

10. Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. In management's opinion, these commitments represent no more than normal lending risk to the Company and will be funded from normal sources of liquidity.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit is based on management's credit evaluation of the borrower. Collateral obtained varies but may include real estate, stocks, bonds, and certificates of deposit.

A summary of the contract amount of the Company's exposure to off-balance sheet risk as of December 31, 2021 is as follows (in thousands):

Financial instruments whose contract amounts represent credit risk:		
Undisbursed lines of credit	\$	41,235
Commitments to extend credit		95,361
Letters of credit		1,000

11. Disclosures About Fair Values of Financial Instruments

Fair value estimates are made at a specific moment in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no active market readily exists for a portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Due from Banks, Interest-Earning Deposits with Banks, and Federal Funds Sold

The carrying amounts reported in the balance sheet for these instruments approximate their fair values due to the short-term nature of these instruments.

Certificates of Deposit with Banks

The fair value of certificates of deposit with other banks is estimated based on discounting cash flows using the rates currently offered for instruments of similar remaining maturities.

Investment Securities

Fair value for investment securities equals quoted market price if such information is available. If a quoted market price is not available, level 2 fair value is estimated using quoted market prices for similar securities, or other inputs that are observable or can be corroborated by observable market data. Level 3 securities are valued utilizing various assumptions such as valuation multiples, discounts for lack of marketability or illiquidity, and default rates.

Accrued Interest

The carrying amount of accrued interest approximates fair value.

Loans

The valuation of loans was impacted by the adoption of ASU 2016-01. Prior to adopting the amendments included in the standard, the Company was allowed to measure fair value under an entry price notion. The entry price notion previously applied by the Company used a discounted cash flows technique to calculate the present value of expected future cash flows for a financial instrument. The exit price notion uses the same approach, but also incorporates other factors, such as enhanced credit risk, illiquidity risk and other market factors.

Federal Home Loan Bank Stock

The carrying amount is a reasonable estimate of fair value.

Deposits and Borrowings

The fair value of demand deposits and savings, money market and NOW accounts is the amount payable on demand at the reporting date. The fair value of time deposits and borrowings are estimated based on discounting cash flows using the rates currently offered for instruments of similar remaining maturities.

Financial Instruments with Off-Balance Sheet Risk

With regard to financial instruments with off-balance sheet risk it is not practicable to estimate the fair value of future financing commitments.

The carrying amounts and estimated fair values of financial instruments, none of which are held for trading purposes, are as follows at December 31, 2021 and 2020:

	<u>2021</u>		<u>2020</u>	
	<u>Carrying amount</u>	<u>Estimated fair value</u>	<u>Carrying amount</u>	<u>Estimated fair value</u>
	(Dollars in thousands)			
Financial assets:				
Cash and due from banks	\$ 7,232	\$ 7,232	\$ 6,939	\$ 6,939
Interest-earning deposits with banks	29,214	29,214	46,803	46,803
Federal funds sold	1,829	1,829	2,927	2,927
Certificates of deposit with banks	4,266	4,298	6,571	6,645
Investment securities available for sale	83,922	83,922	32,551	32,551
Loans, net	545,119	548,773	464,221	467,295
Federal Home Loan Bank Stock	1,794	1,794	2,514	2,514
Accrued interest receivable	1,883	1,883	1,632	1,632
Financial liabilities:				
Deposits	573,106	574,557	456,413	458,509
Accrued interest payable	490	490	524	524
Short term borrowings	12,911	12,911	11,291	11,278
Long term borrowings	46,225	46,957	57,140	55,429

12. Fair Value Measurement

The FASB has issued authoritative guidance regarding fair value measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. Fair value as defined under generally accepted accounting principles is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability. Generally accepted accounting principles establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Recurring Basis Measurements

The following tables set forth by level within the fair value hierarchy the Company's assets and liabilities accounted for at fair value on a recurring basis as of December 31, 2021 and 2020. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. Fair values of assets and liabilities measured on a recurring basis are as follows (in thousands):

Description	Fair Value	Fair Value Measurements at December 31, 2021		
		(Level 1)	(Level 2)	(Level 3)
Assets:				
Investment securities available for sale:				
U.S. Treasury Securities	\$ 5,110	\$ -	\$ 5,110	\$ -
Mortgage-backed securities	30,474	-	30,474	-
Corporate Securities	18,688	-	11,188	7,500
U.S. agency securities	6,449	-	6,449	-
Municipal securities	23,201	-	23,201	-
Total securities available for sale	<u>\$ 83,922</u>	<u>\$ -</u>	<u>\$ 76,422</u>	<u>\$ 7,500</u>

Description	Fair Value	Fair Value Measurements at December 31, 2020		
		(Level 1)	(Level 2)	(Level 3)
Assets:				
Investment securities available for sale:				
Mortgage-backed securities	\$ 8,087	\$ -	\$ 8,087	\$ -
Corporate Securities	11,184	-	9,184	2,000
Municipal securities	13,280	-	13,280	-
Total securities available for sale	<u>\$ 32,551</u>	<u>\$ -</u>	<u>\$ 30,551</u>	<u>\$ 2,000</u>

The valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis are as follows.

Investment Securities Available for Sale

Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted and money prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions.

Nonrecurring Basis Measurements

Certain other financial assets are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

There were no assets measured on a nonrecurring basis at December 31, 2021. Assets measured on a non-recurring basis at December 31, 2020 are as follows (in thousands):

<u>Description</u>	<u>Fair Value</u>	<u>Fair Value Measurements at</u> <u>December 31, 2020</u>		
		<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Assets:				
Foreclosed real estate, net	\$ <u>1,895</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,895</u>

There are no liabilities measured at fair value on a nonrecurring basis. The valuation methodologies used for assets recorded at fair value on a nonrecurring basis are as follows.

Impaired Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment. The fair value of impaired loans is estimated using one of several methods, including collateral value, market price and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

At December 31, 2021 and December 31, 2020, there were no loans identified as impaired which have been subjected to fair value adjustments.

Foreclosed Real Estate

Real estate owned balances are adjusted to fair value upon transfer of the loans to real estate owned. Real estate acquired in settlement of loans is recorded initially at fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charged to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available, or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed real estate asset as nonrecurring Level 3.

There were no Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2021. As of December 31, 2020, Level 3 assets and liabilities measured at fair value on a non-recurring basis with the significant unobservable inputs used in the fair value measurements were as follows:

Level 3 Assets/ Liabilities with Significant Unobservable Inputs	Fair Value	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
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2020

Foreclosed real estate, net	\$ 1,895	Discounted appraisals ⁽¹⁾	Appraisal adjustments ⁽²⁾	8%
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(1) Fair value is generally based on appraisals of the underlying collateral but may also be based on discounted cash flows for some loans.

(2) Appraisals may be adjusted by management for customized discounting criteria, estimated sales costs, and proprietary qualitative adjustments.

13. Employee And Director Benefit Plans

Employment Contracts

The Company has entered into employment agreements with three executive officers to ensure a stable and competent management base. The agreements provide for a term ranging from two to three years, which extends automatically for an additional year unless terminated by the Company or the executive. The agreements provide for benefits as spelled out in the contracts and cannot be terminated by the Board of Directors, except for cause, without prejudicing the officers' right to receive certain vested rights, including compensation. In the event of a change in control of the Company and in certain other events, as defined in the agreements, the Bank or any successor to the Company will be bound to the terms of the contracts.

401(k) Retirement Plan

The Company has a 401(k) retirement plan that covers all eligible employees. The Company makes discretionary contributions, determined on an annual basis, to the retirement plan. During 2021 and 2020, the Company matched 100% of employee contributions on the first 6% of each employee's covered compensation. A participant vests in the Company's matching contributions 20% annually over five years of service. Matching expenses and discretionary contributions totaled approximately \$257 thousand for the year ended December 31, 2021 and matching expenses totaled approximately \$193 thousand for the year ended December 31, 2020.

Incentive Bonus Plan

In 2017, the Company adopted an employee incentive bonus plan that covers all eligible employees. The bonus is calculated based on percentages of salary designations, which are defined within the plan. The bonus is accrued for monthly and paid out subsequent to year end. Bonus expenses totaled approximately \$706 thousand and \$596 thousand for the years ended December 31, 2021 and 2020, respectively.

Salary Continuation Agreement

In 2012, the Company adopted a salary continuation agreement to provide benefits for members of management. The associated liability was calculated by discounting the anticipated future cash flows at 4.5%, resulting in an accrued liability for this obligation totaling \$1.9 million and \$1.8 million, respectively, at December 31, 2021 and 2020.

Stock Based Compensation

During 2017, the Company adopted, with shareholder approval, the 2017 Omnibus Stock Incentive Plan (the "Plan"). In 2021, the Plan was amended to increase by 150,000 shares the size of the pool of authorized but unissued shares of the Company's common stock available for issuance under the Plan. The Plan allows for grants in the form of incentive stock options, non-statutory stock options, restricted stock, stock bonuses, and purchase rights. Employees and Directors are both eligible to receive grants under the Plan. As of December 31, 2021, there are 131,500 shares reserved and available for future grants.

Stock Options

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The risk-free interest rate is based on the U.S. Treasury rate for the expected life at the time of grant.

Volatility has been determined based upon the Company's trading history. The expected life and forfeiture assumptions are based on historical data. Dividend yield is based on the yield at the time of the option grant.

Assumptions used for grants during 2021 were as follows:

	<u>2021</u>
Assumptions in Estimating Option Values	
Weighted-average volatility	13.78%
Expected dividend yield	3.00%
Risk-free interest rate	1.38%
Expected life (years)	9.0

A summary of option activity under the stock option plans during the years ended December 31, 2021 and 2020 is presented below.

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>
Outstanding December 31, 2019	186,093	\$ 19.82	7.75 years
Granted	-	-	
Exercised	(15,361)	15.01	
Forfeited	(150)	13.42	
Expired	-	-	
Outstanding December 31, 2020	170,582	20.26	6.70 years
Granted	32,250	35.47	
Exercised	(29,262)	15.95	
Forfeited	-	-	
Expired	-	-	
Outstanding December 31, 2021	<u>173,570</u>	<u>\$ 23.81</u>	6.64 years
Exercisable December 31, 2021	<u>82,970</u>	<u>\$ 19.85</u>	5.55 years

For the years ended December 31, 2021 and 2020, the fair value of options that contractually vested amounted to \$116 thousand and \$124 thousand, respectively. Stock based compensation has been presented in the consolidated statements of cash flows as an adjustment to reconcile net income to net cash provided by operating activities.

A summary of the status of the Company's non-vested stock options as of December 31, 2021 and 2020, and changes during the years then ended is presented below:

	<u>Shares</u>	<u>Weighted average grant date fair value</u>
Non-vested – December 31, 2019	139,994	\$ 3.40
Granted	-	-
Vested	(45,534)	3.18
Forfeited	<u>(150)</u>	<u>0.52</u>
Non-vested – December 31, 2020	94,310	\$ 3.73
Granted	32,250	2.93
Vested	(35,960)	3.11
Forfeited	<u>-</u>	<u>-</u>
Non-vested – December 31, 2021	<u>90,600</u>	<u>\$ 3.64</u>

As of December 31, 2021 and 2020, unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans was \$235 thousand and \$319 thousand, respectively.

Restricted Stock

In 2021, 4,250 shares of restricted stock were granted at fair market value from the Plan. These shares are scheduled to vest after four years. The weighted average grant date fair value is \$35.00 per share. As of December 31, 2021, there are 4,250 shares unvested and unrecognized compensation expense relating to these shares is \$118 thousand.

14. Parent Company Financial Data

The following is a summary of the condensed parent-only financial statements of the Company as of and for the year ended December 31, 2021 and 2020:

Condensed Balance Sheets December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
	(Dollars in thousands)	
Assets		
Cash and due from banks	\$ 2,448	\$ 2,976
Other assets	155	155
Investment in subsidiary	<u>80,009</u>	<u>72,266</u>
	<u>\$ 82,612</u>	<u>\$ 75,397</u>
Liabilities and Stockholders' Equity		
Borrowings	\$ 17,033	\$ 16,992
Other liabilities	<u>304</u>	<u>304</u>
	<u>17,337</u>	<u>17,296</u>
Stockholders' Equity:		
Common stock	2,208	2,184
Additional paid-in-capital	28,220	27,983
Retained earnings	35,255	27,658
Accumulated other comprehensive (loss) income	<u>(408)</u>	<u>276</u>
	<u>65,275</u>	<u>58,101</u>
	<u>\$ 82,612</u>	<u>\$ 75,397</u>

Condensed Statements of Operations Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
	(Dollars in thousands)	
Equity in undistributed earnings of subsidiary	\$ 8,277	\$ 7,285
Dividend from Bank	2,330	340
Interest expense	(791)	(821)
Miscellaneous income	<u>3</u>	<u>4</u>
	<u>\$ 9,819</u>	<u>\$ 6,808</u>

PB Financial Corporation
Board of Directors

Richard C. Anderson

*Chairman of the Board of PB Financial Corporation / Providence Bank, Senior Managing
Partner of Anderson Farms of Edgecombe County, Tarboro, North Carolina and
Chairman of the Board of Glenco Industrial Properties, LLC, Tarboro, North Carolina*

Ted E. Whitehurst

*President & Chief Executive Officer, PB Financial Corporation / Providence Bank
Rocky Mount, North Carolina*

Michael W. Boddie

*President of Boddie Noell Enterprises
Rocky Mount, North Carolina*

Joseph B. Brewer III

*Secretary of PB Financial Corporation / Providence Bank
President of Brewer Foods, Inc.
Rocky Mount, North Carolina*

William F. Davis

*Vice President/CFO of Barnhill Contracting Company
Rocky Mount, North Carolina*

Wiley B. Gillam III

*A Farmer and Owner of Gillam & Mason, Inc.,
Harrellsville, North Carolina*

Douglas K. Martin

*Family Office Manager, Brigade Properties, LLC
Henrico, North Carolina*

Bryan T. Mayo

*Vice President Sales and Production of Mayo Knitting Mills
Tarboro, North Carolina*

Melvin M. Mitchell

*President of Melvin M. Mitchell Agency, Inc., Exclusive Agency Allstate Insurance
Company
Rocky Mount, North Carolina*

***PB Financial Corporation
Management and Personnel***

Executive Officers

Ted E. Whitehurst
*President & Chief Executive Officer
PB Financial Corporation / Providence Bank*

Robert H. Ladd III
*Executive Vice President & Chief Lending Officer
Providence Bank*

David E. Keul
*Executive Vice President, Chief Financial Officer & Treasurer
PB Financial Corporation / Providence Bank*

Bank Personnel

**Commercial
Lending**

*Jeff Tobias
Taylor Barker
Denese Davis
Tom Felton
Denise Winstead*

**Sunset Avenue
Branch**

*Linda Hendricks
Michelle Deitz
Casey Fly-Jones*

**Tarboro
Branch**

*Steven Cobb
Marlou Coker
Rhonda Etheridge
Fran Peele
Nancy Webb*

**Wilson
Branch**

*Jeff Hamilton
Justin Alford
Denise Davis
Tonia Handy
Carla Harvey
Vicki Joyner
Marie MacInnis
Buzz Wilkinson*

**Winstead Avenue
Branch**

*Joy Barrett
Tabitha Williams*

Corporate

*Trudy Brinson
Jennifer Ambrose
Tyler Amerson
Angela Bennett
Lyn Brown
Robin Connie
Jim Fitzgerald
Teresa Frazier
Kim Gemberling
Joel Gilmore
Michelle Joyner
Valerie Moore
Everett Rouse
Lisa Stimson*

**Raleigh
Branch**

*Jeff Tobias
Dana Coste
Summer Stafford*

***PB Financial Corporation
General Corporate Information***

Office Locations

Corporate & Commercial Loans

450 North Winstead Avenue
Rocky Mount, NC 27804

Sunset Avenue Branch

2401 Sunset Avenue
Rocky Mount, NC 27804

Wilson Branch

3710 Nash Street North
Wilson, NC 27896

Winstead Avenue Branch

450 North Winstead Avenue
Rocky Mount, NC 27804

Nashville Branch

241 West Washington Street
Nashville, NC 27856

Tarboro Branch

325 Main Street
Tarboro, NC 27886

Raleigh Branch

100 E Six Forks Rd Ste 304
Raleigh, NC 27607

Regulatory and Securities Counsel

Wyrick Robbins Yates & Ponton LLP
4101 Lake Boone Trail
Suite 300
Raleigh, NC 27607

Stock Transfer Agent

Broadridge Financial Solutions, Inc.
51 Mercedes Way
Edgewood, NY 11717

Independent Auditors

Dixon Hughes Goodman LLP
1003 Red Banks Road
Greenville, NC 27858

Annual Stockholders Meeting

The Annual Meeting of the stockholders of PB Financial Corporation will be held at 4:00 p.m. on April 28, 2022 at 100 Southern Boulevard, Rocky Mount, North Carolina.

Common Stock

The Company's outstanding shares of common stock were held by approximately 368 holders of record (excluding shares held in street name) as of January 31, 2022.

Market for the Common Stock

The Company's common stock is traded on the OTCQX under the symbol "PBNC". The closing price on December 31, 2021 was \$40.00 per share.

This Annual Report serves as the annual financial disclosure statement furnished pursuant to the Federal Deposit Insurance Corporation's rules and regulations. This statement has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.