PEOPLES BANCORP OF NORTH CAROLINA INC
Form 10-Q
August 02, 2017

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

FORM 10-Q

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

For the quarterly
period ended: June
30, 2017

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	56-2132396
(Commission File No.)	(IRS Employer Identification No.)

518 West C Street, Newton, North Carolina	28658
(Address of principal executive offices)	(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 X Non-Accelerated Filer

Smaller Reporting Company

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.
5,450,412 shares of common stock, outstanding at July 31, 2017.

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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 include, but are not limited to, (1) competition in the markets served by the registrant and its subsidiaries, (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 the registrant's Annual Report on Form 10-K for the year ended December 31, 2016.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PEOPLES BANCORP OF NORTH CAROLINA, INC.

Consolidated Balance Sheets

June 30, 2017 and December 31, 2016

(Dollars in thousands)

Assets	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Cash and due from banks, including reserve requirements of $8,947 at 6/30/17 and $6,075 at 12/31/16	$54,100	53,613
Interest-bearing deposits	20,955	16,481
Cash and cash equivalents	75,055	70,094
Investment securities available for sale	241,320	249,946
Other investments	2,680	2,635
Total securities	244,000	252,581
Mortgage loans held for sale	3,513	5,709
Loans	745,038	723,811
Less allowance for loan losses	(7,167)	(7,550)
Net loans	737,871	716,261
Premises and equipment, net	19,385	16,452
Cash surrender value of life insurance	15,351	14,952
Other real estate	-	283
Accrued interest receivable and other assets	11,809	11,659
Total assets	$1,106,984	1,087,991
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	$276,614	271,851
NOW, MMDA & savings	483,440	477,054
Time, $250,000 or more	22,462	26,771
Other time	109,969	117,242
Total deposits	892,485	892,918
Securities sold under agreements to repurchase	49,977	36,434
FHLB borrowings	20,000	20,000
Junior subordinated debentures	20,619	20,619
Accrued interest payable and other liabilities	9,971	10,592

Total liabilities	993,052	980,563
Commitments		
Shareholders' equity:		
Series A preferred stock, $1,000 stated value; authorized 5,000,000 shares; no shares issued and outstanding	-	-
Common stock, no par value; authorized 20,000,000 shares; issued and outstanding 5,448,454 shares at June 30, 2017 and 5,417,800 shares at December 31, 2016	45,039	44,187
Retained earnings	63,954	60,254
Accumulated other comprehensive income	4,939	2,987
Total shareholders' equity	113,932	107,428
Total liabilities and shareholders' equity	$ 1,106,984	1,087,991

See accompanying Notes to Consolidated Financial Statements.

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PEOPLES BANCORP OF NORTH CAROLINA, INC.

Consolidated Statements of Earnings

Three and Six Months Ended June 30, 2017 and 2016

(Dollars in thousands, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest income:				
Interest and fees on loans	$8,689	7,973	16,969	15,996
Interest on due from banks	48	18	78	35
Interest on investment securities:				
U.S. Government sponsored enterprises	613	649	1,217	1,307
State and political subdivisions	1,067	1,118	2,151	2,245
Other	44	57	110	137
Total interest income	10,461	9,815	20,525	19,720
Interest expense:				
NOW, MMDA & savings deposits	143	121	275	241
Time deposits	120	148	248	310
FHLB borrowings	201	416	393	822
Junior subordinated debentures	145	118	280	231
Other	13	10	24	18
Total interest expense	622	813	1,220	1,622
Net interest income	9,839	9,002	19,305	18,098
Provision for (reduction of provision for) loan losses	49	(531)	(187)	(748)
Net interest income after provision for loan losses	9,790	9,533	19,492	18,846
Non-interest income:				
Service charges	1,094	1,087	2,200	2,128
Other service charges and fees	147	202	302	536
Gain on sale of securities	-	324	-	324
Mortgage banking income	319	292	665	661
Insurance and brokerage commissions	179	156	347	314
Gain/(loss) on sale and write-down of other real estate	-	3	(283)	80
Miscellaneous	1,542	1,508	2,926	2,853
Total non-interest income	3,281	3,572	6,157	6,896
Non-interest expense:				
Salaries and employee benefits	4,871	4,704	10,105	9,285

Occupancy	1,699	1,734	3,312	3,488
Professional fees	236	239	485	1,174
Advertising	366	148	612	310
Debit card expense	268	333	574	599
FDIC Insurance	87	164	173	335
Other	1,808	1,787	3,869	3,410
Total non-interest expense	9,335	9,109	19,130	18,601
Earnings before income taxes	3,736	3,996	6,519	7,141
Income tax expense	925	1,032	1,503	1,723
Net earnings	$2,811	2,964	5,016	5,418
Basic net earnings per share	$0.52	0.54	0.92	0.98
Diluted net earnings per share	$0.51	0.53	0.91	0.97
Cash dividends declared per share	$0.12	0.10	0.24	0.18

See accompanying Notes to Consolidated Financial Statements.

PEOPLES BANCORP OF NORTH CAROLINA, INC.

Consolidated Statements of Comprehensive Income

Three and Six Months Ended June 30, 2017 and 2016

(Dollars in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2017 (Unaudited)	2016 (Unaudited)	2017 (Unaudited)	2016 (Unaudited)
Net earnings	$2,811	2,964	5,016	5,418
Other comprehensive income:				
Unrealized holding gains on securities available for sale	2,107	2,844	2,694	4,273
Reclassification adjustment for gains on securities available for sale included in net earnings	-	(324)	-	(324)
Total other comprehensive income, before income taxes	2,107	2,520	2,694	3,949
Income tax expense related to other comprehensive income:				
Unrealized holding gains on securities available for sale	758	1,026	742	1,566
Reclassification adjustment for gains on securities available for sale included in net earnings	-	(126)	-	(126)
Total income tax expense related to other comprehensive income	758	900	742	1,440
Total other comprehensive income, net of tax	1,349	1,620	1,952	2,509
Total comprehensive income	$4,160	4,584	6,968	7,927

See accompanying Notes to Consolidated Financial Statements.

PEOPLES BANCORP OF NORTH CAROLINA, INC.

Consolidated Statements of Changes in Shareholders' Equity

Six Months Ended June 30, 2017 and 2016

(Dollars in thousands)

	Common Stock		Retained	Accumulated Other Comprehensive	
	Shares (Unaudited)	Amount (Unaudited)	Earnings (Unaudited)	Income (Unaudited)	Total (Unaudited)
Balance, December 31, 2016	5,417,800	$ 44,187	60,254	2,987	107,428
Cash dividends declared on common stock	-	-	(1,316)	-	(1,316)
Restricted stock units exercised	30,654	852	-	-	852
Net earnings	-	-	5,016	-	5,016
Change in accumulated other comprehensive income, net of tax	-	-	-	1,952	1,952
Balance, June 30, 2017	5,448,454	$ 45,039	63,954	4,939	113,932
Balance, December 31, 2015	5,510,538	$ 46,171	53,183	5,510	104,864
Cash dividends declared on common stock	-	-	(1,007)	-	(1,007)
Net earnings	-	-	5,418	-	5,418
Change in accumulated other comprehensive income, net of tax	-	-	-	2,509	2,509
Balance, June 30, 2016	5,510,538	$ 46,171	57,594	8,019	111,784

See accompanying Notes to Consolidated Financial Statements.

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PEOPLES BANCORP OF NORTH CAROLINA, INC.

Consolidated Statements of Cash Flows

Six Months Ended June 30, 2017 and 2016

(Dollars in thousands)

	2017 (Unaudited)	2016 (Unaudited)
Cash flows from operating activities:		
Net earnings	$ 5,016	5,418
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, amortization and accretion	2,506	2,862
(Reduction)/Provision for loan losses	(187)	(748)
Deferred income taxes	(1,122)	(532)
Gain on sale of investment securities	-	(324)
Gain on sale of other real estate	-	(83)
Write-down of other real estate	283	3
Loss on sale of premises and equipment	32	-
Restricted stock expense	471	252
Proceeds from sales of mortgage loans held for sale	34,845	30,099
Origination of mortgage loans held for sale	(32,649)	(28,974)
Change in:		
Cash surrender value of life insurance	(399)	(207)
Other assets	230	518
Other liabilities	(240)	630
Net cash provided by operating activities	8,786	8,914
Cash flows from investing activities:		
Purchases of investment securities available for sale	(3,138)	(6,686)
Proceeds from sales, calls and maturities of investment securities available for sale	4,285	2,774
Proceeds from paydowns of investment securities available for sale	8,682	9,949
Purchases of FHLB stock	(45)	-
FHLB stock redemption	-	2
Net change in loans	(21,423)	(13,512)
Purchases of premises and equipment	(3,980)	(444)
Proceeds from sale of other real estate and repossessions	-	855
Net cash used by investing activities	(15,619)	(7,062)
Cash flows from financing activities:		
Net change in deposits	(433)	9,225
Net change in securities sold under agreement to repurchase	13,543	14,841
Proceeds from Fed Funds purchased	-	8,985

Repayments of Fed Funds purchased	-	(8,995)
Cash dividends paid on common stock	(1,316)	(1,007)
Net cash provided by financing activities	11,794	23,049
Net change in cash and cash equivalents	4,961	24,911
Cash and cash equivalents at beginning of period	70,094	39,763
Cash and cash equivalents at end of period	$ 75,055	64,674

PEOPLES BANCORP OF NORTH CAROLINA, INC.

Consolidated Statements of Cash Flows, continued

Six Months Ended June 30, 2017 and 2016

(Dollars in thousands)

	2017 (Unaudited)	2016 (Unaudited)
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 1,241	1,608
Income taxes	$ 40	2,851
Noncash investing and financing activities:		
Change in unrealized gain on investment securities available for sale, net	$ 1,952	2,509
Issuance of accrued restricted stock units	$ (852)	-
Transfers of loans to other real estate and repossessions	$ -	271

See accompanying Notes to Consolidated Financial Statements.

PEOPLES BANCORP OF NORTH CAROLINA, INC.

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 subsidiary, Peoples Bank (the "Bank"), along with the Bank's wholly owned subsidiaries, Peoples Investment Services, Inc., Real Estate Advisory Services, Inc. ("REAS"), Community Bank Real Estate Solutions, LLC ("CBRES") and PB Real Estate Holdings, LLC (collectively called the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

The Bank operates three banking offices focused on the Latino population that were formerly operated as a division of the Bank under the name Banco de la Gente ("Banco"). These offices are now branded as Bank branches and considered a separate market territory of the Bank as they offer normal and customary banking services as are offered in the Bank's other branches such as the taking of deposits and the making of loans.

The consolidated financial statements in this report (other than the Consolidated Balance Sheet at December 31, 2016) 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 the 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 2016 Annual Report to Shareholders which is Appendix A to the Proxy Statement for the May 4, 2017 Annual Meeting of Shareholders.

Recently Issued Accounting Pronouncements
In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, (Topic 842): Leases. ASU No. 2016-02 increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU No. 2016-02 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. 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 June 2016, FASB issued ASU No. 2016-13, (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU No. 2016-13 provides guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. ASU No. 2016-13 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019. The Company is currently evaluating the effect that implementation of the new standard will have on its results of operations, financial position and disclosures.

In January 2017, FASB issued ASU No. 2017-01, (Topic 805): Clarifying the Definition of a Business. ASU No. 2017-01 adds guidance to assist companies and other reporting organizations with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU No. 2017-01 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. 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 January 2017, FASB issued ASU No. 2017-04, (Topic 350): Simplifying the Test for Goodwill Impairment. ASU No. 2017-04 provides guidance to simplify the accounting related to goodwill impairment. ASU No. 2017-04 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019. 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 2017, FASB issued ASU No. 2017-05, (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. ASU No. 2017-05 clarifies the scope of established guidance on nonfinancial asset derecognition (issued as part of the new revenue standard, ASU No. 2014-09, Revenue from Contracts with Customers), as well as the accounting for partial sales of nonfinancial assets. ASU No. 2017-05 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. 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 March 2017, FASB issued ASU No. 2017-07, (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Costs. ASU No. 2017-07 amended the requirements related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. ASU No. 2017-07 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. 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 March 2017, FASB issued ASU No. 2017-08, (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. ASU No. 2017-08 amended the requirements related to the amortization period for certain purchased callable debt securities held at a premium. ASU No. 2017-08 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. 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 May 2017, FASB issued ASU No. 2017-09, (Topic 718): Scope of Modification Accounting. ASU No. 2017-09 amended the requirements related to changes to the terms or conditions of a share-based payment award. ASU No. 2017-09 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The adoption of this guidance is not expected to 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.

(2) Investment Securities

Investment securities available for sale at June 30, 2017 and December 31, 2016 are as follows:

(Dollars in thousands)

	June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$59,302	1,257	182	60,377
U.S. Government sponsored enterprises	39,254	402	29	39,627
State and political subdivisions	133,298	6,252	20	139,530
Corporate bonds	1,500	36	-	1,536
Trust preferred securities	250	-	-	250
Total	$233,604	7,947	231	241,320

(Dollars in thousands)

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$66,654	1,221	290	67,585
U.S. Government sponsored enterprises	38,188	308	274	38,222
State and political subdivisions	137,832	4,176	152	141,856
Corporate bonds	1,500	33	-	1,533
Trust preferred securities	750	-	-	750
Total	$244,924	5,738	716	249,946

The current fair value and associated unrealized losses on investments in securities with unrealized losses at June 30, 2017 and December 31, 2016 are summarized in the tables below, with the length of time the individual securities have been in a continuous loss position.

(Dollars in thousands)

	June 30, 2017					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$14,513	182	-	-	14,513	182
U.S. Government sponsored enterprises	-	-	11,567	29	11,567	29
State and political subdivisions	1,037	4	570	16	1,607	20
Total	$15,550	186	12,137	45	27,687	231

(Dollars in thousands)

	December 31, 2016					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$15,594	290	-	-	15,594	290
U.S. Government sponsored enterprises	10,120	94	9,562	180	19,682	274
State and political subdivisions	10,441	123	561	29	11,002	152
Total	$36,155	507	10,123	209	46,278	716

At June 30, 2017, unrealized losses in the investment securities portfolio relating to debt securities totaled $231,000. The unrealized losses on these debt securities arose due to changing interest rates and are considered to be temporary. From the June 30, 2017 tables above, 3 out of 163 securities issued by state and political subdivisions contained unrealized losses, 15 out of 78 securities issued by U.S. Government sponsored enterprises contained unrealized losses, and no securities issued by corporations contained unrealized losses. These unrealized losses are considered temporary because of acceptable financial condition and results of operations of entities that issued 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 June 30, 2017, 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.

June 30, 2017
(Dollars in thousands)

	Amortized Cost	Estimated Fair Value
Due within one year	$ 14,885	15,051
Due from one to five years	93,690	97,862
Due from five to ten years	56,040	58,093
Due after ten years	9,437	9,687
Mortgage-backed securities	59,302	60,377
Trust preferred securities	250	250
Total	$ 233,604	241,320

No securities available for sale were sold during the six months ended June 30, 2017. Proceeds from sales of securities available for sale during the six months ended June 30, 2016 were $804,000 and resulted in gross gains of $324,000.

Securities with a fair value of approximately $88.4 million and $95.6 million at June 30, 2017 and December 31, 2016, respectively, were pledged to secure public deposits and for other purposes as required by law.

(3) Loans

Major classifications of loans at June 30, 2017 and December 31, 2016 are summarized as follows:

(Dollars in thousands)

	June 30, 2017	December 31, 2016
Real estate loans:		
Construction and land development	$ 71,213	61,749
Single-family residential	240,993	240,700
Single-family residential - Banco de la Gente stated income	38,875	40,189
Commercial	243,957	247,521
Multifamily and farmland	30,125	21,047
Total real estate loans	625,163	611,206
Loans not secured by real estate:		
Commercial loans	94,567	87,596
Farm loans	1,591	-
Consumer loans	10,099	9,832
All other loans	13,618	15,177
Total loans	745,038	723,811
Less allowance for loan losses	7,167	7,550
Total net loans	$ 737,871	716,261

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, Wake and Durham 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 the 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 June 30, 2017, construction and land development loans comprised approximately 10% of the Bank's total loan portfolio.

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- 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 June 30, 2017, single-family residential loans comprised approximately 38% of the Bank's total loan portfolio, and include Banco's single-family residential stated income loans, which were approximately 5% 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 June 30, 2017, commercial real estate loans comprised approximately 33% 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 June 30, 2017, commercial loans comprised approximately 13% 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 of 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 June 30, 2017 and December 31, 2016:

June 30, 2017
(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	$3,706	-	3,706	67,507	71,213	-
Single-family residential	949	174	1,123	239,870	240,993	55
Single-family residential -						
Banco de la Gente stated income	1,365	273	1,638	37,237	38,875	-
Commercial	12	249	261	243,696	243,957	-
Multifamily and farmland	-	12	12	30,113	30,125	-
Total real estate loans	6,032	708	6,740	618,423	625,163	55
Loans not secured by real estate:						
Commercial loans	1,070	-	1,070	93,497	94,567	-
Farm loans	-	-	-	1,591	1,591	-
Consumer loans	52	6	58	10,041	10,099	-

All other loans	-	-	-	13,618	13,618	-
Total loans	$7,154	714	7,868	737,170	745,038	55

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December 31, 2016
(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	$-	10	10	61,739	61,749	-
Single-family residential	4,890	80	4,970	235,730	240,700	-
Single-family residential - Banco de la Gente stated income	5,250	249	5,499	34,690	40,189	-
Commercial	342	126	468	247,053	247,521	-
Multifamily and farmland	471	-	471	20,576	21,047	-
Total real estate loans	10,953	465	11,418	599,788	611,206	-
Loans not secured by real estate:						
Commercial loans	273	-	273	87,323	87,596	-
Farm loans	-	-	-	-	-	-
Consumer loans	68	6	74	9,758	9,832	-
All other loans	3	-	3	15,174	15,177	-
Total loans	$11,297	471	11,768	712,043	723,811	-

The following table presents non-accrual loans as of June 30, 2017 and December 31, 2016:

(Dollars in thousands)

	June 30, 2017	December 31, 2016
Real estate loans:		
Construction and land development	$18	22
Single-family residential	1,444	1,662
Single-family residential - Banco de la Gente stated income	1,461	1,340
Commercial	1,440	669
Multifamily and farmland	12	78
Total real estate loans	4,375	3,771
Loans not secured by real estate:		
Commercial loans	249	21
Consumer loans	21	33
Total	$4,645	3,825

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 not 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 $22.4 million, $23.5 million and $23.7 million at June 30, 2017, December 31, 2016 and June 30, 2016, respectively. Interest income recognized on accruing impaired loans was $740,000, $596,000 and $1.2 million for the six months ended June 30, 2017, the six months ended June 30, 2016 and the year ended December 31, 2016, respectively. No interest income is recognized on non-accrual impaired loans subsequent to their classification as non-accrual.

The following table presents impaired loans as of June 30, 2017:

June 30, 2017
(Dollars in thousands)

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Recorded Investment in Impaired Loans	Related Allowance
Real estate loans:					
Construction and land development	$ 253	-	257	257	9
Single-family residential	4,666	1,152	3,896	5,048	38
Single-family residential - Banco de la Gente stated income	17,439	-	18,029	18,029	1,123
Commercial	4,190	1,699	2,769	4,468	68
Multifamily and farmland	12	-	78	78	-
Total impaired real estate loans	26,560	2,851	25,029	27,880	1,238
Loans not secured by real estate:					
Commercial loans	253	-	288	288	27
Consumer loans	187	-	197	197	3
Total impaired loans	$ 27,000	2,851	25,514	28,365	1,268

The following table presents the average impaired loan balance and the interest income recognized by loan class for the three and six months ended June 30, 2017 and 2016.

(Dollars in thousands)

	Three months ended				Six months ended			
	June 30, 2017		June 30, 2016		June 30, 2017		June 30, 2016	
	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
Real estate loans:								
Construction and land development	$304	2	455	4	265	6	405	7
Single-family residential	4,595	63	8,680	33	5,185	131	9,769	82
Single-family residential - Banco de la Gente stated income	17,539	232	17,888	219	17,271	469	17,875	449
Commercial	3,831	66	5,694	24	3,778	125	5,978	49
Multifamily and farmland	45	-	78	-	56	-	80	3
Total impaired real estate loans	26,314	363	32,795	280	26,555	731	34,107	590
Loans not secured by real estate:								
Commercial loans	129	3	141	-	95	3	139	1
Consumer loans	221	3	233	2	215	6	240	5
Total impaired loans	$26,664	369	33,169	282	26,865	740	34,486	596

The following table presents impaired loans as of December 31, 2016:

December 31, 2016
(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	YTD Interest Income Recognized
Real estate loans:							
Construction and land development	$ 282	-	278	278	11	330	13
Single-family residential	5,354	703	4,323	5,026	47	7,247	164
Single-family residential - Banco de la Gente stated income	18,611	-	18,074	18,074	1,182	17,673	861
Commercial	3,750	1,299	2,197	3,496	166	4,657	152
Multifamily and farmland	78	-	78	78	-	78	-
Total impaired real estate loans	28,075	2,002	24,950	26,952	1,406	29,985	1,190
Loans not secured by real estate:							
Commercial loans	27	-	27	27	-	95	-
Consumer loans	211	-	202	202	3	222	8
Total impaired loans	$ 28,313	2,002	25,179	27,181	1,409	30,302	1,198

Changes in the allowance for loan losses for the three and six months ended June 30, 2017 and 2016 were as follows:

(Dollars in thousands)

	Real Estate Loans									
	Construction and Land Development	Single-Family Residential	Single-Family Residential - Banco de la Gente Stated Income	Commercial	Multifamily and Farmland	Commercial	Farm	Consumer and All Other	Unallocated	Total
Six months ended June 30, 2017:										
Allowance for loan losses:										
Beginning balance	$ 1,152	2,126	1,377	1,593	52	675	-	204	371	7,550
Charge-offs	-	(44)	-	(66)	-	(37)	-	(182)	-	(329
Recoveries	10	16	-	14	-	15	-	78	-	133
Provision	21	(279)	(84)	(78)	23	51	-	58	101	(187

Ending balance	$1,183	1,819	1,293	1,463	75	704	-	158	472	7,167
Three months ended June 30, 2017:										
Allowance for loan losses:										
Beginning balance	$969	2,003	1,328	1,655	73	628	-	178	429	7,263
Charge-offs	-	(24)	-	-	(66)	(35)	-	(73)	-	(198
Recoveries	3	9	-	6	-	7	-	28	-	53
Provision	211	(169)	(35)	(198)	68	104	-	25	43	49
Ending balance	$1,183	1,819	1,293	1,463	75	704	-	158	472	7,167
Allowance for loan losses at June 30, 2017:										
Ending balance: individually evaluated for impairment	$-	-	1,103	65	-	27	-	-	-	1,195
Ending balance: collectively evaluated for impairment	1,183	1,819	190	1,398	75	677	-	158	472	5,972
Ending balance	$1,183	1,819	1,293	1,463	75	704	-	158	472	7,167
Loans at June 30, 2017:										
Ending balance	$71,213	240,993	38,875	243,957	30,125	94,567	1,591	23,717	-	745,038
Ending balance: individually evaluated for impairment	$-	1,152	16,792	3,724	-	230	-	-	-	21,898
Ending balance: collectively evaluated for impairment	$71,213	239,841	22,083	240,233	30,125	94,337	1,591	23,717	-	723,140

(Dollars in thousands)	Real Estate Loans									
	Construction and Land Development	Single-Family Residential	Single-Family Residential - Banco de la Gente Stated Income	Commercial	Multifamily and Farmland	Commercial	Farm	Consumer and All Other	Unallocated	Total
Six months ended June 30, 2016:										
Allowance for loan losses:										
Beginning balance	$2,185	2,534	1,460	1,917	-	842	-	172	479	9,589
Charge-offs	-	(123)	-	(106)	-	(39)	-	(240)	-	(508)
Recoveries	6	13	-	11	-	105	-	72	-	207
Provision	(609)	(191)	(106)	(172)	46	(105)	-	230	159	(748)
Ending balance	$1,582	2,233	1,354	1,650	46	803	-	234	638	8,540
Three months ended June 30, 2016:										
Allowance for loan losses:										
Beginning balance	$1,844	2,475	1,423	1,788	-	810	-	190	586	9,116
Charge-offs	-	(64)	-	-	-	(10)	-	(112)	-	(186)
Recoveries	3	5	-	6	-	99	-	28	-	141
Provision	(265)	(183)	(69)	(144)						