

2007 ANNUAL REPORT



Peoples Bancorp
OF NORTH CAROLINA, INC.

Filings Services
April 9, 2008
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We're proud to remain independent and committed to our communities.

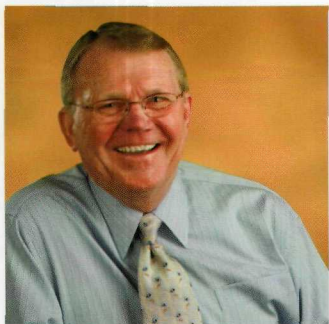
While banks continue to merge into mega financial institutions, we stay strong by strengthening our commitment to the local communities and people we serve. Banking for Real People is more than a slogan. It is a way of banking that is uniquely ours and that provides a foundation for growth in the markets we've served for decades—some for 96 years. It is how we design our financial products, how we personalize every aspect of service, and how we provide a full range of support to businesses of all sizes.

This year we're pleased to welcome Mooresville and a new Banco de la Gente in Raleigh to our growing list of communities. And we say hello to the many new customers attracted by popular new products. Free Interest Checking offers two features real people want most—use any bank's ATM without fees and earn substantial interest. Remote Deposit Capture saves time and money by allowing businesses to deposit checks from their offices.

We continue to work to raise the bar of local banking with new products that serve the needs of real people in real communities.

Real solutions. Real performance. The Real Peoples Bank.

FROM THE PRESIDENT



Peoples Bancorp of North Carolina, Inc. concluded its 95th year of service with the strongest earnings in the Company's history. Consolidated earnings amounted to \$9.6 million, or \$1.68 basic net income per share and \$1.65 diluted net income per share at the close of business on December 31, 2007, an increase of 5% compared to fiscal year 2006. During the previous year, the Company earned \$9.2 million, or \$1.61 basic net income per share and \$1.58 diluted net income per share. Per share amounts have been restated to account for the 3-for-2 stock split

declared and distributed to shareholders during second quarter 2007. I am pleased to report that such performance for fiscal year 2007 enabled Peoples Bank to be ranked in the top quartile of community-based financial institutions.

Total assets grew to \$907.3 million at December 31, 2007, and represented a growth rate of 11% when compared to total assets of \$818.9 million one year earlier. Loans also grew at 11% during fiscal year 2007 and totaled \$722.3 million at year-end. The quality of Peoples Bank's loan portfolio was maintained despite a nationwide deterioration of mortgage credit largely created by subprime lending practices at other financial institutions across the nation. Our provision for loan losses for the year just ended was \$2.0 million as compared to \$2.5 million for fiscal year 2006. The reduced provision was attributable to a reduction in net charge-offs of \$396,000.

Deposits amounted to \$693.6 million at December 31, 2007, reflecting an increase of 9% over the prior year. I am especially proud of the growth in core deposits which occurred throughout 2007, as we have focused on core deposit growth as a key strategic initiative. Core deposits, which represent the Bank's least expensive funding source, grew by \$50.5 million to \$490.1 million at year-end 2007 compared to \$439.6 million one year ago, an increase of 11%.

Your Board of Directors approved a 3-for-2 stock split during second quarter of last year. In addition, shareholders received cash dividends in the amount of \$0.41 per share as compared to cash dividends paid of \$0.33 per share during 2006, an increase of 24%. Shareholders' equity increased to \$70.1 million, or 7.73% of total assets, at December 31, 2007, compared to \$62.8 million, or 7.67% of total assets at year-end 2006. Peoples Bank remains a well-capitalized financial institution.

Peoples Bank launched a new business center model in 2007 with the opening of the Cornelius Business Center. Management's strategy was to expedite the entry into a new market with a retail focus and storefront presence. The Cornelius Business Center is located in the Oakhurst Business Park on Bailey Road and represents the Bank's first comprehensive business center on the east side

of Lake Norman. In January of this year, we expanded our physical presence with the addition of a new Peoples Bank business center in Mooresville and a new office for our Company's Hispanic division, Banco de la Gente, in Raleigh. These offices also represent key locations for us as we continue our physical growth strategy into 2008 and beyond.

A key strategic initiative for 2008 will be the continued growth of core deposits with special emphasis on expanding market share in our existing locations. We plan to capitalize on the momentum generated during 2007 as we establish specific strategies designed to take advantage of changes occurring within our local markets. We will also benefit from business that originates from our entry into new communities.

We maintain that our employees represent the primary differentiating factor that distinguishes us from our competition. Therefore, in 2008, we will increase our focus on learning and development for Peoples Bank staff. We anticipate that this renewed emphasis on employee development will take us to the next level in assuring that customers of our Company continue to receive nothing but the very best in banking satisfaction. We will also benefit from recent technological upgrades in our platform operating systems which will enhance the overall banking experience for our customers.

I wish to thank our Board of Directors for their investment of time and commitment in behalf of Peoples Bancorp. I hope you, as a shareholder, will attend our Annual Meeting of Shareholders scheduled for Thursday, May 1, 2008, at Catawba Country Club in Newton. The meeting will begin at 11:00 A.M. Economic updates and current performance details will be provided at that time.

Please know that your continued support of Peoples Bank and our two subsidiaries, Peoples Investment Services, Inc. and Real Estate Advisory Services, Inc., are vital to our mutual success. We appreciate the opportunity to serve you and look forward to opportunities for growth that lie ahead.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tony Wolfe', with a stylized flourish at the end.

Tony W. Wolfe
President and Chief Executive Officer

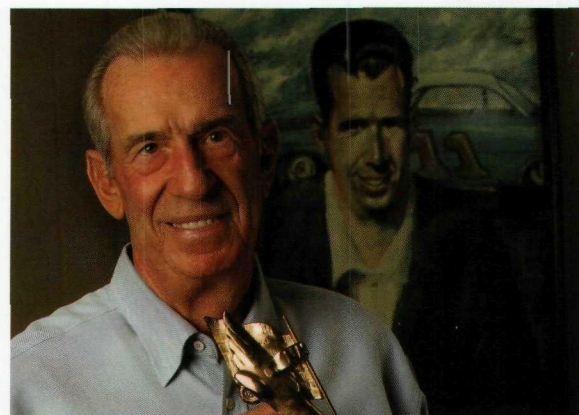
OUR SUSTAINED COMMITMENT TO LOCAL BUSINESS

Our unique perspective enables us to provide a higher level of business service that only a hometown, community bank can offer.

We are more than just local bankers. We are local residents. As such, the economic strength of local businesses directly impacts our families, friends, and institutions. This gives us a personal incentive to go above and beyond to support local business. From large corporations with large payrolls to start-ups, Peoples Bank is committed to providing comprehensive financial tools and professional financial leadership to optimize success. As in every aspect of our banking, these are delivered with personal service and hometown convenience. In business, time is indeed money, so we help our customers conserve as much of it as possible.

Though a hometown bank, our suite of cash management services is as state-of-the-art as those of our national competitors. We offer basic free checking for the small business all the way up to sophisticated sweep accounts. Because we are so integrally involved with our business customers, our commercial loan program is one of the strongest and most successful in the region. And we continue to add innovative business banking products. Just this year, we introduced Remote Deposit Capture, allowing business customers to easily make deposits by electronically transmitting from their offices. Employees no longer have to go to the bank to make the daily deposit, and funds are available faster.

Because the economic health of the communities we live in so clearly depends on it, we will continue to build links with business and to offer them a level of financial service available only from a community-oriented bank. It does not escape our notice that Peoples Bank is one of the local businesses that must grow and thrive to keep our local economic base strong.



Gentleman Ned Jarrett doesn't get personal attention just because he's a legendary NASCAR driver. Everybody does at Peoples Bank.

Jarrett, who retired from NASCAR as a two-time national champion, started with Peoples Bank over 50 years ago. And stayed with us even when he moved to South Carolina for three years.

"I appreciate the way Peoples does things with personal attention," Jarrett says. "They cater to the working person as well as to businesses—and treat them all alike. If Peoples hadn't been fair and honest, I wouldn't have continued to do business with them. There are lots of choices out there."

And how did he get the nickname Gentleman?

While he was a terror on the track, he was always considerate and debonair everywhere else. Thanks, Ned. We are privileged to serve real gentlemen like you.

The legend behind the legend of Ned Jarrett.

A native of Newton, Ned raced for the first time in 1959 at Hickory Motor Speedway without ever having practiced on a track—and finished 10th out of 20. His father, who considered racers to be bootleggers or fools, worried about the family reputation and told him he could work on cars but not drive them. One night when his brother-in-law, who co-owned their Ford, couldn't race, Jarrett drove using his name. He continued driving under an assumed name until his father caught on and finally agreed that if he was determined to race, he should do so under his own name so he would get credit for his achievements. He went on to win Grand National Championships in 1961 and 1965. He retired in 1966 (the only driver to ever retire as champion) and began a second successful career as a NASCAR announcer and commentator. In 1998, he was named one of NASCAR's 50 Greatest Drivers. His son, Dale Jarrett, is also a NASCAR champion.

OUR SUSTAINED COMMITMENT TO LOCAL BUSINESS



From soup kitchens to wedding extravaganzas, the Prestwoods rely on Peoples.

Barbara and Bruce call Peoples Bank *Jeanette's Bank*. Because banker Jeanette Ringley takes such good care of them. "Once you have a relationship, all you have to do is pick up the phone and Jeanette's on it," Barbara says.

Barbara owns Isaac Video Productions, a company that produces videos of corporate and charity events and weddings. Bruce, a retired Newton police officer, now works with her.

"At Peoples, business banking is as easy as personal banking," Barbara says.

The Prestwoods say the personal touch is the reason why they've banked with us for over 30 years.

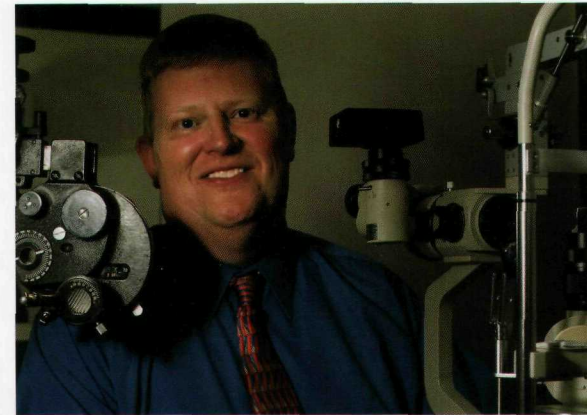
Thanks, Bruce and Barbara. We are privileged to serve real people like you.

Meet Bruce and Barbara, the team behind Isaac Video Productions.

In 1993 Barbara was a single mom who needed to work, so she started a video production company. On the weekends that she didn't have her children, she was always shooting weddings and events. "In order to see her, I had to go along," Bruce says. Eventually, she put a camera in his hands and they became a team—both personally and professionally.

A retired Newton police officer, Bruce now does all the editing. "We love working on weddings," Bruce says. "Everyone is so pleasant at a wedding. That wasn't always the case in police work."

In addition to weddings, the Prestwoods produce videos of corporate and charity events and all types of family celebrations. For more information about their services, visit www.isaacvideo.com or call 828-459-1113.



Dr. Bandy knows banks that charge you to make change. But not Peoples.

In 1986, after college graduation, Dr. Allen H. Bandy, Jr. returned to his native Newton to practice optometry with his father. First thing he needed was equipment. First place he went was Peoples Bank.

In 1994, he purchased and renovated his office space at 21 South Main, and again we provided financing. When he purchased the space next door as a rental property, we financed its acquisition and renovation.

"Peoples has been with me every step of the way for the last 20 years," Dr. Bandy says. "I've been able to acquire high-tech instruments, cameras, and equipment. That technology helps me provide state-of-the-art eye care in a small town, and that's expensive. It would be tough without the support I've had from Peoples."

Thanks, Dr. Bandy. We are privileged to serve real people like you.

Meet Dr. Bandy of Lifetime Eyecare.

Born at the old Catawba Hospital, Dr. Bandy grew up in Newton and attended Appalachian State University, where he met his wife Debbie. After he completed his studies at the University of Alabama School of Optometry, the couple had two daughters: Ashley (age 14) and Amy (age 10). Dr. Bandy is involved in numerous community and school activities. Recently, he performed in the community theater production *Best Christmas Pageant Ever*, with his entire family. He serves on the theater's board of directors. His practice provides a full-range of optometric care and is accepting new patients. For more information, visit www.lifetimeeyecare.com or call 828-464-0604.

MAKING TECHNOLOGY WORK FOR REAL PEOPLE

New in 2007: Remote Deposit Capture Service

In 2007, we began offering businesses the ability to deposit checks from their office. Called Remote Deposit Capture (RDC), this service uses a small desktop scanner to transmit the check image over a secure internet connection.

RDC is important to businesses for several reasons: (1) it enables them to get funds faster; (2) it allows them to make deposits anytime, 24/7; (3) it eliminates the need for deposit paperwork; (4) it allows them to easily consolidate deposits from multiple accounts and remote company locations; and (5) it eliminates time-consuming trips to the bank.

RDC is secure, featuring multi-factor authentication, multiple security controls, and encryption.

This innovative new service was immediately embraced by many of our business customers and new installations continue at an accelerated rate.

Currently, RDC is available only for businesses. However, our product committee is continually investigating ways to enhance our RDC service to gain more market share.





FINANCIAL PERFORMANCE SUMMARY

Net income for the year ended December 31, 2007 totaled \$9.6 million or \$1.68 basic net income per share and \$1.65 diluted net income per share as compared to \$9.2 million or \$1.61 basic net income per share and \$1.58 diluted net income per share for the year ended December 31, 2006. The increase in consolidated net earnings for 2007 was primarily attributable to a growth in interest-earning assets, which contributed to increases in net interest income and non-interest income. In addition, the Company had a decrease in the provision for loan losses in 2007. The increases in net interest income and non-interest income and the decrease in the provision for loan losses were partially offset by an increase in non-interest expense. Net interest income increased 6% to \$34.1 million for the year ended December 31, 2007 compared to \$32.3 million for the previous year. This increase is attributable to an increase in the average outstanding balance of loans. The Company's provision for loan losses amounted to \$2.0 million for the year ended December 31, 2007, as compared to \$2.5 million in 2006. The decrease in the provision for loan losses is primarily attributable to a decrease in net charge-offs of \$396,000 for the year ended December 31, 2007 when compared to the same period in 2006, offset by the effect of loan growth. At December 31, 2007, the ratio between the allowance for loan losses and total outstanding loans was 1.26% as compared to 1.27% at December 31, 2006.

Non-interest income increased 17% to \$8.8 million during the year ended December 31, 2007 as compared to \$7.6 million for the prior year. The increase in non-interest income was primarily due to an increase in service charges and fees resulting from growth in the deposit base coupled with normal pricing changes, an increase in insurance and brokerage commissions, an increase in mortgage banking income and an increase in miscellaneous income. Non-interest expense increased 13% in 2007 to \$26.0 million as compared to \$23.0 million in 2006. The increase in non-interest expense included an increase of \$2.1 million or 18% in salaries and benefits expense primarily due to normal salary increases and expense associated with additional staff for new branches, an increase of \$571,000 or 14% in occupancy expense, primarily due to an increase in furniture and equipment expense and lease expense associated with new branches, and a 5% increase in non-interest expenses other than salary, benefits and occupancy expenses.

Total assets grew 11% at December 31, 2007 to \$907.3 million as compared to \$818.9 million at December 31, 2006. The Company increased its investment securities portfolio in 2007 by \$2.5 million combined with an increase of \$70.9 million in loans. Loans at December 31, 2007 totaled \$722.3 million while deposits totaled \$693.6 million, an increase of 9% from the prior year.

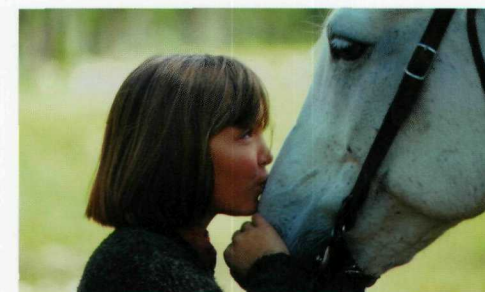
Shareholders' equity amounted to \$70.1 million at December 31, 2007. The Company's shareholders' equity to total assets was 7.73% at December 31, 2007 as compared to 7.67% at December 31, 2006. The Company ended the year as a well-capitalized financial institution. Directors of Peoples Bancorp authorized cash dividends to shareholders in the amount of \$0.41 per share during 2007, which totaled \$2.3 million.

Book value per share was \$12.46 at December 31, 2007 as compared to \$10.94 at December 31, 2006. Peoples Bancorp common stock closed at \$15.00 per share on December 31, 2007 as compared to \$18.68 on December 31, 2006.

FINANCIAL HIGHLIGHTS

dollars in thousands except per share amounts	2007	2006	Change
Interest income	\$ 61,732	55,393	11%
Interest expense	27,585	23,110	19%
Net interest income after provision for loan losses	32,109	29,770	8%
Non-interest income	8,816	7,554	17%
Non-interest expense	25,993	22,983	13%
Income taxes	5,340	5,170	3%
Net income	\$ 9,592	9,171	5%
Per Share*			
Basic net income	\$ 1.68	1.61	4%
Diluted net income	1.65	1.58	4%
Cash dividends	0.41	0.33	24%
Market price at December 31	15.00	18.68	-20%
Book value at December 31	12.46	10.94	14%
At Year-end			
Loans, net	\$ 713,174	643,078	11%
Available for sale securities	120,968	117,581	3%
Assets	907,262	818,948	11%
Deposits	693,639	633,820	9%
Shareholders' equity	70,102	62,835	12%
Key Performance Ratios			
Return on average assets	1.13%	1.19%	
Return on average shareholders' equity	13.59%	14.68%	
Dividend payout ratio	24.30%	20.78%	
Average shareholders' equity to total average assets	8.34%	8.09%	

*Per share computations have been retroactively restated to reflect a 10% stock dividend during second quarter 2006 and a 3-for-2 stock split during second quarter 2007.



SELECTED FINANCIAL DATA

dollars in thousands except per share amounts	2007	2006	2005	2004	2003
Summary of Operations					
Interest income	\$ 61,732	55,393	41,913	35,095	33,799
Interest expense	27,585	23,110	15,429	12,335	12,749
Net interest income	34,147	32,283	26,484	22,760	21,050
Provision for loan losses	2,038	2,513	3,110	3,256	6,744
Net interest income after provision for loan losses	32,109	29,770	23,374	19,504	14,306
Non-interest income	8,816	7,554	6,668	6,000	5,825
Non-interest expense	25,993	22,983	20,330	18,840	17,072
Income before taxes	14,932	14,341	9,712	6,664	3,059
Income taxes	5,340	5,170	3,381	2,233	1,055
Net income	\$ 9,592	9,171	6,331	4,431	2,004
Selected Year-End Balances					
Assets	\$ 907,262	818,948	730,280	686,348	674,032
Available for sale securities	120,968	117,581	115,158	105,598	79,460
Loans, net	713,174	643,078	559,239	527,419	542,404
Mortgage loans held for sale	-	-	2,248	3,783	587
Interest-earning assets	853,878	780,082	692,835	653,111	639,934
Deposits	693,639	633,820	582,854	556,522	549,802
Interest-bearing liabilities	718,870	650,364	576,681	553,135	550,357
Shareholders' equity	\$ 70,102	62,835	54,353	50,938	48,554
Shares outstanding*	5,624,234	5,745,951	5,677,328	5,689,763	5,690,392
Selected Average Balances					
Assets	\$ 846,836	772,585	706,843	684,385	661,077
Available for sale securities	120,296	118,137	108,690	93,770	72,072
Loans	665,379	604,427	550,545	547,753	539,559
Interest-earning assets	801,094	732,244	668,614	650,528	626,197
Deposits	659,174	605,407	570,997	558,142	533,703
Interest-bearing liabilities	665,727	613,686	563,210	553,880	540,676
Shareholders' equity	\$ 70,586	62,465	55,989	51,978	49,971
Shares outstanding*	5,700,860	5,701,829	5,692,290	5,707,975	5,687,642
Profitability Ratios					
Return on average total assets	1.13%	1.19%	0.90%	0.65%	0.30%
Return on average shareholders' equity	13.59%	14.68%	11.31%	8.52%	4.01%
Dividend payout ratio	24.30%	20.78%	22.34%	28.37%	62.56%
Liquidity and Capital Ratios (averages)					
Loan to deposit	100.94%	99.84%	96.42%	98.14%	101.10%
Shareholders' equity to total assets	8.34%	8.09%	7.92%	7.59%	7.56%
Per share of common stock*					
Basic net income	\$ 1.68	1.61	1.11	0.77	0.35
Diluted net income	\$ 1.65	1.58	1.09	0.77	0.35
Cash dividends	\$ 0.41	0.33	0.25	0.22	0.22
Book value	\$ 12.46	10.94	9.57	8.95	8.53

*Shares outstanding and per share computations have been retroactively restated to reflect a 10% stock dividend during first quarter 2005, a 10% stock dividend during second quarter 2006 and a 3-for-2 stock split during second quarter 2007.



Porter Keadle Moore, LLP

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 the consolidated balance sheets of Peoples Bancorp of North Carolina, Inc. as of December 31, 2007 and 2006, and the related consolidated statements of earnings, changes in shareholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2007. Such consolidated financial statements and our report thereon, dated February 29, 2008, expressing an unqualified opinion (which are not included herein) are included in the proxy statement for the 2008 annual meeting of shareholders. The accompanying condensed consolidated balance sheets and consolidated statements of earnings are the responsibility of the Company's management. Our responsibility is to express an opinion on such consolidated balance sheets and consolidated statements of earnings in relation to the complete consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of December 31, 2007 and 2006 and the related consolidated statements of earnings for each of the three years in the period ended December 31, 2007, is fairly stated in all material respects in relation to the basic consolidated financial statements from which it has been derived.

Porter Keadle Moore, LLP

Atlanta, Georgia
February 29, 2008

Certified Public Accountants

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CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006

	2007	2006
Assets		
Cash and due from banks, including reserve requirements of \$7,439,000 and \$6,243,000	\$ 26,108,437	17,389,046
Interest bearing deposits	1,539,190	1,471,272
Federal funds sold	2,152,000	2,640,000
Cash and cash equivalents	29,799,627	21,500,318
Investment securities available for sale	120,968,358	117,581,000
Other investments	6,433,947	7,295,449
Total securities	127,402,305	124,876,449
Loans	722,276,948	651,381,129
Less allowance for loan losses	(9,103,058)	(8,303,432)
Net loans	713,173,890	643,077,697
Premises and equipment, net	18,234,393	12,816,385
Cash surrender value of life insurance	6,776,379	6,532,406
Accrued interest receivable and other assets	11,875,202	10,144,283
Total assets	\$ 907,261,796	818,947,538
Liabilities and Shareholders' Equity		
Deposits		
Non-interest bearing demand	\$ 112,071,090	101,393,142
NOW, MMDA & savings	196,959,895	174,577,641
Time, \$100,000 or more	203,499,504	194,176,291
Other time	181,108,214	163,673,215
Total deposits	693,638,703	633,820,289
Demand notes payable to U.S. Treasury	1,600,000	1,600,000
Securities sold under agreement to repurchase	27,583,263	6,417,803
FHLB borrowings	87,500,000	89,300,000
Junior subordinated debentures	20,619,000	20,619,000
Accrued interest payable and other liabilities	6,219,248	4,355,073
Total liabilities	837,160,214	756,112,165
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 5,624,234 shares in 2007 and 3,830,634 shares in 2006	48,651,895	51,122,147
Retained earnings	19,741,876	12,484,463
Accumulated other comprehensive income (loss)	1,707,811	(771,237)
Total shareholders' equity	70,101,582	62,835,373
Total liabilities and shareholders' equity	\$ 907,261,796	818,947,538

Refer to Appendix A of Peoples Bancorp of North Carolina, Inc. Proxy Statement, dated March 31, 2008, for a complete set of Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31, 2007, 2006 and 2005

	2007	2006	2005
Interest income:			
Interest and fees on loans	\$ 55,400,514	49,667,700	37,123,327
Interest on federal funds sold	383,492	85,307	72,578
Interest on investment securities:			
U.S. Government agencies	4,571,571	4,321,346	3,584,755
States and political subdivisions	887,584	798,185	735,892
Other	488,465	521,077	396,020
Total interest income	61,731,626	55,393,615	41,912,572
Interest expense:			
NOW, MMDA & savings deposits	4,098,892	3,060,201	2,644,413
Time deposits	17,430,012	14,188,623	8,923,488
FHLB borrowings	3,758,996	3,588,169	2,888,785
Junior subordinated debentures	1,475,701	1,962,692	938,145
Other	821,331	310,188	33,790
Total interest expense	27,584,932	23,109,873	15,428,621
Net interest income	34,146,694	32,283,742	26,483,951
Provision for loan losses	2,038,000	2,513,282	3,110,000
Net interest income after provision for loan losses	32,108,694	29,770,460	23,373,951
Other income:			
Service charges	4,278,238	3,929,956	3,779,933
Other service charges and fees	1,938,137	1,539,367	1,141,879
Loss on sale and write-down of securities	(561,832)	(591,856)	(729,727)
Mortgage banking income	560,291	289,293	469,109
Insurance and brokerage commissions	521,095	388,559	386,662
Loss on sale of repossessed assets	(117,880)	(107,712)	(37,811)
Miscellaneous	2,197,645	2,106,188	1,658,189
Total other income	8,815,694	7,553,795	6,668,234
Other expense:			
Salaries and employee benefits	13,887,841	11,785,094	10,863,779
Occupancy	4,750,634	4,180,058	3,948,694
Other	7,354,401	7,017,986	5,517,832
Total other expenses	25,992,876	22,983,138	20,330,305
Earnings before income taxes	14,931,512	14,341,117	9,711,880
Income taxes	5,339,541	5,170,300	3,380,900
Net earnings	\$ 9,591,971	9,170,817	6,330,980
Basic earnings per share	\$ 1.68	1.61	1.11
Diluted earnings per share	\$ 1.65	1.58	1.09
Cash dividends declared per share	\$ 0.41	0.33	0.25

Refer to Appendix A of Peoples Bancorp of North Carolina, Inc. Proxy Statement, dated March 31, 2008, for a complete set of Consolidated Financial Statements.

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 1, 2008, 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 traded on the over-the-counter (OTC) market and quoted in the NASDAQ (National Association of Securities Dealers Automated Quotations) Global Market, where our symbol is PEBK.

Price and volume information is contained in the Wall Street Journal and most major daily newspapers in the Over the Counter Markets section under the National Market System listing. Peoples Bancorp stock is marketed by Scott & Stringfellow, Inc. and Sterne Agee & Leach, Inc.

Dividend Reinvestment & Stock Purchase

Peoples Bancorp offers a Dividend Reinvestment and Stock Purchase Plan for the benefit of the Corporation's shareholders. The Plan provides for the full or partial reinvestment of cash dividends, optional cash purchases of the Corporation's stock, safekeeping of the share certificates, liquidation of shares, and gifting of shares and enrollment of the designated recipients.

Registrar and Transfer Company, Cranford, New Jersey, is the Plan Administrator. For more information, one may call the Investor Relations Department at Peoples Bancorp at 828-464-5620 or 800-948-7195 or contact the Plan Administrator at 800-368-5948.

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.

As of March 10, 2008, the Company had 700 shareholders of record, not including the number of persons or entities whose stock is held in nominee or street name through various brokerage firms or banks.

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

Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016-3572

Independent Auditors

Porter Keadle Moore, LLP
235 Peachtree Street, NE
Suite 1800
Atlanta, GA 30303

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
Howard Ventures, Inc.

Secretary and Treasurer
Denver Equipment of Charlotte, Inc.

John W. Lineberger, Jr.

President
Lincoln Bonded Warehouse Company

Gary E. Matthews

President
Matthews Construction Company, Inc.

Dr. Billy L. Price, Jr., M.D.

Practicing Internist and Partner
Catawba Valley Internal Medicine, P.A.
Clinical Instructor
Wake Forest University School of Medicine

Larry E. Robinson

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

W. Gregory Terry

Executive Vice President
Drum and Willis-Reynolds Funeral Homes
and Crematory

Dan Ray Timmerman, Sr.

President
Timmerman Manufacturing, Inc.

Benjamin I. Zachary

President, Treasurer, General Manager and Director
Alexander Railroad Company

OFFICERS AND SUBSIDIARIES

Peoples Bancorp Officers

Tony W. Wolfe

President and Chief Executive Officer

Joseph F. Beaman, Jr.

Executive Vice President and Corporate Secretary

A. Joseph Lampron

Executive Vice President, Chief Financial Officer and Corporate Treasurer

Lance A. Sellers

Executive Vice President and Assistant Corporate Secretary

William D. Cable, Sr.

Executive Vice President and Assistant Corporate Treasurer

Peoples Bank Officers

Tony W. Wolfe – President and Chief Executive Officer

Joseph F. Beaman, Jr. – Executive Vice President,
Chief Administrative Officer and Corporate Secretary

A. Joseph Lampron – Executive Vice President, Chief Financial Officer

Lance A. Sellers – Executive Vice President, Chief Banking Officer

William D. Cable, Sr. – Executive Vice President, Chief Operating Officer

J. Manuel Rey – President, Banco de la Gente

Kimberly L. Boyd – Senior Vice President, Banking Support

David E. Reitzel – Senior Vice President, Real Estate Administration

Daniel F. Richard – Senior Vice President, Senior Lender

Mark W. Sigmon – Senior Vice President, Area Executive

Clifton A. Wike – Senior Vice President, Senior Lender

Kimberly D. Bazzle – First Vice President, Marketing and Training

David C. Brown – First Vice President, Certified Financial Planner

Steven F. Cloninger – First Vice President, Credit Administration

George S. Earp – First Vice President, Finance

Jeffrey P. Gniadek – First Vice President, Area Executive

James O. Perry – First Vice President, Retail Banking Manager

Kyle E. Sigmon – First Vice President, Consumer Credit

Brenda L. Terrell – First Vice President, Operations Manager

John M. Woods – First Vice President, Area Executive

Patsy D. Black – Vice President, Retail Banking Officer

J. LaShae Bock – Vice President, Human Resources Director

Christopher L. Brookshire – Vice President, RAA/GAA

Shana L. Carpenter – Vice President, Business Center Manager, Denver

Kay F. Deal – Vice President, Business Center Manager, Conover

John R. Duncan – Vice President, Problem Asset Manager

Barbara K. Farnsworth – Vice President, Business Center Manager, Lincolnton

Mark W. Gustafson – Vice President, Investment Account Executive

Tommie A. Hall – Vice President, Loan Documentation

Leslie D. Hambrick – Vice President, Internal Auditor

Diane L. Klein – Vice President, Business Center Manager, Viewmont

M. Beth LaBarbera – Vice President, Business Center Manager, Springs Road

E. Dean Lawing – Vice President, Mortgage Loan Underwriter

David S. Lewis, Jr. – Vice President, Business Development Officer

Cynthia H. Huffman – Vice President, Business Center Manager, Catawba Valley Blvd.

Julian F. Miguel – Vice President, Banco de la Gente Mortgage Manager

Wendy E. Lopez – Vice President, Banco de la Gente Operations Manager

Wendy H. Moran – Vice President, Business Center Manager, Triangle

Rick D. Moser – Vice President, Business Development Officer

Connie P. Ollis – Vice President, Compliance Officer

Tammy H. Stephens – Vice President, Business Systems

Hight D. Reid – Vice President, Business Center Manager, West Lincoln

Jeanette R. Ringley – Vice President, Business Center Manager, Newton

Lucretia K. Rogers – Vice President, Business Center Manager, Cornelius

Joe S. Tripp – Vice President, Business Development Officer

Denise C. Williams – Vice President, Business Center Manager, Mooresville

Peoples Bank Subsidiaries' Board of Directors and Officers

Peoples Investment Services, Inc.**Board of Directors**

Robert C. Abernethy

Dr. Billy L. Price, Jr.

David C. Brown

Larry E. Robinson

Douglas S. Howard

Tony W. Wolfe

Officers

Tony W. Wolfe – President

David C. Brown – Vice President and Assistant Secretary

Joseph F. Beaman, Jr. – Secretary

A. Joseph Lampron – Treasurer

Real Estate Advisory Services, Inc.**Board of Directors**

Robert C. Abernethy

Dan Ray Timmerman, Sr.

David E. Reitzel

Tony W. Wolfe

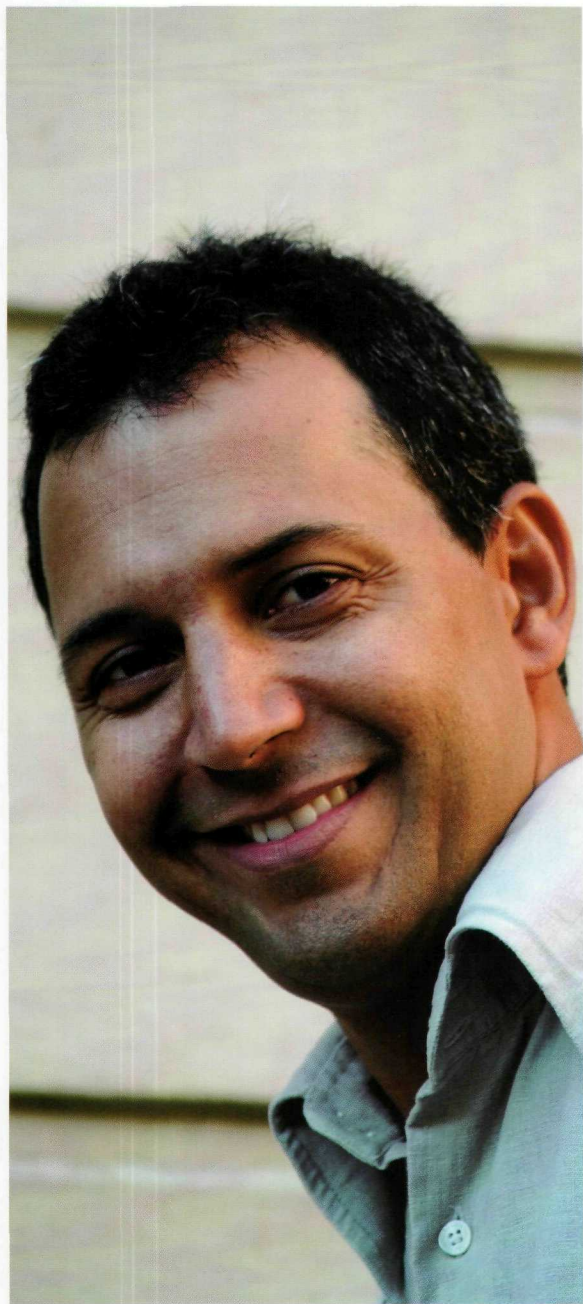
Officers

Tony W. Wolfe – President

David E. Reitzel – Vice President

Joseph F. Beaman, Jr. – Secretary

A. Joseph Lampron – Treasurer



Peoples Bancorp Center

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

Customer Service Center

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

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 First 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

Mooreville

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

Newton

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

North Newton

2619 North Main Avenue
Newton, NC 28658
(828) 464-8664

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

Satellite Location

Abernethy Laurels
102 Leonard Avenue
Newton, NC 28658
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Banco de la Gente

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Charlotte, NC 28217
(704) 554-7494

Banco de la Gente

4451-A Central Avenue
Charlotte, NC 28205
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Banco de la Gente

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

Banco de la Gente

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Peoples Bancorp
OF NORTH CAROLINA, INC.