



To Our Shareholders

The primary focus of PB Financial Corporation (the “Company”), the holding company for Providence Bank (the “Bank”), is to increase your shareholder value. We strive to provide a strong return to our shareholders through increased share price and cash dividend payments. We accomplish this by putting our customers first and investing in the communities we serve. We are continuously improving our products and services, listening to our customers, and working with them to provide exceptional service. We just completed a total refresh of our website and encourage you to visit us at www.pbknc.com. We invest in our communities by lending to local businesses and individuals and providing numerous monetary contributions to local charitable organizations. Our employees are personally involved in over 30 community/civic organizations and either serve on the Board or hold officer level positions in at least 16 of them. The Bank also provides an enriching work environment for our employees.

The Company had record earnings in 2022 as detailed in our audited financial statements. We increased net income compared to 2021 by 45.16% which was after an increase of 44.22% in 2021, when compared to 2020. These are the direct results of the hard work and dedication of our employees. We were able to have tremendous growth in our Company without significant staffing changes which allowed us to continue improving our efficiency.

We continued to have tremendous success in our newest branch located at 100 E. Six Forks Road, Suite 304, in Raleigh. In just two years, we went from opening a new office to having over \$100 million in loans and deposits. We will continue to search for additional locations in and around our current markets to expand our Company. We encourage you to share news about our Company with friends and family you may have in any of the markets we serve.

The Company’s stock is listed on the OTCQX U.S. Premier exchange under the symbol “PBNC.” While it was a tough year in the stock market with the Dow down 8.7%, the S&P 500 down 19.4% and the Nasdaq down 33.0%, our stock was up 4.1% and when you include dividends paid, the return for the year was 7.2%. We are extremely proud of the returns we have been able to achieve for our shareholders.

Over the past fourteen years, the Bank has been the only North Carolina chartered bank consistently ranked in the top ten in overall performance, including being ranked in the top four for the past nine consecutive years. For 2022, Providence Bank was ranked 1st in overall performance among these 43 financial institutions (rankings provided by the Financial Management Consulting Group). This was the second year in a row we have been ranked 1st in overall performance.

The Board of Directors and management are very pleased with the record earnings and the overall results of the Company's operations for 2022 as detailed in the following table.

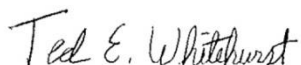
(\$ in Millions)	Loans		Total Assets		Net Income	
2019	\$387.2	9.01%	\$478.3	5.94%	\$7.124	25.14%
2020	\$464.2	19.88%	\$586.6	22.62%	\$6.808	-4.43%
2021	\$550.7	18.62%	\$701.4	19.58%	\$9.819	44.22%
2022	\$687.7	24.89%	\$849.2	21.06%	\$14.254	45.16%

Paying cash dividends on our stock is another way of enhancing shareholder value. The most recent cash dividend of \$0.40 per share will be paid on February 23, 2023, and represents an increase of 42.86% from the \$0.28 per share that was paid in the 1st Quarter of 2022. This dividend is the 45th consecutive quarterly cash dividend paid. We have increased our cash dividend each quarter since we began paying dividends in the 1st Quarter of 2012. The annual cash dividend paid in 2022 of \$1.23 per share represents an increase of 21.78% from the \$1.01 per share that was paid in 2021.

The Company's Board of Directors and management are extremely proud of our success in 2022. This success comes from a combination of our outstanding staff, superior customer service, and being more efficient than most of our competitors. We believe the Bank continues to be well-situated to grow and provide attractive and tangible returns to our shareholders.

We appreciate your investment in our Company and encourage you to allow us to provide your banking needs. We offer a full line of products and services and deliver them with exceptional high-touch customer service. We stand proud as an Independent Community Bank in our area. As a shareholder, you can be confident in the results of your Company. Please contact me with any comments or suggestions you may have. Thank you for your continued support.

Sincerely,



Ted E. Whitehurst
President & Chief Executive Officer

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Independent Auditor's Report

PB Financial Corporation
Stockholders and the Board of Directors
Rocky Mount, NC

Opinion

We have audited the consolidated financial statements of PB Financial Corporation, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of PB Financial Corporation as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of PB Financial Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PB Financial Corporation's ability to continue as a going concern for the year after the date that these consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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, 2022 and 2021:

	2022		2021	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
	(Dollars in thousands)			
Financial assets:				
Cash and due from banks	\$ 9,478	\$ 9,478	\$ 7,232	\$ 7,232
Interest-earning deposits with banks	3,419	3,419	29,214	29,214
Federal funds sold	7,751	7,751	1,829	1,829
Certificates of deposit with banks	9,901	9,633	4,266	4,298
Investment securities available for sale	100,338	100,338	83,922	83,922
Loans, net	681,565	680,089	545,119	548,773
Federal Home Loan Bank Stock	3,326	3,326	1,794	1,794
Accrued interest receivable	3,137	3,137	1,883	1,883
Financial liabilities:				
Deposits	674,023	673,407	573,106	574,557
Accrued interest payable	960	960	490	490
Short term borrowings	68,648	68,727	12,911	12,911
Long term borrowings	33,096	30,830	46,225	46,957

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, 2022 and 2021. 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):

<u>Description</u>	<u>Fair Value</u>	<u>Fair Value Measurements at</u>		
		<u>December 31, 2022</u>		
		<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Assets:				
Investment securities available for sale:				
U.S. Treasury Securities	\$ 12,837	\$ -	\$ 12,837	\$ -
Mortgage-backed securities	26,714	-	26,714	-
Corporate Securities	20,960	-	16,675	4,285
U.S. agency securities	15,856	-	15,856	-
Municipal securities	<u>23,971</u>	<u>-</u>	<u>23,971</u>	<u>-</u>
Total securities available for sale	<u>\$ 100,338</u>	<u>\$ -</u>	<u>\$ 96,053</u>	<u>\$ 4,285</u>

<u>Description</u>	<u>Fair Value</u>	<u>Fair Value Measurements at</u>		
		<u>December 31, 2021</u>		
		<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
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	<u>23,201</u>	<u>-</u>	<u>23,201</u>	<u>-</u>
Total securities available for sale	<u>\$ 83,922</u>	<u>\$ -</u>	<u>\$ 76,422</u>	<u>\$ 7,500</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, 2022 and December 31, 2021.

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, 2022 and December 31, 2021, 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, 2022 and December 31, 2021.

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 2022 and 2021, 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 \$292 thousand for the year ended December 31, 2022 and matching expenses totaled approximately \$257 thousand for the year ended December 31, 2021.

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 \$1.01 million and \$706 thousand for the years ended December 31, 2022 and 2021, 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 \$2.0 million and \$1.9 million, respectively, at December 31, 2022 and 2021.

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, 2022, there are 85,760 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.

PB Financial Corporation
Notes to Consolidated Financial Statements

Assumptions used for grants during 2022 were as follows:

	<u>2022</u>
Assumptions in Estimating Option Values	
Weighted-average volatility	14.59%
Expected dividend yield	3.00%
Risk-free interest rate	2.50%
Expected life (years)	9.0

A summary of option activity under the stock option plans during the years ended December 31, 2022 and 2021 is presented below.

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>
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	173,570	23.81	6.64 years
Granted	37,250	38.64	
Exercised	(39,240)	20.09	
Forfeited	(2,950)	27.08	
Expired	-	-	
Outstanding December 31, 2022	<u>168,630</u>	<u>\$ 27.89</u>	6.73 years
Exercisable December 31, 2022	<u>75,680</u>	<u>\$ 22.11</u>	5.20 years

For the years ended December 31, 2022 and 2021, the fair value of options that contractually vested amounted to \$128 thousand and \$116 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.

PB Financial Corporation
Notes to Consolidated Financial Statements

A summary of the status of the Company's non-vested stock options as of December 31, 2022 and 2021, 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, 2020	94,310	\$ 3.73
Granted	32,250	2.93
Vested	(35,960)	3.11
Forfeited	-	-
Non-vested – December 31, 2021	90,600	\$ 3.64
Granted	37,250	4.39
Vested	(32,200)	3.69
Forfeited	(2,700)	3.48
Non-vested – December 31, 2022	<u>92,950</u>	<u>\$ 3.84</u>

As of December 31, 2022, and 2021, unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans was \$252 thousand and \$235 thousand, respectively.

Restricted Stock

A summary of the status of the Company's non-vested restricted stock as of December 31, 2022 and 2021, and changes during the years then ended in presented below:

	<u>Shares</u>	<u>Weighted average grant date fair value</u>
Non-vested – December 31, 2020	-	\$ -
Granted	4,250	35.00
Vested	-	-
Forfeited	-	-
Non-vested – December 31, 2021	4,250	\$ 35.00
Granted	9,000	38.35
Vested	-	-
Forfeited	(250)	35.00
Non-vested – December 31, 2022	<u>13,000</u>	<u>\$ 37.32</u>

Restricted stock is vested and issued at the end of the fourth year from grant date, as long as, the employee is employed at such time. As of December 31, 2022, and 2021, unrecognized compensation cost related to non-vested restricted stock compensation arrangements granted under the plans was \$76 thousand and \$273 thousand respectively.

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, 2022 and 2021:

Condensed Balance Sheets December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
	(Dollars in thousands)	
Assets		
Cash and due from banks	\$ 2,662	\$ 2,448
Other assets	155	155
Investment in subsidiary	<u>93,939</u>	<u>80,009</u>
	<u>\$ 96,756</u>	<u>\$ 82,612</u>
Liabilities and Stockholders' Equity		
Borrowings	\$ 28,860	\$ 17,033
Other liabilities	<u>487</u>	<u>304</u>
	<u>29,347</u>	<u>17,337</u>
Stockholders' Equity:		
Common stock	2,252	2,208
Additional paid-in-capital	29,083	28,220
Retained earnings	46,762	35,255
Accumulated other comprehensive loss	<u>(10,688)</u>	<u>(408)</u>
	<u>67,409</u>	<u>65,275</u>
	<u>\$ 96,756</u>	<u>\$ 82,612</u>

Condensed Statements of Operations Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
	(Dollars in thousands)	
Equity in undistributed earnings of subsidiary	\$ 15,558	\$ 8,277
Dividend from Bank	-	2,330
Interest expense	(1,309)	(791)
Miscellaneous income	<u>5</u>	<u>3</u>
	<u>\$ 14,254</u>	<u>\$ 9,819</u>

***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

FORVIS, 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 27, 2023 at 100 Southern Boulevard, Rocky Mount, North Carolina.

Common Stock

The Company's outstanding shares of common stock were held by approximately 365 holders of record (excluding shares held in street name) as of January 31, 2023.

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, 2022 was \$41.65 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.