

2023 ANNUAL REPORT

PeoplesBank



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 show up for others in truly meaningful ways, they succeed—and we succeed.”

In 2023, the Bank marked its 111th consecutive year of delivering exceptional service to our customers, communities, and each other, as this annual report reflects. While our products and capabilities continue to advance, our dedication to empowering people to be exceptional remains unchanged. Each day, our employees actively contribute to improving the lives of our neighbors, the local business community, and the communities we serve. Thank you for being truly exceptional and for helping to bring out the exceptional in others.

Year-to-date highlights are as follows:

- Net earnings were \$15.5 million or \$2.87 per share and \$2.77 per diluted share for the year ended December 31, 2023, as compared to \$16.1 million or \$2.94 per share and \$2.85 per diluted share for the year ended December 31, 2022.
- Total loans were \$11 billion at December 31, 2023, as compared to \$10 billion at December 31, 2022.
- Total deposits were \$1.4 billion at December 31, 2023 and December 31, 2022. Deposit balances covered by FDIC insurance amounted to 72.55% of total deposits at December 31, 2023 and 69.36% of total deposits at December 31, 2022.

Peoples Bank continues to be a well-capitalized Bank with robust earnings and operating standards. While we applaud the contributions of our employees who are the driving force behind the Bank's success, we also wish to thank our board of directors for their guidance, support, vision, and expertise. You lead with integrity, serve with passion, and demonstrate wisdom and care.

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

Investment in Technology

We launched a new customer service platform. With this platform, we have streamlined the account opening process, centralized business account opening, and provided an easy-to-use interface for employees. This new platform enhances our customer service experience and improves our overall efficiency.

Mooreville Relocation

We strategically relocated our Mooreville business center to a more prominent and accessible area, positioning ourselves to capitalize on greater opportunities. The new address is 163 Plantation Ridge Dr, Mooreville, and officially opened on April 4th. This relocation represents a pivotal opportunity and is a significant stride in reinforcing our presence and expanding our influence in the area..

Supporting our Communities

In 2023, we significantly increased our community involvement through volunteering, with an increase of 134% in volunteer hours and a 54% rise in total number of employee volunteers. Notably, Catawba County accounted for 51% of our volunteer hours, demonstrating our dedication to volunteering within the community. We are dedicated to our partnerships with non-profit organizations and education, which comprised 74% of our volunteer hours. This underscores our strong commitment to supporting important institutions and prioritizing youth education.

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, is 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.

Thank you for your support and for recommending our Bank and subsidiary companies to members of your communities.

Sincerely,

A handwritten signature in blue ink, appearing to read "Lance A. Sellers", with a stylized flourish at the end.

Lance A. Sellers

President and Chief Executive Officer

Financial Highlights

Dollars in Thousands Except Per Share Amounts

		2023	2022	Change
Interest income	\$	71,862	54,431	32%
Interest expense		17,143	3,323	416%
Net interest earnings		54,719	51,108	7%
Provision for (recovery of) credit losses		1,566	1,472	6%
Net interest earnings after provision for credit losses		53,153	49,636	7%
Non-interest income		22,914	26,689	-14%
Non-interest expense		56,144	56,030	0%
Income taxes		4,377	4,172	5%
Net earnings	\$	15,546	16,123	-4%

Per Share of Common Stock

Basic net earnings	\$	2.87	2.94	-2%
Diluted net earnings		2.77	2.85	-3%
Cash dividends		0.91	0.87	5%
Market price at December 31		30.94	32.56	-5%
Book value at December 31		22.53	19.24	17%

At Year-end

Loans, net	\$	1,082,025	1,022,114	6%
Available for sale securities		391,924	445,394	-12%
Assets		1,635,910	1,620,927	1%
Deposits		1,392,045	1,435,215	-3%
Shareholders' equity		121,016	105,195	15%

Key Performance Ratios

Return on average assets	0.97%	0.97%
Return on average shareholders' equity	13.37%	13.01%
Dividend payout ratio	32.86%	30.61%
Average shareholders' equity to total average assets	7.24%	7.45%

**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, 2023 and 2022, 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, 2023 (not presented herein); and in our report, dated March 7, 2024, 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.

A handwritten signature in black ink that reads "Elliott Davis, PLLC".

Raleigh, North Carolina
March 7, 2024

Consolidated Balance Sheets

December 31, 2023 and December 31, 2022

(Dollars in thousands)

	December 31, 2023 (Audited)	December 31, 2022 (Audited)
Assets		
Cash and due from banks, including reserve requirements of \$0 at both 12/31/23 and 12/31/22	\$ 32,819	50,061
Interest-bearing deposits	49,556	21,535
Cash and cash equivalents	82,375	71,596
Investment securities available for sale	391,924	445,394
Other investments	2,874	2,656
Total securities	394,798	448,050
Mortgage loans held for sale	686	211
Loans	1,093,066	1,032,608
Less allowance for credit losses	(11,041)	(10,494)
Net loans	1,082,025	1,022,114
Premises and equipment, net	16,702	18,205
Cash surrender value of life insurance	18,134	17,703
Right of use lease asset	4,731	5,116
Accrued interest receivable and other assets	36,459	37,932
Total assets	\$ 1,635,910	1,620,927
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	\$ 432,687	523,088
Interest-bearing demand, MMDA & savings	620,244	814,128
Time, \$250,000 or more	148,904	31,001
Other time	190,210	66,998
Total deposits	1,392,045	1,435,215
Securities sold under agreements to repurchase	86,715	47,688
Junior subordinated debentures	15,464	15,464
Lease liability	4,832	5,185
Accrued interest payable and other liabilities	15,838	12,180
Total liabilities	1,514,894	1,515,732
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 5,534,499 shares at December 31, 2023 and 5,636,830 shares at December 31, 2022	50,625	52,636
Common stock, held by deferred compensation trust, at cost: 163,702 shares at December 31, 2023 and 169,094 shares at December 31, 2022	(1,910)	(2,181)
Deferred compensation	1,910	2,181
Retained earnings	109,756	100,156
Accumulated other comprehensive loss	(39,365)	(47,597)
Total shareholders' equity	121,016	105,195
Total liabilities and shareholders' equity	\$ 1,635,910	1,620,927

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, 2023, 2022 and 2021

(Dollars in thousands, except per share amounts)

	2023 (Audited)	2022 (Audited)	2021 (Audited)
Interest income:			
Interest and fees on loans	\$ 55,507	43,077	41,186
Interest on due from banks	2,216	2,223	258
Interest on investment securities:			
U.S. Government sponsored enterprises	9,365	4,150	2,478
States and political subdivisions	2,949	4,075	3,146
Other	1,825	906	111
Total interest income	71,862	54,431	47,179
Interest expense:			
Demand deposits, MMDA & savings deposits	6,731	2,019	2,029
Time deposits	7,916	562	752
Junior subordinated debentures	1,079	529	280
Other	1,417	213	144
Total interest expense	17,143	3,323	3,205
Net interest income	54,719	51,108	43,974
Provision for (recovery of) credit losses	1,566	1,472	(1,163)
Net interest income after provision for credit losses	53,153	49,636	45,137
Non-interest income:			
Service charges	5,496	5,290	3,921
Other service charges and fees	697	734	803
Loss on sale of securities, net	(2,488)	-	-
Mortgage banking income	301	393	2,505
Insurance and brokerage commissions	929	945	1,035
Appraisal management fee income	9,592	11,663	8,890
Gain (loss) on sale of premises and equipment	184	(85)	105
Gain on sale of other real estate, net	-	-	21
Miscellaneous	8,203	7,749	7,639
Total non-interest income	22,914	26,689	24,919
Non-interest expense:			
Salaries and employee benefits	26,640	26,130	24,506
Occupancy	7,962	8,048	7,858
Professional fees	1,716	1,915	1,826
Advertising	750	693	536
Debit card expense	1,255	1,224	1,000
FDIC insurance	745	461	415
Appraisal management fee expense	7,559	9,264	7,112
Other	9,517	8,295	7,874
Total non-interest expense	56,144	56,030	51,127
Earnings before income taxes	19,923	20,295	18,929
Income tax expense	4,377	4,172	3,796
Net earnings	\$ 15,546	16,123	15,133
Basic net earnings per share	\$ 2.87	2.94	2.71
Diluted net earnings per share	\$ 2.77	2.85	2.63
Cash dividends declared per share	\$ 0.91	0.87	0.66

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.
Vice President
Lineberger Brothers, Inc.

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
Collegiate 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 2, 2024.

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

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