

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

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FILER

**PEOPLES BANCORP OF NORTH CAROLINA INC**

CIK: **1093672** | IRS No.: **562132396** | State of Incorporation: **NC** | Fiscal Year End: **1231**  
Type: **8-K** | Act: **34** | File No.: **000-27205** | Film No.: **13550565**  
SIC: **6022** State commercial banks

Mailing Address

*PO BOX 467  
NEWTON NC 28658-0467*

Business Address

*518 WEST C STREET  
NEWTON NC 28658-4007  
8284645620*

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

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**FORM 8-K**

**CURRENT REPORT PURSUANT TO SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported): **January 28, 2013**

**Peoples Bancorp of North Carolina, Inc.**  
(Exact Name of Registrant as Specified in Its Charter)

**North Carolina**  
(State or Other Jurisdiction of Incorporation)

**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)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Peoples Bancorp of North Carolina, Inc.

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**Item 2.02. Results of Operations and Financial Condition**

On January 28, 2013, Peoples Bancorp of North Carolina, Inc. issued a press release announcing fourth quarter and annual 2012 earnings results.

A copy of the press release is attached hereto as Exhibit (99)(a) and is incorporated by reference herein.

**Item 9.01. Financial Statements and Exhibits**

(d) Exhibits

(99)(a) Press release, dated January 28, 2013

**Disclosure about forward-looking statements**

This Form 8-K contains forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, changes in interest rate environment, management's business strategy, national, regional, and local market conditions and legislative and regulatory conditions.

Readers should not place undue reliance on forward-looking statements, which reflect management's view only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances. Readers should also carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PEOPLES BANCORP OF NORTH CAROLINA, INC.

Date: January 28, 2013

By: /s/ A. Joseph Lampron, Jr.

A. Joseph Lampron, Jr.

Executive Vice President and Chief Financial Officer



EXHIBIT (99)(a)

NEWS RELEASE

January 28, 2013

Contact: Lance A. Sellers  
President and Chief Executive Officer

A. Joseph Lampron, Jr.  
Executive Vice President and Chief Financial Officer

828-464-5620, Fax 828-465-6780

For Immediate Release

PEOPLES BANCORP ANNOUNCES FOURTH QUARTER AND ANNUAL EARNINGS RESULTS

Peoples Bancorp of North Carolina, Inc. (NASDAQ: PEBK), the parent company of Peoples Bank, reported fourth quarter and annual earnings results with highlights as follows:

*Highlights:*

- Earnings before securities gains and income taxes were \$1.4 million for the three months ended December 31, 2012 compared to \$718,000 for the same period one year ago.
- Earnings before securities gains and income taxes were \$6.2 million for the year ended December 31, 2012 compared to \$2.4 million for the year ended December 31, 2011.
- Net earnings were \$1.2 million or \$0.22 basic and diluted net earnings per share for the three months ended December 31, 2012, before adjustment for preferred stock dividends and accretion, as compared to \$1.8 million or \$0.32 basic and diluted net earnings per share, before adjustment for preferred stock dividends and accretion, for the same period one year ago.
- Net earnings available to common shareholders were \$1.1 million or \$0.19 basic and diluted net earnings per common share for the three months ended December 31, 2012, as compared to \$1.4 million or \$0.26 basic and diluted net earnings per common share, for the same period one year ago.
- Core deposits were \$646.4 million, or 82.7% of total deposits at December 31, 2012, compared to \$633.0 million, or 76.5% of total deposits at December 31, 2011.

Lance A. Sellers, President and Chief Executive Officer, attributed the increase in fourth quarter earnings before security gains and income taxes to a decrease in the provision for loan losses, which was partially offset by a decrease in net interest income, a decrease in non-interest income and an increase in non-interest expense.

Year-to-date net earnings as of December 31, 2012 were \$5.8 million, or \$1.04 basic and diluted net earnings per share, before adjustment for preferred stock dividends and accretion, as compared to \$5.2 million, or \$0.93 basic and diluted net earnings per share, before adjustment for preferred stock dividends and accretion, for the same period one year ago. After adjusting for dividends and accretion on preferred stock, net earnings available to common shareholders for the year ended December 31, 2012 were \$4.8 million, or \$0.86 basic and diluted net earnings per common share, as compared to \$3.8 million, or \$0.68 basic and diluted net earnings per common share, for the same period one year ago. The increase in year-to-date earnings is primarily attributable to a decrease in the provision for loan losses, which was partially offset by aggregate decreases in net interest income and non-interest income and aggregate increases in non-interest expense, as discussed below.

Net interest income was \$7.7 million for the three months ended December 31, 2012, compared to \$8.6 million for the same period one year ago. This decrease was primarily due to a decrease in interest income resulting from decreases in loans and investment securities and a decrease in the yield on earning assets, which were partially offset by a decrease in interest expense due to a reduction in the cost of funds and a reduction in interest bearing liabilities. Net interest income after the provision for loan losses increased to \$7.2 million during the fourth quarter of 2012, compared to \$5.6 million for the same period one year ago. The provision for loan losses for the three months ended December 31, 2012, was \$511,000, as compared to \$2.9 million for the same

period one year ago. The decrease in the provision for loan losses is primarily attributable to a \$4.2 million reduction in non-accrual loans from December 31, 2011 to December 31, 2012.

Non-interest income was \$2.7 million for the three months ended December 31, 2012, as compared to \$4.5 million for the same period one year ago. This decrease is primarily attributable to a \$1.8 million decrease in the gains on sale of securities, which was partially offset by a \$210,000 increase in mortgage banking income, for the three months ended December 31, 2012, as compared to the same period one year ago.

Non-interest expense was \$8.5 million for the three months ended December 31, 2012, as compared to \$7.6 million for the same period one year ago. This increase is attributable to a \$529,000 increase in salaries and employee benefits expense, which was primarily due to salary increases in 2012 and bonuses accrued in the fourth quarter 2012, and a \$316,000 increase in non-interest expenses other than salary, employee benefits and occupancy expenses for the three months ended December 31, 2012, as compared to the same period one year ago.

Year-to-date net interest income as of December 31, 2012 decreased 8.1% to \$31.5 million compared to \$34.3 million for the same period one year ago. This decrease is primarily attributable to a decrease in interest income resulting from decreases in loans and investment securities and a decrease in the yield on earning assets, which were partially offset by a decrease in interest expense due to a reduction in the cost of funds and a reduction in interest bearing liabilities. Net interest income after the provision for loan losses increased 22.8% to \$26.6 million for the year ended December 31, 2012, compared to \$21.7 million for the same period one year ago. The provision for loan losses for the year ended December 31, 2012 was \$4.9 million, as compared to \$12.6 million for the same period one year ago. The decrease in the provision for loan losses is primarily attributable to a \$4.4 million decrease in net charge-offs during the year ended December 31, 2012 compared to the same period one year ago and a \$4.2 million reduction in non-accrual loans from December 31, 2011 to December 31, 2012.

Non-interest income was \$12.5 million for the year ended December 31, 2012, as compared to \$14.5 million for the year ended December 31, 2011. This decrease is primarily attributable to \$3.0 million decrease in the gains on sale of securities, which was partially offset by a \$472,000 increase in mortgage banking income and a \$362,000 increase in income from the Company's appraisal management company subsidiary, for the year ended December 31, 2012, as compared to the year ended December 31, 2011.

Non-interest expense was \$31.8 million for the year ended December 31, 2012, as compared to \$29.6 million for the year ended December 31, 2011. This increase is primarily due to a \$1.7 million increase in salaries and employee benefits expense and a \$653,000 increase in non-interest expenses other than salary, employee benefits and occupancy expenses for the year ended December 31, 2012, as compared to the same period one year ago. The increase in salaries and employee benefits expense was primarily due to salary increases and bonuses accrued in 2012, along with an increase in commissions on mortgage and real estate appraisal sales. The increase in non-interest expenses other than salary, employee benefits and occupancy expenses included \$232,000 in expenses associated with the Company's purchase of preferred stock and a common stock warrant from the U.S. Department of the Treasury ("UST"), which was issued to the UST in connection with the Company's participation in the Capital Purchase Program ("CPP") under the Troubled Asset Relief Program ("TARP") in 2008.

Total assets amounted to \$1.0 billion as of December 31, 2012, as compared to \$1.1 billion as of December 31, 2011. Available for sale securities decreased 7.3% to \$297.8 million as of December 31, 2012, compared to \$321.4 million as of December 31, 2011. This decrease reflects investment securities sold and paydowns of mortgage-backed securities during the year ended December 31, 2012, which were partially offset by purchases of investment securities. Total loans amounted to \$620.0 million as of December 31, 2012, compared to \$670.5 million as of December 31, 2011. This decrease is primarily due to the



anticipated reduction in existing loans through the work-through of problem loans and normal principal repayments, which have exceeded the diminished level of loan originations, due primarily to the current level of slow economic growth.

Non-performing assets declined to \$26.3 million or 2.6% of total assets at December 31, 2012, compared to \$32.1 million or 3.0% of total assets at December 31, 2011 primarily due to a decrease in non-accrual loans. Non-performing loans include \$9.2 million in acquisition, development and construction (“AD&C”) loans, \$10.4 million in commercial and residential mortgage loans and \$415,000 in other loans at December 31, 2012, as compared to \$13.2 million in AD&C loans, \$10.7 million in commercial and residential mortgage loans and \$554,000 in other loans at December 31, 2011. The allowance for loan losses at December 31, 2012 was \$14.4 million or 2.3% of total loans, compared to \$16.6 million or 2.5% of total loans at December 31, 2011. According to Mr. Sellers, management believes the current level of the allowance for loan losses is adequate; however, there is no assurance that additional adjustments to the allowance will not be required because of changes in economic conditions, regulatory requirements or other factors.

Deposits amounted to \$781.5 million as of December 31, 2012, compared to \$827.1 million at December 31, 2011. Core deposits, which include non-interest bearing demand deposits, NOW, MMDA, savings and non-brokered certificates of deposit of denominations less than \$100,000, increased \$13.4 million to \$646.4 million at December 31, 2012, as compared to \$633.0 million at December 31, 2011. Certificates of deposit in amounts greater than \$100,000 or more totaled \$134.7 million at December 31, 2012, as compared to \$193.0 million at December 31, 2011. This decrease is attributable to a \$25.6 million decrease in brokered certificates of deposit combined with a decrease in retail certificates of deposit as intended as part of the Bank’s pricing strategy to allow maturing high cost certificates of deposit to roll-off.

Securities sold under agreement to repurchase were \$34.6 million at December 31, 2012, as compared to \$39.6 million at December 31, 2011.

Shareholders’ equity was \$97.7 million, or 9.6% of total assets, as of December 31, 2012, compared to \$103.0 million, or 9.7% of total assets, as of December 31, 2011. This decrease reflects the Company’s repurchase and retirement of a portion of its preferred shares in the second quarter of 2012. The Company purchased 12,530 shares of the Company’s 25,054 outstanding shares of preferred stock from the UST, which was issued to the UST in connection with the Company’s participation in the CPP under TARP in 2008.

Peoples Bank operates 22 offices entirely in North Carolina, with offices in Catawba, Alexander, Lincoln, Mecklenburg, Union, Iredell and Wake Counties. The Company’s common stock is publicly traded and is quoted on the Nasdaq Global Market under the symbol “PEBK.”

**Statements made in this press release, 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 release 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 environment 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 the Company’s annual report on Form 10-K for the year ended December 31, 2011.**

**CONSOLIDATED BALANCE SHEETS**

December 31, 2012 and December 31, 2011

(Dollars in thousands)

|  | <b>December 31,</b><br><b>2012</b><br><i>(Unaudited)</i> | December 31,<br>2011<br><i>(Audited)</i> |
|--|--|--|
| <b>ASSETS:</b>                               |  |  |
| Cash and due from banks                      | \$ 32,617  | \$ 22,532                                |
| Interest bearing deposits                    | <u>16,226</u>  | <u>6,704</u>                             |
| Cash and cash equivalents                    | <u>48,843</u>  | <u>29,236</u>                            |
| Investment securities available for sale     | 297,823  | 321,388                                  |
| Other investments                            | <u>5,599</u>   | <u>5,712</u>                             |
| Total securities                             | <u>303,422</u>   | <u>327,100</u>                           |
| Mortgage loans held for sale                 | 6,922  | 5,146                                    |
| Loans  | 619,974  | 670,497                                  |
| Less: Allowance for loan losses              | <u>(14,423)</u>  | <u>(16,604)</u>                          |
| Net loans                                    | <u>605,551</u>   | <u>653,893</u>                           |
| Premises and equipment, net                  | 15,874   | 16,896                                   |
| Cash surrender value of life insurance       | 13,273   | 12,835                                   |
| Accrued interest receivable and other assets | 19,631   | 21,957                                   |
| Total assets                                 | <u>\$ 1,013,516</u>                                      | <u>\$ 1,067,063</u>                      |

**LIABILITIES AND SHAREHOLDERS' EQUITY:**

## Deposits:

|                             |                |                |
|-----------------------------|----------------|----------------|
| Non-interest bearing demand | \$ 161,582     | \$ 136,878     |
| NOW, MMDA & savings         | 371,719        | 366,133        |
| Time, \$100,000 or more     | 134,733        | 193,045        |
| Other time                  | <u>113,491</u> | <u>131,055</u> |
| Total deposits              | 781,525        | 827,111        |

|  |              |              |
|--|--------------|--------------|
| Securities sold under agreement to repurchase  | 34,578       | 39,600       |
| FHLB borrowings                                | 70,000       | 70,000       |
| Junior subordinated debentures                 | 20,619       | 20,619       |
| Accrued interest payable and other liabilities | <u>9,047</u> | <u>6,706</u> |
| Total liabilities                              | 915,769      | 964,036      |

## Shareholders' equity:

|   |              |              |
|---|--------------|--------------|
| Series A preferred stock, \$1,000 stated value; authorized<br>5,000,000 shares; issued and outstanding<br>12,524 shares in 2012 and 25,054 shares in 2011 | 12,524       | 24,758       |
| Common stock, no par value; authorized<br>20,000,000 shares; issued and outstanding<br>5,613,495 shares in 2012 and<br>5,544,160 shares in 2011           | 48,133       | 48,298       |
| Retained earnings   | 31,478       | 26,895       |
| Accumulated other comprehensive income  | <u>5,612</u> | <u>3,076</u> |

|  |                     |                     |
|--|---------------------|---------------------|
| Total shareholders' equity                 | <u>97,747</u>       | <u>103,027</u>      |
| Total liabilities and shareholders' equity | <u>\$ 1,013,516</u> | <u>\$ 1,067,063</u> |

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**CONSOLIDATED STATEMENTS OF INCOME**

For the three months and years ended December 31, 2012 and 2011

(Dollars in thousands, except per share amounts)

|  | Three months ended<br>December 31, |                            | Years ended<br>December 31, |                          |
|--|------------------------------------|----------------------------|-----------------------------|--------------------------|
|  | 2012<br><i>(Unaudited)</i>         | 2011<br><i>(Unaudited)</i> | 2012<br><i>(Unaudited)</i>  | 2011<br><i>(Audited)</i> |
| <b>INTEREST INCOME:</b>  |                                    |                            |                             |                          |
| Interest and fees on loans                                     | \$ 7,936                           | \$ 8,697                   | \$ 32,758                   | \$ 36,374                |
| Interest on due from banks                                     | 16                                 | 15                         | 51                          | 33                       |
| Interest on investment securities:                             |                                    |                            |                             |                          |
| U.S. Government sponsored enterprises                          | 419                                | 1,416                      | 2,746                       | 5,414                    |
| State and political subdivisions                               | 940                                | 793                        | 3,403                       | 3,180                    |
| Other  | 81                                 | 68                         | 287                         | 258                      |
| Total interest income  | <u>9,392</u>                       | <u>10,989</u>              | <u>39,245</u>               | <u>45,259</u>            |
| <b>INTEREST EXPENSE:</b>                                       |                                    |                            |                             |                          |
| NOW, MMDA & savings deposits                                   | 267                                | 428                        | 1,180                       | 2,263                    |
| Time deposits  | 572                                | 1,134                      | 3,205                       | 5,035                    |
| FHLB borrowings  | 680                                | 698                        | 2,744                       | 2,956                    |
| Junior subordinated debentures                                 | 105                                | 106                        | 438                         | 407                      |
| Other  | 25                                 | 54                         | 129                         | 285                      |
| Total interest expense   | <u>1,649</u>                       | <u>2,420</u>               | <u>7,696</u>                | <u>10,946</u>            |
| <b>NET INTEREST INCOME</b>                                     | <b>7,743</b>                       | <b>8,569</b>               | <b>31,549</b>               | <b>34,313</b>            |
| <b>PROVISION FOR LOAN LOSSES</b>                               | <b>511</b>                         | <b>2,936</b>               | <b>4,924</b>                | <b>12,632</b>            |
| <b>NET INTEREST INCOME AFTER<br/>PROVISION FOR LOAN LOSSES</b> | <b><u>7,232</u></b>                | <b><u>5,633</u></b>        | <b><u>26,625</u></b>        | <b><u>21,681</u></b>     |
| <b>NON-INTEREST INCOME:</b>                                    |                                    |                            |                             |                          |
| Service charges  | 1,162                              | 1,261                      | 4,764                       | 5,106                    |
| Other service charges and fees                                 | 408                                | 488                        | 1,940                       | 2,090                    |
| Gain on sale of securities                                     | 15                                 | 1,767                      | 1,218                       | 4,262                    |
| Mortgage banking income  | 436                                | 226                        | 1,229                       | 757                      |
| Insurance and brokerage commissions                            | 114                                | 120                        | 517                         | 471                      |
| Miscellaneous  | 544                                | 620                        | 2,869                       | 1,827                    |
| Total non-interest income                                      | <u>2,679</u>                       | <u>4,482</u>               | <u>12,537</u>               | <u>14,513</u>            |
| <b>NON-INTEREST EXPENSES:</b>                                  |                                    |                            |                             |                          |
| Salaries and employee benefits                                 | 4,466                              | 3,937                      | 16,426                      | 14,766                   |
| Occupancy  | 1,345                              | 1,309                      | 5,236                       | 5,339                    |
| Other  | 2,700                              | 2,384                      | 10,120                      | 9,467                    |
| Total non-interest expense                                     | <u>8,511</u>                       | <u>7,630</u>               | <u>31,782</u>               | <u>29,572</u>            |
| <b>EARNINGS BEFORE INCOME TAXES</b>                            | <b>1,400</b>                       | <b>2,485</b>               | <b>7,380</b>                | <b>6,622</b>             |
| <b>INCOME TAXES</b>  | <b>187</b>                         | <b>708</b>                 | <b>1,587</b>                | <b>1,463</b>             |
| <b>NET EARNINGS</b>  | <b><u>1,213</u></b>                | <b><u>1,777</u></b>        | <b><u>5,793</u></b>         | <b><u>5,159</u></b>      |
| Dividends and accretion on preferred stock                     | 157                                | 348                        | 1,010                       | 1,393                    |

|  |                 |                 |                 |                 |
|--|-----------------|-----------------|-----------------|-----------------|
| <b>NET EARNINGS AVAILABLE TO<br/>COMMON SHAREHOLDERS</b> | <b>\$ 1,056</b> | <b>\$ 1,429</b> | <b>\$ 4,783</b> | <b>\$ 3,766</b> |
|--|-----------------|-----------------|-----------------|-----------------|

**PER COMMON SHARE AMOUNTS**

|                      |          |          |          |          |
|----------------------|----------|----------|----------|----------|
| Basic net earnings   | \$ 0.19  | \$ 0.26  | \$ 0.86  | \$ 0.68  |
| Diluted net earnings | \$ 0.19  | \$ 0.26  | \$ 0.86  | \$ 0.68  |
| Cash dividends       | \$ 0.07  | \$ 0.02  | \$ 0.18  | \$ 0.08  |
| Book value           | \$ 15.18 | \$ 14.06 | \$ 15.18 | \$ 14.06 |

## FINANCIAL HIGHLIGHTS

For the three months and years ended December 31, 2012 and 2011

(Dollars in thousands)

|                                   | Three months ended<br>December 31, |                            | Years ended<br>December 31, |                          |
|-----------------------------------|------------------------------------|----------------------------|-----------------------------|--------------------------|
|                                   | 2012<br><i>(Unaudited)</i>         | 2011<br><i>(Unaudited)</i> | 2012<br><i>(Unaudited)</i>  | 2011<br><i>(Audited)</i> |
| <b>SELECTED AVERAGE BALANCES:</b> |                                    |                            |                             |                          |
| Available for sale securities     | \$ 279,800                         | \$ 312,699                 | \$ 289,010                  | \$ 295,413               |
| Loans                             | 629,368                            | 677,539                    | 648,595                     | 697,527                  |
| Earning assets                    | 943,051                            | 1,022,341                  | 965,994                     | 1,015,451                |
| Assets                            | 1,008,543                          | 1,084,473                  | 1,029,612                   | 1,074,248                |
| Deposits                          | 773,015                            | 838,566                    | 786,976                     | 835,549                  |
| Shareholders' equity              | 98,552                             | 103,169                    | 103,805                     | 102,568                  |

### SELECTED KEY DATA:

|   |       |       |       |       |
|---|-------|-------|-------|-------|
| Net interest margin (tax equivalent)              | 3.46% | 3.48% | 3.44% | 3.55% |
| Return on average assets                          | 0.48% | 0.65% | 0.56% | 0.48% |
| Return on average shareholders' equity            | 4.90% | 6.83% | 5.58% | 5.03% |
| Shareholders' equity to total assets (period end) | 9.64% | 9.66% | 9.64% | 9.66% |

### ALLOWANCE FOR LOAN LOSSES:

|                              |           |           |           |           |
|------------------------------|-----------|-----------|-----------|-----------|
| Balance, beginning of period | \$ 16,551 | \$ 16,348 | \$ 16,604 | \$ 15,493 |
| Provision for loan losses    | 511       | 2,936     | 4,924     | 12,632    |
| Charge-offs                  | (2,688)   | (2,726)   | (8,331)   | (12,260)  |
| Recoveries                   | 49        | 46        | 1,226     | 739       |
| Balance, end of period       | \$ 14,423 | \$ 16,604 | \$ 14,423 | \$ 16,604 |

### ASSET QUALITY:

|  |           |           |
|--|-----------|-----------|
| Non-accrual loans                                  | \$ 17,630 | \$ 21,785 |
| 90 days past due and still accruing                | 2,403     | 2,709     |
| Other real estate owned                            | 6,256     | 7,576     |
| Reposessed assets                                  | 10        | -         |
| Total non-performing assets                        | \$ 26,299 | \$ 32,070 |
| Non-performing assets to total assets              | 2.60%     | 3.01%     |
| Allowance for loan losses to non-performing assets | 54.84%    | 51.77%    |
| Allowance for loan losses to total loans           | 2.33%     | 2.48%     |

### LOAN RISK GRADE ANALYSIS:

|                                     | Percentage of Loans<br>By Risk Grade |            |
|-------------------------------------|--------------------------------------|------------|
|                                     | 12/31/2012                           | 12/31/2011 |
| Risk Grade 1 (excellent quality)    | 2.93%                                | 3.12%      |
| Risk Grade 2 (high quality)         | 16.94%                               | 16.58%     |
| Risk Grade 3 (good quality)         | 47.74%                               | 49.30%     |
| Risk Grade 4 (management attention) | 20.70%                               | 19.65%     |
| Risk Grade 5 (watch)                | 5.07%                                | 4.76%      |
| Risk Grade 6 (substandard)          | 6.26%                                | 6.21%      |

|                                |              |       |
|--------------------------------|--------------|-------|
| Risk Grade 7 (low substandard) | <b>0.00%</b> | 0.00% |
| Risk Grade 8 (doubtful)        | <b>0.00%</b> | 0.00% |
| Risk Grade 9 (loss)            | <b>0.00%</b> | 0.00% |

*At December 31, 2012, including non-accrual loans, there were nine relationships exceeding \$1.0 million (which totaled \$17.2 million) in the Watch risk grade, four relationships exceeding \$1.0 million in the Substandard risk grade (which totaled \$11.1 million) and no relationships exceeding \$1.0 million in the Low Substandard risk grade. There were three relationships with loans in the Watch risk grade and the Substandard risk grade exceeding \$1.0 million total (which totaled \$4.6 million).*

**(END)**