

PEOPLES BANCORP OF NORTH CAROLINA INC
Form 10-Q
August 10, 2006

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, 2006**

OR

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

For the transition period from _____ to _____

PEOPLES BANCORP OF NORTH CAROLINA, INC.

(Exact name of registrant as specified in its charter)

North Carolina

(State or other jurisdiction of incorporation or organization)

000-27205

(Commission File No.)

56-2132396

(IRS Employer Identification No.)

518 West C Street, Newton, North Carolina

(Address of principal executive offices)

28658

(Zip Code)

(828) 464-5620

(Registrant's telephone number, including area code)

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

Yes 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

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

Yes X
No

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

3,793,126 shares of common stock, outstanding at July 31, 2006.

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Statements made in this Form 10-Q, other than those concerning historical information, should be considered forward-looking statements pursuant to the safe harbor provisions of the Securities Exchange Act of 1934 and the Private Securities Litigation Act of 1995. These forward-looking statements involve risks and uncertainties and are based on the beliefs and assumptions of management and on the information available to management at the time that this Form 10-Q was prepared. These statements can be identified by the use of words like “expect,” “anticipate,” “estimate,” and “believe,” variations of these words and other similar expressions. Readers should not place undue reliance on forward-looking statements as a number of important factors could cause actual results to differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, (1) competition in the markets served by Peoples Bank, (2) changes in the interest rate environment, (3) general national, regional or local economic conditions may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and the possible impairment of collectibility of loans, (4) legislative or regulatory changes, including changes in accounting standards, (5) significant changes in the federal and state legal and regulatory environments and tax laws, (6) the impact of changes in monetary and fiscal policies, laws, rules and regulations and (7) other risks and factors identified in the Company’s 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, 2005.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

PEOPLES BANCORP OF NORTH CAROLINA, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

<u>Assets</u>	June 30, <u>2006</u> <i>(Unaudited)</i>	December 31, <u>2005</u>
Cash and due from banks	\$ 28,048,883	18,468,999
Federal funds sold	2,951,000	1,347,000
Cash and cash equivalents	30,999,883	19,815,999
Investment securities available for sale	113,225,359	115,158,184
Other investments	6,055,199	5,810,749
Total securities	119,280,558	120,968,933
Mortgage loans held for sale	3,440,575	2,247,900
Loans	607,230,621	566,663,416
Less allowance for loan losses	(7,922,419)	(7,424,782)
Net loans	599,308,202	559,238,634
Premises and equipment, net	12,779,739	12,662,153
Cash surrender value of life insurance	6,415,211	6,311,757
Accrued interest receivable and other assets	11,468,148	9,034,239
Total assets	\$ 783,692,316	730,279,615
<u>Liabilities and Shareholders' Equity</u>		
Deposits:		
Non-interest bearing demand	\$ 105,941,780	94,660,721
NOW, MMDA & savings	171,272,466	183,248,699
Time, \$100,000 or more	175,658,315	152,410,976
Other time	157,916,424	152,533,265
Total deposits	610,788,985	582,853,661
Demand notes payable to U.S. Treasury	177,851	1,473,693
Securities sold under agreement to repurchase	2,868,110	981,050
FHLB borrowings	74,100,000	71,600,000
Junior subordinated debentures	35,052,000	14,433,000
Accrued interest payable and other liabilities	3,899,724	4,585,217
Total liabilities	726,886,670	675,926,621
Shareholders' equity:		

Preferred stock, no par value; authorized 5,000,000 shares; no shares issued and outstanding	-	-
Common stock, no par value; authorized 20,000,000 shares; issued and outstanding 3,788,284 shares in 2006 and 3,440,805 shares in 2005	50,384,830	41,096,500
Retained earnings	9,318,997	14,656,160
Accumulated other comprehensive income (loss)	(2,898,181)	(1,399,666)
Total shareholders' equity	56,805,646	54,352,994
 Total liabilities and shareholders' equity	 \$ 783,692,316	 730,279,615

See accompanying notes to consolidated financial statements.

PEOPLES BANCORP OF NORTH CAROLINA, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

	Three months ended June 30,		Six months ended June 30,	
	<u>2006</u> (Unaudited)	<u>2005</u> (Unaudited)	<u>2006</u> (Unaudited)	<u>2005</u> (Unaudited)
Interest income:				
Interest and fees on loans	\$ 12,543,896	9,220,188	24,071,375	17,682,125
Interest on federal funds sold	17,060	1,425	21,202	2,905
Interest on investment securities:				
U.S. Government agencies	1,070,334	854,201	2,092,008	1,702,557
States and political subdivisions	193,411	180,632	386,161	362,495
Other	120,424	91,924	245,587	178,957
Total interest income	13,945,125	10,348,370	26,816,333	19,929,039
Interest expense:				
NOW, MMDA & savings deposits	681,623	641,962	1,356,360	1,275,282
Time deposits	3,432,723	2,101,247	6,420,454	3,890,924
FHLB borrowings	968,265	710,008	1,853,955	1,421,784
Junior subordinated debentures	297,681	225,516	577,320	432,990
Other	48,300	7,045	83,843	11,111
Total interest expense	5,428,592	3,685,778	10,291,932	7,032,091
Net interest income	8,516,533	6,662,592	16,524,401	12,896,948
Provision for loans losses	413,000	723,000	1,172,000	1,413,000
Net interest income after provision for loan losses	8,103,533	5,939,592	15,352,401	11,483,948
Non-interest income:				
Service charges	1,016,930	947,309	1,941,875	1,752,569
Other service charges and fees	363,012	270,865	759,029	515,492
Loss on sale of securities	(91,951)	-	(173,751)	-
Mortgage banking income	119,268	101,640	239,876	204,756
Insurance and brokerage commissions	109,783	102,761	213,683	212,520
Miscellaneous	508,871	419,181	983,080	794,487
Total non-interest income	2,025,913	1,841,756	3,963,792	3,479,824
Non-interest expense:				

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Salaries and employee benefits	3,265,032	2,971,765	6,503,802	6,034,266
Occupancy	1,017,425	988,560	2,005,821	1,957,626
Other	1,660,957	1,340,364	3,136,269	2,567,644
Total non-interest expenses	5,943,414	5,300,689	11,645,892	10,559,536
Earnings before income taxes	4,186,032	2,480,659	7,670,301	4,404,236
Income taxes	1,524,600	872,600	2,773,800	1,519,400
Net earnings	\$ 2,661,432	1,608,059		