PEOPLES BANCORP OF NORTH CAROLINA INC
Form 10-Q
November 06, 2015
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:
September 30, 2015

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 XNo

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.

5,515,738 shares of common stock, outstanding at October 31, 2015.

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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 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, 2014.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PEOPLES BANCORP OF NORTH CAROLINA, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2015 and December 31, 2014

(Dollars in thousands)

Assets	September 30, 2015 (Unaudited)	December 31, 2014 (Audited)
Cash and due from banks, including reserve requirements of $13,301 at 9/30/15 and $12,569 at 12/31/14	$ 39,681	51,213
Interest-bearing deposits	4,944	17,885
Cash and cash equivalents	44,625	69,098
Investment securities available for sale	268,821	281,099
Other investments	3,912	4,031
Total securities	272,733	285,130
Mortgage loans held for sale	1,679	1,375
Loans	684,800	651,891
Less allowance for loan losses	(10,420)	(11,082)
Net loans	674,380	640,809
Premises and equipment, net	16,831	17,000
Cash surrender value of life insurance	14,440	14,125
Other real estate	2,349	2,016
Accrued interest receivable and other assets	10,158	10,941
Total assets	$ 1,037,195	1,040,494
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	$ 217,517	210,758
NOW, MMDA & savings	423,917	407,504
Time, $250,000 or more	31,036	47,872
Other time	134,091	148,566
Total deposits	806,561	814,700
Securities sold under agreements to repurchase	47,240	48,430
FHLB borrowings	50,000	50,000

Junior subordinated debentures	20,619	20,619
Accrued interest payable and other liabilities	9,868	8,080
Total liabilities	934,288	941,829
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 5,528,538 shares at 9/30/15, and 5,612,588 shares at 12/31/14	46,512	48,088
Retained earnings	51,442	45,124
Accumulated other comprehensive income	4,953	5,453
Total shareholders' equity	102,907	98,665
Total liabilities and shareholders' equity	$ 1,037,195	1,040,494

See accompanying Notes to Consolidated Financial Statements.

PEOPLES BANCORP OF NORTH CAROLINA, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

Three and Nine Months Ended September 30, 2015 and 2014

(Dollars in thousands, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2015 (Unaudited)	2014 (Unaudited)	2015 (Unaudited)	2014 (Unaudited)
Interest income:				
Interest and fees on loans	$8,089	7,664	23,015	22,556
Interest on due from banks	4	18	21	42
Interest on investment securities:				
U.S. Government sponsored enterprises	633	646	1,959	2,298
States and political subdivisions	1,145	1,168	3,465	3,514
Other	76	87	245	294
Total interest income	9,947	9,583	28,705	28,704
Interest expense:				
NOW, MMDA & savings deposits	106	124	324	375
Time deposits	211	287	685	924
FHLB borrowings	443	556	1,294	1,650
Junior subordinated debentures	101	98	297	291
Other	13	11	34	33
Total interest expense	874	1,076	2,634	3,273
Net interest income	9,073	8,507	26,071	25,431
Provision for (reduction of provision for) loan losses	235	256	193	(27)
Net interest income after provision for loan losses	8,838	8,251	25,878	25,458
Non-interest income:				
Service charges	1,193	1,303	3,498	3,655
Other service charges and fees	173	213	718	892
Gain on sale of securities	-	240	-	266
Mortgage banking income	300	256	810	548
Insurance and brokerage commissions	179	161	544	521
Gain/(loss) on sale and write-down of other real estate	80	(234)	246	(384)
Miscellaneous	1,341	1,268	3,992	3,660
Total non-interest income	3,266	3,207	9,808	9,158
Non-interest expense:				
Salaries and employee benefits	4,596	4,301	13,683	12,784
Occupancy	1,611	1,489	4,577	4,476
Professional fees	163	378	590	824

Advertising and marketing	172	196	576	555
Debit card expense	256	225	737	667
FDIC insurance	162	169	510	565
Other	1,709	1,783	5,081	4,860
Total non-interest expense	8,669	8,541	25,754	24,731
Earnings before income taxes	3,435	2,917	9,932	9,885
Income tax expense	942	475	2,487	2,313
Net earnings	$2,493	2,442	7,445	7,572
Basic net earnings per share	$0.45	0.43	1.34	1.35
Diluted net earnings per share	$0.45	0.43	1.32	1.34
Cash dividends declared per share	$0.08	0.04	0.20	0.12

See accompanying Notes to Consolidated Financial Statements.

PEOPLES BANCORP OF NORTH CAROLINA, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Three and Nine Months Ended September 30, 2015 and 2014

(Dollars in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2015 (Unaudited)	2014 (Unaudited)	2015 (Unaudited)	2014 (Unaudited)
Net earnings	$2,493	2,442	7,445	7,572
Other comprehensive income (loss):				
Unrealized holding (losses) gains on securities available for sale	1,167	1,788	(819)	9,374
Reclassification adjustment for gains on securities available for sale included in net earnings	-	(240)	-	(266)
Total other comprehensive (loss) income, before income taxes	1,167	1,548	(819)	9,108
Income tax (benefit) expense related to other comprehensive (loss) income:				
Unrealized holding (losses) gains on securities available for sale	455	696	(319)	3,651
Reclassification adjustment for gains on securities available for sale included in net earnings	-	(93)	-	(104)
Total income tax expense (benefit) related to other comprehensive income (loss)	455	603	(319)	3,547
Total other comprehensive (loss) income, net of tax	712	945	(500)	5,561
Total comprehensive income	$3,205	3,387	6,945	13,133

See accompanying Notes to Consolidated Financial Statements.

PEOPLES BANCORP OF NORTH CAROLINA, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity

Nine Months Ended September 30, 2015 and 2014

(Dollars in thousands)

	Common Stock Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2014	5,612,588	$48,088	45,124	5,453	98,665
Common stock repurchase	(84,050)	(1,576)	-	-	(1,576)
Cash dividends declared on common stock	-	-	(1,127)	-	(1,127)
Net earnings	-	-	7,445	-	7,445
Change in accumulated other comprehensive loss, net of tax	-	-	-	(500)	(500)
Balance, September 30, 2015	5,528,538	$46,512	51,442	4,953	102,907
Balance, December 31, 2013	5,613,495	$48,133	36,758	(1,172)	83,719
Cash dividends declared on common stock	-	-	(682)	-	(682)
Stock options exercised	3,630	37	-	-	37
Net earnings	-	-	7,572	-	7,572
Change in accumulated other comprehensive income, net of tax	-	-	-	5,561	5,561
Balance, September 30, 2014	5,617,125	$48,170	43,648	4,389	96,207

See accompanying Notes to Consolidated Financial Statements.

PEOPLES BANCORP OF NORTH CAROLINA, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2015 and 2014

(Dollars in thousands)

	2015 (Unaudited)	2014 (Unaudited)
Cash flows from operating activities:		
Net earnings	$ 7,445	7,572
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, amortization and accretion	4,523	5,254
Reduction of provision for loan losses	193	(27)
Deferred income taxes	100	-
Gain on sale of investment securities	-	(266)
Gain on sale of other real estate	(275)	(43)
Write-down of other real estate	29	427
Restricted stock expense	282	272
Originations of mortgage loans held for sale	(38,140)	(28,382)
Sales of mortgage loans held for sale	37,836	27,992
Change in:		
Cash surrender value of life insurance	(315)	(315)
Other assets	792	(252)
Other liabilities	1,788	229
Net cash provided by operating activities	14,258	12,461
Cash flows from investing activities:		
Purchases of investment securities available for sale	(13,579)	(25,439)
Proceeds from calls, maturities and paydowns of investment securities available for sale	17,984	29,263
Proceeds from sales of investment securities available for sale	4,250	20,202
Purchases of FHLB stock	(5)	-
FHLB stock redemption	125	284
Net change in loans	(38,098)	(34,213)
Purchases of premises and equipment	(1,549)	(2,927)
Proceeds from sales of other real estate and repossessions	4,173	3,230
Net cash used by investing activities	(26,699)	(9,600)
Cash flows from financing activities:		
Net change in deposits	(8,139)	17,434
Net change in securities sold under agreements to repurchase	(1,190)	1,624
Proceeds from FHLB borrowings	20,000	-
Repayments of FHLB borrowings	(20,000)	-
Preferred stock repurchase	-	(12,524)

Stock options exercised	-	37
Common stock repurchased	(1,576)	-
Cash dividends paid on common stock	(1,127)	(682)
Net cash (used) provided by financing activities	(12,032)	5,889
Net change in cash and cash equivalents	(24,473)	8,750
Cash and cash equivalents at beginning of period	69,098	76,773
Cash and cash equivalents at end of period	$ 44,625	85,523

PEOPLES BANCORP OF NORTH CAROLINA, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows, continued

Nine Months Ended September 30, 2015 and 2014

(Dollars in thousands)

	2015 (Unaudited)	2014 (Unaudited)
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 2,624	3,290
Income taxes	$ 1,514	1,637
Noncash investing and financing activities:		
Change in unrealized gain on investment securities available for sale, net	$ (500)	5,561
Transfers of loans to other real estate and repossessions	$ 4,274	3,774
Financed portion of sales of other real estate	$ 60	282

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., Real Estate Advisory Services, Inc. ("REAS") and PB Real Estate Holdings, LLC (collectively called the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

The Bank operates four offices focused on the Latino population under the name Banco de la Gente. These offices are operated as a division of the Bank. Banco de la Gente offers 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 and therefore is not considered a reportable segment of the Company.

The consolidated financial statements in this report (other than the Consolidated Balance Sheet at December 31, 2014) 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 2014 Annual Report to Shareholders which is Appendix A to the Proxy Statement for the May 7, 2015 Annual Meeting of Shareholders.

Recently Issued Accounting Pronouncements
In January 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-01, (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. ASU No. 2015-01 eliminates the concept of extraordinary items from GAAP. ASU No. 2015-01 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. 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 2015, FASB issued ASU No. 2015-02, (Topic 810): Amendments to the Consolidation Analysis. ASU No. 2015-02 provides amendments to respond to stakeholders' concerns about the current accounting for consolidation of certain legal entities. Stakeholders expressed concerns that GAAP might require a reporting entity to consolidate another legal entity in situations in which the reporting entity's contractual rights do not give it the ability to act primarily on its own behalf, the reporting entity does not hold a majority of the legal entity's voting rights, or the reporting entity is not exposed to a majority of the legal entity's economic benefits or obligations. ASU No. 2015-02 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. 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 2015, FASB issued ASU No. 2015-10, Technical Corrections and Improvements. ASU No. 2015-10 contains amendments to clarify the Accounting Standards Codification ("ASC"), correct unintended application of guidance, and make minor improvements to the ASC that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments were effective upon issuance (June 12, 2015) for amendments that do not have transition guidance. Amendments that are subject to transition guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. 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 September 30, 2015 and December 31, 2014 are as follows:

(Dollars in thousands)

	September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$75,386	2,098	18	77,466
U.S. Government sponsored enterprises	38,793	505	129	39,169
State and political subdivisions	143,094	5,566	338	148,322
Corporate bonds	1,937	4	1	1,940
Trust preferred securities	750	-	-	750
Equity securities	748	426	-	1,174
Total	$260,708	8,599	486	268,821

(Dollars in thousands)

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$88,496	1,766	52	90,210
U.S. Government sponsored enterprises	33,766	418	136	34,048
State and political subdivisions	145,938	6,534	226	152,246
Corporate bonds	2,469	16	18	2,467
Trust preferred securities	750	-	-	750
Equity securities	748	630	-	1,378
Total	$272,167	9,364	432	281,099

The current fair value and associated unrealized losses on investments in securities with unrealized losses at September 30, 2015 and December 31, 2014 are summarized in the tables below, with the length of time the individual securities have been in a continuous loss position.

(Dollars in thousands)

	September 30, 2015					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$2,278	18	-	-	2,278	18
U.S. Government sponsored enterprises	2,319	20	9,064	109	11,383	129
State and political subdivisions	15,762	170	6,668	168	22,430	338

Corporate bonds	-	-	526	1	526	1
Total	$20,359	208	16,258	278	36,617	486

(Dollars in thousands)

	December 31, 2014					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$436	1	2,963	51	3,399	52
U.S. Government sponsored enterprises	2,996	4	9,850	132	12,846	136
State and political subdivisions	567	1	14,998	225	15,565	226
Corporate bonds	-	-	525	18	525	18
Total	$3,999	6	28,336	426	32,335	432

At September 30, 2015, unrealized losses in the investment securities portfolio relating to debt securities totaled $486,000. The unrealized losses on these debt securities arose due to changing interest rates and are considered to be temporary. From the September 30, 2015 tables above, 26 out of 173 securities issued by state and political subdivisions contained unrealized losses, seven out of 79 securities issued by U.S. Government sponsored enterprises, including mortgage-backed securities, contained unrealized losses, and one out of three 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 September 30, 2015, 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.

September 30, 2015
(Dollars in thousands)

	Amortized Cost	Estimated Fair Value
Due within one year	$4,431	4,440
Due from one to five years	57,499	60,100
Due from five to ten years	107,022	109,524
Due after ten years	15,622	16,117
Mortgage-backed securities	75,386	77,466
Equity securities	748	1,174
Total	$260,708	268,821

No securities available for sale were sold during the nine months ended September 30, 2015. Proceeds from sales of securities available for sale during the nine months ended September 30, 2014 totaled $20.2 million and resulted in gross gains of $291,000 and gross losses of $25,000.

Securities with a fair value of approximately $88.9 million and $89.9 million at September 30, 2015 and December 31, 2014, respectively, were pledged to secure public deposits and for other purposes as required by law.

(3) Loans

Major classifications of loans at September 30, 2015 and December 31, 2014 are summarized as follows:

(Dollars in thousands)

	September 30, 2015	December 31, 2014
Real estate loans:		
Construction and land development	$ 61,748	57,617
Single-family residential	218,365	206,417
Single-family residential - Banco de la Gente stated income	44,433	47,015
Commercial	234,003	228,558
Multifamily and farmland	14,003	12,400
Total real estate loans	572,552	552,007
Loans not secured by real estate:		
Commercial loans	88,931	76,262
Farm loans	3	7
Consumer loans	10,047	10,060
All other loans	13,267	13,555
Total loans	684,800	651,891
Less allowance for loan losses	10,420	11,082
Total net loans	$ 674,380	640,809

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, 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 September 30, 2015, construction and land development loans comprised approximately 9% 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 September 30, 2015, single-family residential loans comprised approximately 38% of the Bank's total loan portfolio, and include Banco de la Gente single-family residential stated income loans, which were approximately 6% 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 September 30, 2015, commercial real estate loans comprised approximately 34% 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 September 30, 2015, 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 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 September 30, 2015 and December 31, 2014:

September 30, 2015
(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	$383	273	656	61,092	61,748	197
Single-family residential	1,779	1,463	3,242	215,123	218,365	-
Single-family residential - Banco de la Gente stated income	1,588	246	1,834	42,599	44,433	-
Commercial	602	142	744	233,259	234,003	-
Multifamily and farmland	117	-	117	13,886	14,003	-
Total real estate loans	4,469	2,124	6,593	565,959	572,552	197
Loans not secured by real estate:						
Commercial loans	323	29	352	88,579	88,931	29
Farm loans	-	-	-	3	3	-
Consumer loans	204	18	222	9,825	10,047	-
All other loans	-	-	-	13,267	13,267	-
Total loans	$4,996	2,171	7,167	677,633	684,800	226

December 31, 2014
(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	$294	3,540	3,834	53,783	57,617	-
Single-family residential	5,988	268	6,256	200,161	206,417	-
Single-family residential - Banco de la Gente stated income	8,998	610	9,608	37,407	47,015	-

Commercial	3,205	366	3,571	224,987	228,558	-
Multifamily and farmland	85	-	85	12,315	12,400	-
Total real estate loans	18,570	4,784	23,354	528,653	552,007	-
Loans not secured by real estate:						
Commercial loans	241	49	290	75,972	76,262	-
Farm loans	-	-	-	7	7	-
Consumer loans	184	-	184	9,876	10,060	-
All other loans	-	-	-	13,555	13,555	-
Total loans	$18,995	4,833	23,828	628,063	651,891	-

The following table presents non-accrual loans as of September 30, 2015 and December 31, 2014:

(Dollars in thousands)

	September 30, 2015	December 31, 2014
Real estate loans:		
Construction and land development	$ 209	3,854
Single-family residential	3,335	2,370
Single-family residential -		
Banco de la Gente stated income	1,955	1,545
Commercial	2,598	2,598
Multifamily and farmland	-	110
Total real estate loans	8,097	10,477
Loans not secured by real estate:		
Commercial loans	102	176
Consumer loans	67	75
Total	$ 8,266	10,728

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 $25.5 million, $25.6 million and $26.8 million at September 30, 2015, December 31, 2014 and September 30, 2014, respectively. Interest income recognized on accruing impaired loans was $968,000, $992,000 and $1.3 million for the nine months ended September 30, 2015, the nine months ended September 30, 2014 and the year ended December 31, 2014, respectively. Interest income recognized on accruing impaired loans was $286,000 and $311,000 for the three months ended September 30, 2015 and 2014, respectively. No interest income is recognized on non-accrual impaired loans subsequent to their classification as non-accrual.

The following tables present impaired loans as of September 30, 2015 and December 31, 2014:

September 30, 2015
(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
Real estate loans:						
Construction and land development	$ 643	241	289	530	19	1,638
Single-family residential	8,828	1,496	7,287	8,783	201	9,483
Single-family residential - Banco de la Gente stated income	20,375	-	19,572	19,572	1,155	19,114
Commercial	4,556	-	4,172	4,172	234	4,948
Multifamily and farmland	96	-	93	93	-	100
Total impaired real estate loans	34,498	1,737	31,413	33,150	1,609	35,283
Loans not secured by real estate:						
Commercial loans	180	-	154	154	3	149
Consumer loans	286	-	280	280	5	298
Total impaired loans	$ 34,964	1,737	31,847	33,584	1,617	35,730

December 31, 2014
(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
Real estate loans:						
Construction and land development	$ 5,481	3,639	555	4,194	31	5,248
Single-family residential	6,717	933	5,540	6,473	154	7,430
Single-family residential - Banco de la Gente stated income	21,243	-	20,649	20,649	1,191	19,964
Commercial	4,752	1,485	2,866	4,351	272	4,399
Multifamily and farmland	111	-	110	110	1	154
Total impaired real estate loans	38,304	6,057	29,720	35,777	1,649	37,195
Loans not secured by real estate:						
Commercial loans	218	-	201	201	4	641
Consumer loans	318	-	313	313	5	309
All other loans (not secured by real estate)	-	-	-	-	-	-
Total impaired loans	$ 38,840	6,057	30,234	36,291	1,658	38,145

Changes in the allowance for loan losses for the three and nine months ended September 30, 2015 and 2014 were as follows:

ollars in ousands)	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
ine months ended ptember 30, 2015 lowance r loan sses:										
eginning lance	$2,785	2,566	1,610	1,902	7	1,098	-	233	881	11,082
harge-offs	(198)	(447)	(59)	(62)	-	(16)	-	(394)	-	(1,176)
ecoveries	43	30	22	15	-	96	-	115	-	321
ovision	119	676	(113)	75	(2)	(297)	-	258	(523)	193
ding lance	$2,749	2,825	1,460	1,930	5	881	-	212	358	10,420
ree months ended ptember 30, 2015 lowance r loan sses:										
eginning lance	$2,924	2,456	1,528	1,749	2	902	-	231	586	10,378
harge-offs	(110)	(48)	-	-	-	(1)	-	(156)	-	(315)
ecoveries	20	21	-	5	-	43	-	33	-	122
ovision	(85)	396	(68)	176	3	(63)	-	104	(228)	235
ding lance	$2,749	2,825	1,460	1,930	5	881	-	212	358	10,420
lowance for loan losses ptember 30, 2015: ding lance: dividually aluated r pairment	$-	96	1,128	227	-	-	-	-	-	1,451
ding lance:										

llectively aluated r npairment	2,749	2,729	332	1,703	5	881	-	212	358	8,969
nding lance	$2,749	2,825	1,460	1,930	5	881	-	212	358	10,420
oans ptember , 2015:										
nding lance	$61,748	218,365	44,433	234,003	14,003	88,931	3	23,314	-	684,800
nding lance: dividually aluated r npairment	$241	2,944	18,193	3,525	-	-	-	-	-	24,903
nding lance: llectively aluated r npairment	$61,507	215,421	26,240	230,478	14,003	88,931	3	23,314	-	659,897

Dollars in ousands)	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
ine months ended eptember 30, 2014										
llowance r loan sses:										
eginning alance	$3,218	3,123	1,863	2,219	37	1,069	-	245	1,727	13,501
harge-offs	(772)	(223)	(148)	(181)	-	(197)	-	(399)	-	(1,920)
ecoveries	389	64	17	165	-	42	-	112	-	789
rovision	239	(230)	(60)	(435)	(29)	240	-	282	(34)	(27)
nding alance	$3,074	2,734	1,672	1,768	8	1,154	-	240	1,693	12,343

hree months ended eptember 30, 2014										
llowance r loan sses:										
eginning alance	$3,387	2,848	1,708	1,839	7	1,081	-	253	1,552	12,675
harge-offs	(513)	(30)	(7)	(51)	-	(4)	-	(144)	-	(749)
ecoveries	107	2	-	4	-	15	-	33	-	161
rovision	93	(86)	(29)	(24)	1	62	-	98	141	256
nding alance	$3,074	2,734	1,672	1,768	8	1,154	-	240	1,693	12,343
llowance for loan losses at eptember 30, 2014:										
nding alance: dividually aluated r npairment	$-	67	1,164	182	-	-	-	-	-	1,413
nding alance: ollectively aluated r npairment	3,074	2,667	508	1,586	8	1,154	-	240	1,693	10,930
nding alance	$3,074	2,734	1,672	1,768	8	1,154	-	240	1,693	12,343
oans at eptember), 2014:										
nding alance	$56,959	202,797	47,665	227,183	10,887	78,139	10	26,910	-	650,550
nding alance: dividually aluated r npairment	$3,808	2,312	19,083	3,563	-	-	-	-	-	28,766
nding alance: ollectively aluated r npairment	$53,151	200,485	28,582	223,620	10,887	78,139	10	26,910	-	621,784

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The provision for loan losses for the three months ended September 30, 2015 was $235,000, as compared to $256,000 for the three months ended September 30, 2014. The decrease in the provision for loan losses is primarily attributable to a $2.4 million reduction in non-accrual loans from September 30, 2014 to September 30, 2015 and a $395,000 reduction in net charge-offs during the three months ended September 30, 2015, as compared to the same period one year ago.

The provision for loan losses for the nine months ended September 30, 2015 was an expense of $193,000, as compared to a credit of $27,000 for the nine months ended September 30, 2014. The increase in the provision for loan losses is primarily attributable to a $34.2 million increase in loans from September 30, 2014 to September 30, 2015.

The Company utilizes an internal risk grading matrix to assign a risk grade to each of its loans. Loans are graded on a scale of 1 to 8. These risk grades are evaluated on an ongoing basis. A description of the general characteristics of the eight risk grades is as follows:

- Risk Grade 1 – Excellent Quality: Loans are well above average quality and a minimal amount of credit risk exists. CD or cash secured loans or properly margined actively traded stock or bond secured loans would fall in this grade.
- Risk Grade 2 – High Quality: Loans are of good quality with risk levels well within the Company's range of acceptability. The organization or individual is established with a history of successful performance though somewhat susceptible to economic changes.
- Risk Grade 3 – Good Quality: Loans of average quality with risk levels within the Company's range of acceptability but higher than normal. This may be a new organization or an existing organization in a transitional phase (e.g. expansion, acquisition, market change).
- Risk Grade 4 – Management Attention: These loans have higher risk and servicing needs but still are acceptable. Evidence of marginal performance or deteriorating trends is observed. These are not problem credits presently, but may be in the future if the borrower is unable to change its present course.
- Risk Grade 5 – Watch: These loans are currently performing satisfactorily, but there has been some recent past due history on repayment and there are potential weaknesses that may, if not corrected, weaken the asset or inadequately protect the Company's position at some future date.
- Risk Grade 6 – Substandard: A Substandard loan is inadequately protected by the current sound net worth and paying capacity of the obligor or the collateral pledged (if there is any). There is a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. There is a distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.
- Risk Grade 7 – Doubtful: Loans classified as Doubtful have all the weaknesses inherent in loans classified as Substandard, plus the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable and improbable. Doubtful is a temporary grade where a loss is expected but is presently not quantified with any degree of accuracy. Once the loss position is determined, the amount is charged off.
- Risk Grade 8 – Loss: Loans classified as Loss are considered uncollectable and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this worthless loan even though partial recovery may be realized in the future. Loss is a temporary grade until the appropriate authority is obtained to charge the loan off.

The following tables present the credit risk profile of each loan type based on internally assigned risk grades as of September 30, 2015 and December 31, 2014:

September 30, 2015
(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	All Other	Total
1- Excellent Quality	$-	13,031	-	-	-	645	-	1,224	-	14,900
2- High Quality	8,448	84,774	-	41,529	174	26,079	-	3,608	1,723	166,335
3- Good Quality	32,941	79,052	19,547	149,064	10,766	56,106	3	4,490	9,783	361,752
4- Management Attention	11,751	29,762	15,353	34,261	347	5,577	-	594	1,761	99,406
5- Watch	8,240	5,499	3,474	5,180	2,716	349	-	65	-	25,523
6- Substandard	368	6,247	6,059	3,969	-	175	-	62	-	16,880
7- Doubtful	-	-	-	-	-	-	-	-	-	-
8- Loss	-	-	-	-	-	-	-	4	-	4
Total	$61,748	218,365	44,433	234,003	14,003	88,931	3	10,047	13,267	684,800