

PEOPLES BANCORP OF NORTH CAROLINA INC  
Form 10-Q  
May 10, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: March 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

PEOPLES BANCORP OF NORTH CAROLINA, INC.  
(Exact name of registrant as specified in its charter)

North Carolina  
(State or other jurisdiction of incorporation or organization)

000-27205  
(Commission File No.)

56-2132396  
(IRS Employer Identification No.)

518 West C Street, Newton, North Carolina  
(Address of principal executive offices)

28658  
(Zip Code)

(828) 464-5620  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes X No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerate  
Filer

Accelerated  
Filer

Non-Accelerated  
Filer

Smaller Reporting Company       X

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2 of the Exchange Act).

Yes      No       X

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

5,613,495 shares of common stock, outstanding at April 30, 2013.

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Statements made in this Form 10-Q, other than those concerning historical information, should be considered forward-looking statements pursuant to the safe harbor provisions of the Securities Exchange Act of 1934 and the

Private Securities Litigation Act of 1995. These forward-looking statements involve risks and uncertainties and are based on the beliefs and assumptions of management and on the information available to management at the time that this Form 10-Q was prepared. These statements can be identified by the use of words like “expect,” “anticipate,” “estimate,” and “believe,” variations of these words and other similar expressions. Readers should not place undue reliance on forward-looking statements as a number of important factors could cause actual results to differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, (1) competition in the markets served by Peoples Bank, (2) changes in the interest rate environment, (3) general national, regional or local economic conditions may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and the possible impairment of collectibility of loans, (4) legislative or regulatory changes, including changes in accounting standards, (5) significant changes in the federal and state legal and regulatory environments and tax laws, (6) the impact of changes in monetary and fiscal policies, laws, rules and regulations and (7) other risks and factors identified in other filings with the Securities and Exchange Commission, including but not limited to those described in Peoples Bancorp of North Carolina, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2012.

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## PEOPLES BANCORP OF NORTH CAROLINA, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

March 31, 2013 and December 31, 2012

(Dollars in thousands)

Assets	March 31, 2013 (Unaudited)	December 31, 2012 (Audited)
Cash and due from banks, including reserve requirements of \$10,811 and \$9,625	\$ 19,754	32,617
Interest bearing deposits	52,624	16,226
Cash and cash equivalents	72,378	48,843
Investment securities available for sale	293,925	297,823
Other investments	5,215	5,599
Total securities	299,140	303,422
Mortgage loans held for sale	3,834	6,922
Loans	609,965	619,974
Less allowance for loan losses	(14,412 )	(14,423 )
Net loans	595,553	605,551
Premises and equipment, net	16,616	15,874
Cash surrender value of life insurance	13,379	13,273
Other real estate	4,588	6,254
Accrued interest receivable and other assets	12,792	13,377
Total assets	\$ 1,018,280	1,013,516
<b>Liabilities and Shareholders' Equity</b>		
<b>Deposits:</b>		
Non-interest bearing demand	\$ 168,156	161,582
NOW, MMDA & savings	378,755	371,719
Time, \$100,000 or more	127,772	134,733
Other time	109,149	113,491
Total deposits	783,832	781,525
Securities sold under agreements to repurchase	37,388	34,578
FHLB borrowings	70,000	70,000
Junior subordinated debentures	20,619	20,619

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Accrued interest payable and other liabilities	8,163	9,047
<b>Total liabilities</b>	<b>920,002</b>	<b>915,769</b>
<b>Commitments</b>		
<b>Shareholders' equity:</b>		
Series A preferred stock, \$1,000 stated value; authorized		
5,000,000 shares; issued and outstanding		
12,524 shares in 2013 and 2012	12,524	12,524
Common stock, no par value; authorized		
20,000,000 shares; issued and outstanding		
5,613,495 shares in 2013 and 2012	48,133	48,133
Retained earnings	32,911	31,478
Accumulated other comprehensive income	4,710	5,612
<b>Total shareholders' equity</b>	<b>98,278</b>	<b>97,747</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,018,280</b>	<b>1,013,516</b>

See accompanying Notes to Consolidated Financial Statements.

## PEOPLES BANCORP OF NORTH CAROLINA, INC. AND SUBSIDIARIES

## Consolidated Statements of Earnings

Three Months Ended March 31, 2013 and 2012

(Dollars in thousands, except per share amounts)

	2013 (Unaudited)	2012 (Unaudited)
Interest income:		
Interest and fees on loans	\$ 7,640	8,425
Interest on due from banks	12	3
Interest on investment securities:		
U.S. Government sponsored enterprises	378	1,070
State and political subdivisions	984	800
Other	89	64
Total interest income	9,103	10,362
Interest expense:		
NOW, MMDA & savings deposits	218	344
Time deposits	467	1,032
FHLB borrowings	661	690
Junior subordinated debentures	100	113
Other	17	39
Total interest expense	1,463	2,218
Net interest income	7,640	8,144
Provision for loan losses	1,053	2,049
Net interest income after provision for loan losses	6,587	6,095
Non-interest income:		
Service charges	1,039	1,188
Other service charges and fees	373	341
Gain on sale of securities	263	527
Mortgage banking income	384	226
Insurance and brokerage commissions	139	135
Gain/(Loss) on sale and write-down of other real estate	12	(189 )
Miscellaneous	1,217	1,152
Total non-interest income	3,427	3,380
Non-interest expense:		
Salaries and employee benefits	4,190	3,841
Occupancy	1,312	1,301

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Other		2,236	2,129
Total non-interest expense		7,738	7,271
Earnings before income taxes		2,276	2,204
Income tax expense		518	545
Net earnings		1,758	1,659
Dividends and accretion of preferred stock		157	348
Net earnings available to common shareholders	\$	1,601	1,311
Basic net earnings per common share	\$	0.29	0.24
Diluted net earnings per common share	\$	0.29	0.24
Cash dividends declared per common share	\$	0.03	0.07

See accompanying Notes to Consolidated Financial Statements.



## PEOPLES BANCORP OF NORTH CAROLINA, INC. AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income

Three Months Ended March 31, 2013 and 2012

(Dollars in thousands)

	2013 (Unaudited)	2012 (Unaudited)
Net earnings	\$ 1,758	1,659
Other comprehensive (loss) income:		
Unrealized holding (loss) gains on securities available for sale	(1,214 )	1,216
Reclassification adjustment for gains on securities available for sale included in net earnings	(263 )	(527 )
Total other comprehensive (loss) income, before income taxes	(1,477 )	689
Income tax expense (benefit) related to other comprehensive income (loss):		
Unrealized holding (losses) gains on securities available for sale	(473 )	472
Reclassification adjustment for gains on sales of securities available for sale included in net earnings	(102 )	(205 )
Total income tax (benefit) expense related to other comprehensive (loss) income	(575 )	267
Total other comprehensive (loss) income, net of tax	(902 )	422
Total comprehensive income	\$ 856	2,081

See accompanying Notes to Consolidated Financial Statements.

## PEOPLES BANCORP OF NORTH CAROLINA, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

Three Months Ended March 31, 2013 and 2012

(Dollars in thousands)

	2013 (Unaudited)	2012 (Unaudited)
Cash flows from operating activities:		
Net earnings	\$ 1,758	1,659
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, amortization and accretion	2,213	2,195
Provision for loan losses	1,053	2,049
Gain on sale of investment securities	(263 )	(527 )
(Gain)/Loss on sale of other real estate	(51 )	57
Write-down of other real estate	39	132
Restricted stock expense	26	4
Change in:		
Mortgage loans held for sale	3,088	(1,110 )
Cash surrender value of life insurance	(106 )	(102 )
Other assets	1,147	(245 )
Other liabilities	(883 )	318
Net cash provided by operating activities	8,021	4,430
Cash flows from investing activities:		
Purchases of investment securities available for sale	(22,646 )	(12,437 )
Proceeds from calls, maturities and paydowns of investment securities available for sale	17,781	13,638
Proceeds from sales of investment securities available for sale	5,781	20,437
Purchases of FHLB stock	-	(493 )
FHLB stock redemption	384	-
Net change in loans	8,326	8,800
Purchases of premises and equipment	(1,188 )	(266 )
Proceeds from sales of other real estate and repossessions	2,284	893
Net cash provided by investing activities	10,722	30,572
Cash flows from financing activities:		
Net change in deposits	2,307	(19,312 )
	2,810	3,879

Net change in securities sold under agreements to repurchase

Cash dividends paid on preferred stock	(157 )	(313 )
Proceeds from FHLB borrowings	-	25,400
Repayments of FHLB borrowings	-	(25,400 )
Cash dividends paid on common stock	(168 )	(388 )
Net cash provided (used) by financing activities	4,792	(16,134 )
Net change in cash and cash equivalent	23,535	18,868
Cash and cash equivalents at beginning of period	48,843	29,236
Cash and cash equivalents at end of period	\$ 72,378	48,104

## PEOPLES BANCORP OF NORTH CAROLINA, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows, continued

Three Months Ended March 31, 2013 and 2012

(Dollars in thousands)

	2013 (Unaudited)	2012 (Unaudited)
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest	\$ 1,513	2,709
Income taxes	\$ 101	540
<b>Noncash investing and financing activities:</b>		
<b>Change in unrealized gain on investment securities available for sale, net</b>		
	\$ (902 )	(422 )
Transfers of loans to other real estate and repossessions	\$ 642	1,635
Financed portion of sales of other real estate	\$ 24	322
Accretion of Series A preferred stock	\$ -	35
See accompanying Notes to Consolidated Financial Statements.		

PEOPLES BANCORP OF NORTH CAROLINA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(1) Summary of Significant Accounting Policies

The consolidated financial statements include the financial statements of Peoples Bancorp of North Carolina, Inc. and its wholly-owned subsidiaries, Peoples Bank (the “Bank”) and Community Bank Real Estate Solutions, LLC, along with the Bank’s wholly-owned subsidiaries, Peoples Investment Services, Inc. and Real Estate Advisory Services, Inc. (“REAS”) (collectively called the “Company”). All significant intercompany balances and transactions have been eliminated in consolidation.

The consolidated financial statements in this report (other than the Consolidated Balance Sheet at December 31, 2012) are unaudited. In the opinion of management, all adjustments (none of which were other than normal accruals) necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. Management of the Company has made a number of estimates and assumptions relating to reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with generally accepted accounting principles in the United States (“GAAP”). Actual results could differ from those estimates.

The Company’s accounting policies are fundamental to understanding management’s discussion and analysis of results of operations and financial condition. Many of the Company’s accounting policies require significant judgment regarding valuation of assets and liabilities and/or significant interpretation of the specific accounting guidance. A description of the Company’s significant accounting policies can be found in Note 1 of the Notes to Consolidated Financial Statements in the Company’s 2012 Annual Report to Shareholders which is Appendix A to the Proxy Statement for the May 2, 2013 Annual Meeting of Shareholders.

Recently Issued Accounting Pronouncements

In January 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. ASU No. 2013-01 provides additional guidance to clarify the intended scope of ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. ASU No. 2013-01 is effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance is not expected to have a material impact on the Company’s results of operations, financial position or disclosures.

In February 2013, FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The objective of ASU No. 2013-02 is to improve the reporting of significant reclassifications out of accumulated other comprehensive income. For public entities, ASU No. 2013-02 is effective for reporting periods beginning after December 15, 2012. The adoption of this guidance did not have a material impact on the Company’s results of operations, financial position or disclosures.

Other accounting standards that have been issued or proposed by FASB or other standards-setting bodies are not expected to have a material impact on the Company’s results of operations, financial position or disclosures.

Reclassification

Certain amounts in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation.

(2) Investment Securities

Investment securities available for sale at March 31, 2013 and December 31, 2012 are as follows:

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(Dollars in thousands)

	Amortized Cost	March 31, 2013		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Mortgage-backed securities	\$ 134,210	1,881	347	135,744
U.S. Government sponsored enterprises	19,395	150	89	19,456
State and political subdivisions	127,046	5,749	450	132,345
Corporate bonds	3,559	23	57	3,525
Trust preferred securities	1,250	-	-	1,250
Equity securities	748	857	-	1,605
Total	\$ 286,208	8,660	943	293,925

(Dollars in thousands)

	Amortized Cost	December 31, 2012		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Mortgage-backed securities	\$ 146,755	1,875	606	148,024
U.S. Government sponsored enterprises	18,714	203	80	18,837
State and political subdivisions	118,591	7,171	104	125,658
Corporate bonds	2,571	19	4	2,586
Trust preferred securities	1,250	-	-	1,250
Equity securities	748	720	-	1,468
Total	\$ 288,629	9,988	794	297,823

The current fair value and associated unrealized losses on investments in securities with unrealized losses at March 31, 2013 and December 31, 2012 are summarized in the tables below, with the length of time the individual securities have been in a continuous loss position.

(Dollars in thousands)

	Less than 12 Months		March 31, 2013 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	\$ 35,129	237	7,171	110	42,300	347
U.S. Government sponsored enterprises	6,796	89	-	-	6,796	89
State and political subdivisions	25,406	450	-	-	25,406	450
Corporate bonds	1,522	57	-	-	1,522	57
Total	\$ 68,853	833	7,171	110	76,024	943

(Dollars in thousands)

December 31, 2012

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	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	\$ 48,126	468	12,913	138	61,039	606
U.S. Government sponsored enterprises	3,402	80	-	-	3,402	80
State and political subdivisions	9,490	104	-	-	9,490	104
Corporate bonds	1,035	4	-	-	1,035	4
Total	\$ 62,053	656	12,913	138	74,966	794



At March 31, 2013, unrealized losses in the investment securities portfolio relating to debt securities totaled \$943,000. The unrealized losses on these debt securities arose due to changing interest rates and are considered to be temporary. From the March 31, 2013 tables above, 24 out of 160 securities issued by state and political subdivisions contained unrealized losses, 23 out of 92 securities issued by U.S. Government sponsored enterprises, including mortgage-backed securities contained unrealized losses, and two out of five securities issued by corporations, contained unrealized losses. These unrealized losses are considered temporary because of acceptable investment grades on each security and the repayment sources of principal and interest on U.S. Government sponsored enterprises, including mortgage-backed securities, are government backed.

The amortized cost and estimated fair value of investment securities available for sale at March 31, 2013, by contractual maturity, are shown below. Expected maturities of mortgage-backed securities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)

	Amortized Cost	Estimated Fair Value
Due within one year	\$ 4,469	4,538
Due from one to five years	22,073	22,834
Due from five to ten years	99,051	102,764
Due after ten years	25,657	26,440
Mortgage-backed securities	134,210	135,744
Equity securities	748	1,605
Total	\$ 286,208	293,925

Proceeds from sales of securities available for sale during the three months ended March 31, 2013 were \$5.8 million and resulted in gross gains of \$263,000. Proceeds from sales of securities available for sale during the three months ended March 31, 2012 were \$20.4 million and resulted in gross gains of \$527,000.

Securities with a fair value of approximately \$74.0 million and \$73.9 million at March 31, 2013 and December 31, 2012, respectively, were pledged to secure public deposits and for other purposes as required by law.

### (3) Loans

Major classifications of loans at March 31, 2013 and December 31, 2012 are summarized as follows:

(Dollars in thousands)

	March 31, 2013	December 31, 2012
Real estate loans		
Construction and land development	\$ 72,389	73,176
Single-family residential	194,557	195,003
Single-family residential - Banco de la Gente stated income	51,410	52,019
Commercial	192,355	200,633
Multifamily and farmland	9,401	8,951
Total real estate loans	520,112	529,782

Loans not secured by real estate

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Commercial loans	65,058	64,295
Farm loans	27	11
Consumer loans	9,339	10,148
All other loans	15,429	15,738
Total loans	609,965	619,974
Less allowance for loan losses	14,412	14,423
Net loans	\$ 595,553	605,551

The Bank grants loans and extensions of credit primarily within the Catawba Valley region of North Carolina, which encompasses Catawba, Alexander, Iredell and Lincoln counties and also in Mecklenburg, Union and Wake counties of North Carolina. Although the Bank has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate, the value of which is dependent upon the real estate market. Risk characteristics of the major components of the Bank's loan portfolio are discussed below:

- Construction and land development loans – The risk of loss is largely dependent on the initial estimate of whether the property's value at completion equals or exceeds the cost of property construction and the availability of take-out financing. During the construction phase, a number of factors can result in delays or cost overruns. If the estimate is inaccurate or if actual construction costs exceed estimates, the value of the property securing our loan may be insufficient to ensure full repayment when completed through a permanent loan, sale of the property, or by seizure of collateral. As of March 31, 2013, construction and land development loans comprised approximately 12% of the Bank's total loan portfolio.
- Single-family residential loans – Declining home sales volumes, decreased real estate values and higher than normal levels of unemployment could contribute to losses on these loans. As of March 31, 2013, single-family residential loans comprised approximately 40% of the Bank's total loan portfolio, including Banco de la Gente single-family residential stated income loans amounting to approximately 8% of the Bank's total loan portfolio.
- Commercial real estate loans – Repayment is dependent on income being generated in amounts sufficient to cover operating expenses and debt service. These loans also involve greater risk because they are generally not fully amortizing over a loan period, but rather have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or timely sell the underlying property. As of March 31, 2013, commercial real estate loans comprised approximately 32% of the Bank's total loan portfolio.
- Commercial loans – Repayment is generally dependent upon the successful operation of the borrower's business. In addition, the collateral securing the loans may depreciate over time, be difficult to appraise, be illiquid, or fluctuate in value based on the success of the business. As of March 31, 2013, commercial loans comprised approximately 11% of the Bank's total loan portfolio.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The following tables present an age analysis of past due loans, by loan type, as of March 31, 2013 and December 31, 2012:

March 31, 2013

(Dollars in thousands)

Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Total Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
---------------------------------	--	----------------------------	---------------------------	----------------	--

Real estate loans						
Construction and land development	\$	1,095	7,189	8,284	64,105	72,389 -
Single-family residential		4,901	2,050	6,951	187,606	194,557 48
Single-family residential						-
Banco de la Gente stated income						
		13,425	609	14,034	37,376	51,410 -
Commercial		3,659	143	3,802	188,553	192,355 -
Multifamily and farmland		6	-	6	9,395	9,401 -
Total real estate loans		23,086	9,991	33,077	487,035	520,112 48
Loans not secured by real estate						
Commercial loans		442	399	841	64,217	65,058 -
Farm loans		-	-	-	27	27 -
Consumer loans		153	15	168	9,171	9,339 2
All other loans		-	-	-	15,429	15,429 -
Total loans	\$	23,681	10,405	34,086	575,879	609,965 50

December 31, 2012  
(Dollars in thousands)

	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Total Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
<b>Real estate loans</b>						
Construction and land development	\$ 1,280	6,858	8,138	65,038	73,176	-
Single-family residential	4,316	1,548	5,864	189,139	195,003	-
Single-family residential - Banco de la Gente stated income	11,077	3,659	14,736	37,283	52,019	2,378
Commercial	1,720	1,170	2,890	197,743	200,633	-
Multifamily and farmland	7	-	7	8,944	8,951	-
<b>Total real estate loans</b>	<b>18,400</b>	<b>13,235</b>	<b>31,635</b>	<b>498,147</b>	<b>529,782</b>	<b>2,378</b>
<b>Loans not secured by real estate</b>						
Commercial loans	888	66	954	63,341	64,295	23
Consumer loans	250	10	260	9,888	10,148	2
All other loans	-	-	-	15,738	15,738	-
<b>Total loans</b>	<b>\$ 19,538</b>	<b>13,311</b>	<b>32,849</b>	<b>587,125</b>	<b>619,974</b>	<b>2,403</b>

The following table presents the Company's non-accrual loans as of March 31, 2013 and December 31, 2012:

(Dollars in thousands)

	March 31, 2013	December 31, 2012
<b>Real estate loans</b>		
Construction and land development	\$ 9,627	9,253
Single-family residential	4,123	2,491
Single-family residential - Banco de la Gente stated income	2,367	2,232
Commercial	2,822	3,263
<b>Total real estate loans</b>	<b>18,939</b>	<b>17,239</b>
<b>Loans not secured by real estate</b>		
Commercial loans	676	344
Consumer loans	52	47
<b>Total</b>	<b>\$ 19,667</b>	<b>17,630</b>

At each reporting period, the Bank determines which loans are impaired. Accordingly, the Bank's impaired loans are reported at their estimated fair value on a non-recurring basis. An allowance for each impaired loan that is

collateral-dependent is calculated based on the fair value of its collateral. The fair value of the collateral is based on appraisals performed by REAS, a subsidiary of the Bank. REAS is staffed by certified appraisers that also perform appraisals for other companies. Factors including the assumptions and techniques utilized by the appraiser are considered by management. If the recorded investment in the impaired loan exceeds the measure of fair value of the collateral, a valuation allowance is recorded as a component of the allowance for loan losses. An allowance for each impaired loan that is non-collateral dependent is calculated based on the present value of projected cash flows. If the recorded investment in the impaired loan exceeds the present value of projected cash flows, a valuation allowance is recorded as a component of the allowance for loan losses. Impaired loans under \$250,000 are not individually evaluated for impairment, with the exception of the Bank's troubled debt restructured ("TDR") loans in the residential mortgage loan portfolio, which are individually evaluated for impairment. Accruing impaired loans were \$26.8 million, \$30.6 million and \$32.2 million at March 31, 2013, December 31, 2012 and March 31, 2012, respectively. Interest income recognized on accruing impaired loans was \$293,000, \$422,000 and \$1.5 million for the three months ended March 31, 2013, the three months ended March 31, 2012 and the year ended December 31, 2012, respectively. No interest income is recognized on non-accrual impaired loans subsequent to their classification as non-accrual.

The following tables present the Company's impaired loans as of March 31, 2013 and December 31, 2012:

March 31, 2013

(Dollars in thousands)

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Recorded Investment in Impaired Loans	Related Allowance	Average Outstanding Impaired Loans
<b>Real estate loans</b>						
Construction and land development	\$ 14,514	9,238	953	10,191	149	10,006
Single-family residential	10,422	1,031	8,599	9,630	216	8,845
Single-family residential - Banco de la Gente stated income	22,053	-	21,056	21,056	1,272	21,028
Commercial	4,895	3,971	463	4,434	7	4,840
Multifamily and farmland	189	-	189	189	1	191
<b>Total impaired real estate loans</b>	<b>52,073</b>	<b>14,240</b>	<b>31,260</b>	<b>45,500</b>	<b>1,645</b>	<b>44,910</b>
<b>Loans not secured by real estate</b>						
Commercial loans	975	-	922	922	259	931
Consumer loans	59	-	56	56	1	54
<b>Total impaired loans</b>	<b>\$ 53,107</b>	<b>14,240</b>	<b>32,238</b>	<b>46,478</b>	<b>1,905</b>	<b>45,895</b>

December 31, 2012

(Dollars in thousands)

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Recorded Investment in Impaired Loans	Related Allowance	Average Outstanding Impaired Loans
<b>Real estate loans</b>						
Construction and land development	\$ 17,738	11,795	680	12,475	61	12,810
Single-family residential	9,099	766	7,799	8,565	177	7,590
Single-family residential - Banco de la Gente stated income	21,806	-	21,000	21,000	1,278	21,158
Commercial	5,830	4,569	467	5,036	6	5,433
Multifamily and farmland	193	-	193	193	1	200
<b>Total impaired real estate loans</b>	<b>54,666</b>	<b>17,130</b>	<b>30,139</b>	<b>47,269</b>	<b>1,523</b>	<b>47,191</b>
<b>Loans not secured by real estate</b>						
Commercial loans	983	347	592	939	12	1,125
Consumer loans	68	-	66	66	1	41
<b>Total impaired loans</b>	<b>\$ 55,717</b>	<b>17,477</b>	<b>30,797</b>	<b>48,274</b>	<b>1,536</b>	<b>48,357</b>

Changes in the allowance for loan losses for the three months ended March 31, 2013 and 2012 were as follows:

Three months ended March 31, 2013

(Dollars in thousands)

	Construction and Land Development	Single- Family Residential	Real Estate Loans Single- Family Residential - Banco de la Gente Stated Income	Commercial	Multifamily and Farmland	Commercial Farm	Consumer and All Other	Unallocated	Total	
Allowance for loan losses:										
Beginning balance	\$4,399	3,231	1,998	2,049	28	1,088	-	245	1,385	14,423
Charge-offs	(497)	(364)	(152)	-	-	(21)	-	(147)	-	(1,181)
Recoveries	1	18	-	48	-	11	-	35	-	113
Provision	882									