

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

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)

000-272056-2132396

(Commission File No.) (IRS Employer Identification No.)

518

West C

Street, 28658

Newton,

North

Carolina

(Address

of

principal(Zip Code)

executive

offices)

(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  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  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

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

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)

<u>Assets</u>	June 30, <u>2017</u> (Unaudited)	December 31, <u>2016</u> (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
<u>Liabilities and Shareholders' Equity</u>		
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.

## 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,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	(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



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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, <u>2017</u> <u>2016</u> (Unaudited) (Unaudited)		Six months ended June 30, <u>2017</u> <u>2016</u> (Unaudited) (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	Total
	Shares	Amount	Earnings	Income	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(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.

## PEOPLES BANCORP OF NORTH CAROLINA, INC.

## Consolidated Statements of Cash Flows

Six Months Ended June 30, 2017 and 2016

(Dollars in thousands)

	<u>2017</u>	<u>2016</u>
	(Unaudited)	(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

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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

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PEOPLES BANCORP OF NORTH CAROLINA, INC.

Consolidated Statements of Cash Flows, continued

Six Months Ended June 30, 2017 and 2016

(Dollars in thousands)

	<u>2017</u> (Unaudited)	<u>2016</u> (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.