41,949	8%
Interest expense	2,146	2,377	-10%
Net interest earnings	43,204	39,572	9%
Provision for loan losses	790	(507)	256%
Net interest earnings after provision for loan losses	42,414	40,079	6%
Non-interest income	16,166	15,364	5%
Non-interest expense	42,574	41,228	3%
Income taxes	2,624	3,947	-34%
Net earnings	\$ 13,382	10,268	30%

Per Share of Common Stock

Basic net earnings	\$ 2.23	1.71	30%
Diluted net earnings	2.22	1.69	31%
Cash dividends	0.52	0.44	18%
Market price at December 31	24.46	30.69	-20%
Book value at December 31	20.62	19.34	7%

At Year-end

Loans, net	\$ 797,578	753,398	6%
Available for sale securities	194,578	229,321	-15%
Assets	1,093,251	1,092,166	0%
Deposits	877,213	906,952	-3%
Shareholders' equity	123,617	115,975	7%

Key Performance Ratios

Return on average assets	1.22%	0.93%
Return on average shareholders' equity	10.81%	8.78%
Dividend payout ratio	23.41%	25.67%
Average shareholders' equity to total average assets	11.31%	10.64%

Consolidated Balance Sheets

For the years ended December 31, 2018 and 2017

(Dollars in thousands)

	December 31, 2018	December 31, 2017
Assets		
Cash and due from banks, including reserve requirements of \$8,918 at 12/31/18 and \$7,472 at 12/31/17	\$ 40,553	53,186
Interest-bearing deposits	2,817	4,118
Cash and cash equivalents	43,370	57,304
Investment securities available for sale	194,578	229,321
Other investments	4,361	1,830
Total securities	198,939	231,151
Mortgage loans held for sale	680	857
Loans	804,023	759,764
Less allowance for loan losses	(6,445)	(6,366)
Net loans	797,578	753,398
Premises and equipment, net	18,450	19,911
Cash surrender value of life insurance	15,936	15,552
Other real estate	27	118
Accrued interest receivable and other assets	18,271	13,875
Total assets	\$ 1,093,251	1,092,166

Liabilities and Shareholders' Equity

Deposits:

Noninterest-bearing demand	\$ 298,817	285,406
NOW, MMDA & savings	475,223	498,445
Time, \$250,000 or more	16,239	18,756
Other time	86,934	104,345
Total deposits	877,213	906,952

Securities sold under agreements to repurchase	58,095	37,757
FHLB borrowings	-	-
Junior subordinated debentures	20,619	20,619
Accrued interest payable and other liabilities	13,707	10,863
Total liabilities	969,634	976,191

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 5,995,256 shares at December 31, 2018 and December 31, 2017	62,096	62,096
Retained earnings	60,535	50,286
Accumulated other comprehensive income	986	3,593
Total shareholders' equity	123,617	115,975
Total liabilities and shareholders' equity	\$ 1,093,251	1,092,166

See Appendix A to the Peoples Bancorp of North Carolina, Inc. Proxy Statement, dated March 25, 2019, for a complete set of Consolidated Financial Statements.

Consolidated Statements of Earnings

For the Years Ended December 31, 2018, 2017 and 2016

(Dollars in thousands, except per share amounts)

	2018	2017	2016
Interest income:			
Interest and fees on loans	\$ 38,654	34,888	32,452
Interest on due from banks	304	219	123
Interest on investment securities:			
U.S. Government sponsored enterprises	2,333	2,404	2,531
States and political subdivisions	3,877	4,236	4,454
Other	182	202	249
Total interest income	45,350	41,949	39,809

Interest expense:

NOW, MMDA & savings deposits	769	598	495
Time deposits	472	466	586
FHLB borrowings	-	662	1,661
Junior subordinated debentures	790	590	485
Other	115	61	44
Total interest expense	2,146	2,377	3,271
Net interest income	43,204	39,572	36,538
(Reduction of) provision for loan losses	790	(507)	(1,206)
Net interest income after provision for loan losses	42,414	40,079	37,744

Non-interest income:

Service charges	4,355	4,453	4,497
Other service charges and fees	705	593	890
Gain on sale of securities	15	-	729
Mortgage banking income	851	1,190	1,428
Insurance and brokerage commissions	824	761	632
Appraisal management fee income	3,206	3,306	3,146
Gain (loss) on sales and write-downs of other real estate	17	(239)	64
Miscellaneous	6,193	5,300	4,850
Total non-interest income	16,166	15,364	16,236

Non-interest expense:

Salaries and employee benefits	21,530	20,058	19,264
Occupancy	7,170	6,701	6,765
Professional fees	1,525	1,236	2,439
Advertising	922	1,195	1,136
Debit card expense	994	1,248	1,141
FDIC insurance	328	347	494
Appraisal management fee expense	2,460	2,526	2,260
Other	7,645	7,917	8,743
Total non-interest expense	42,574	41,228	42,242
Earnings before income taxes	16,006	14,215	11,738
Income tax expense	2,624	3,947	2,561
Net earnings	\$ 13,382	10,268	9,177
Basic net earnings per share	\$ 2.23	1.71	1.53
Diluted net earnings per share	\$ 2.22	1.69	1.50
Cash dividends declared per share	\$ 0.52	0.44	0.35

See Appendix A to the Peoples Bancorp of North Carolina, Inc. Proxy Statement, dated March 25, 2019, 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

Martha P. Connors
First Vice President, Regional Sales Manager - Metro Region

Leslie D. Hambrick
First Vice President, Chief Internal Auditor

Maria Fernanda Hoyos
First Vice President, Regional Sales Manager - Raleigh Region

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 Lender

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

James Davenport
Vice President, Business Development Officer

Roger G. Decato
Vice President, Commercial Banking Portfolio Manager

Zachary M. Dellinger
Vice President, Business Development Officer

Cathleen H. Dillingham
Vice President, Learning & Development Manager

James R. Durham
Vice President, Financial Advisor

Heather N. Edwards
Vice President, Business Center Manager – Mooresville

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

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

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

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 E. Ringley
Vice President, Business Center Manager - Newton

C. Randy Rodgers
Vice President, Financial Advisor

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

Shawn D. Sigmon
Vice President, Mortgage Loan Origination System Analyst

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

Jon Bradley Southers
Vice President, Commercial Credit Administration

Robert D. Spencer
Vice President, Business Center Manager – Viewmont

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

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

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.

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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 2, 2019 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

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