

NEW PEOPLES BANKSHARES INC

Form 10-Q

May 08, 2012

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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 March 31, 2012

.. **Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

Commission file number: 000-33411

NEW PEOPLES BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

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Virginia
(State or other jurisdiction of
incorporation or organization)

31-1804543
(I.R.S. Employer
Identification No.)

67 Commerce Drive

Honaker, Virginia
(Address of principal executive offices)

24260
(Zip Code)

(276) 873-7000
(Registrant's telephone number, including area code)

n/a
(Former name, former address and former fiscal year, if changed since last report)

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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

10,010,178 shares of common stock, par value \$2.00 per share, outstanding as of May 8, 2012.

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Part I **Financial Information**
Item 1 **Financial Statements**

NEW PEOPLES BANKSHARES, INC.**CONSOLIDATED STATEMENTS OF INCOME (LOSS)****FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011**

(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

(UNAUDITED)

	2012	2011
INTEREST AND DIVIDEND INCOME		
Loans including fees	\$ 8,748	\$ 10,888
Federal funds sold		9
Interest-earning deposits with banks	47	26
Investments	201	39
Dividends on equity securities (restricted)	26	22
Total Interest and Dividend Income	9,022	10,984
INTEREST EXPENSE		
Deposits		
Demand	26	45
Savings	62	186
Time deposits below \$100,000	875	1,388
Time deposits above \$100,000	587	805
FHLB Advances	181	221
Other borrowings	44	61
Trust Preferred Securities	122	108
Total Interest Expense	1,897	2,814
NET INTEREST INCOME	7,125	8,170
PROVISION FOR LOAN LOSSES	1,950	1,145
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,175	7,025
NONINTEREST INCOME		
Service charges	557	552
Fees, commissions and other income	615	574
Insurance and investment fees	109	98
Net realized gains on sale of investment securities	72	
Life insurance investment income	114	87
Total Noninterest Income	1,467	1,311
NONINTEREST EXPENSES		

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Salaries and employee benefits	3,598	3,913
Occupancy and equipment expense	1,099	1,025
Advertising and public relations	90	85
Data processing and telecommunications	439	406
FDIC insurance premiums	431	675
Other real estate owned and repossessed vehicles, net	1,974	244
Other operating expenses	1,356	1,265
Total Noninterest Expenses	8,987	7,613
INCOME (LOSS) BEFORE INCOME TAXES	(2,345)	723
INCOME TAX EXPENSE	190	174
NET INCOME (LOSS)	\$ (2,535)	\$ 549
Earnings (Loss) Per Share		
Basic	\$ (0.25)	\$ 0.05
Fully Diluted	\$ (0.25)	\$ 0.05
Average Weighted Shares of Common Stock		
Basic	10,010,178	10,010,178
Fully Diluted	10,010,178	10,010,178

The accompanying notes are an integral part of this statement.

Table of Contents**NEW PEOPLES BANKSHARES, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011**

(IN THOUSANDS)

(UNAUDITED)

	2012	2011
Net Income (Loss)	\$ (2,535)	\$ 549
Other comprehensive income (loss):		
Investment Securities Activity		
Unrealized gains (losses) arising during the period	(182)	21
Tax related to unrealized gains (losses)	62	(7)
Reclassification of realized (gains) during the period	(72)	
Tax related to realized gains	24	
Total other comprehensive income (loss)	(168)	14
Total comprehensive income (loss)	\$ (2,703)	\$ 563

The accompanying notes are an integral part of this statement.

Table of Contents**NEW PEOPLES BANKSHARES, INC.****CONSOLIDATED BALANCE SHEETS**

(IN THOUSANDS EXCEPT PER SHARE AND SHARE DATA)

	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)
ASSETS		
Cash and due from banks	\$ 19,086	\$ 18,306
Interest-bearing deposits with banks	71,683	72,170
Federal funds sold	58	77
Total Cash and Cash Equivalents	90,827	90,553
Investment securities		
Available-for-sale	43,497	32,434
Loans receivable	573,752	597,816
Allowance for loan losses	(18,031)	(18,380)
Net Loans	555,721	579,436
Bank premises and equipment, net	32,897	33,141
Equity securities (restricted)	3,573	3,573
Other real estate owned	15,009	15,092
Accrued interest receivable	2,705	3,067
Life insurance investments	11,465	11,351
Goodwill and other intangibles	102	123
Deferred taxes	7,086	7,220
Other assets	5,565	4,394
Total Assets	\$ 768,447	\$ 780,384
LIABILITIES		
Deposits:		
Demand deposits:		
Noninterest bearing	\$ 112,812	\$ 109,629
Interest-bearing	61,994	58,459
Savings deposits	98,861	94,569
Time deposits	425,418	445,658
Total Deposits	699,085	708,315
Federal Home Loan Bank advances	17,683	17,983
Accrued interest payable	1,873	1,796
Accrued expenses and other liabilities	1,690	1,471
Other borrowings	5,450	5,450
Trust preferred securities	16,496	16,496
Total Liabilities	742,277	751,511

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Commitments and contingencies

STOCKHOLDERS EQUITY

Common stock - \$2.00 par value; 50,000,000 shares authorized; 10,010,178 shares issued and outstanding	20,020	20,020
Additional paid-in-capital	21,689	21,689
Retained earnings (deficit)	(15,620)	(13,085)
Accumulated other comprehensive income	81	249
Total Stockholders Equity	26,170	28,873
Total Liabilities and Stockholders Equity	\$ 768,447	\$ 780,384

The accompanying notes are an integral part of this statement.

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NEW PEOPLES BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011
(IN THOUSANDS INCLUDING SHARE DATA)
(UNAUDITED)

	Shares of Common Stock	Common Stock	Additional Paid in Capital	Retained Earnings (Deficit)	Accum- ulated Other Compre- hensive Income (Loss)	Total Shareholders Equity	Compre- hensive Income (Loss)
Balance, December 31, 2010	10,010	\$ 20,020	\$ 21,689	\$ (4,175)	\$ (11)	\$ 37,523	
Net Income				549		549	\$ 549
Unrealized loss on available-for-sale securities, net of \$7 tax					14	14	14
Balance, March 31, 2011	10,010	\$ 20,020	\$ 21,689	\$ (3,626)	\$ 3	\$ 38,086	\$ 563
Balance, December 31, 2011	10,010	\$ 20,020	\$ 21,689	\$ (13,085)	\$ 249	\$ 28,873	
Net loss				(2,535)		(2,535)	\$ (2,535)
Realized gains on available- for-sale securities, net of \$24 tax					(48)	(48)	(48)
Unrealized loss on available-for-sale securities, net of \$62 tax					(120)	(120)	(120)
Balance, March 31, 2012	10,010	\$ 20,020	\$ 21,689	\$ (15,620)	\$ 81	\$ 26,170	\$ (2,703)

The accompanying notes are an integral part of this statement.

Table of Contents**NEW PEOPLES BANKSHARES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011**

(IN THOUSANDS)

(UNAUDITED)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (2,535)	\$ 549
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	642	580
Provision for loan losses	1,950	1,145
Income (less expenses) on life insurance	(114)	(87)
Gain on sale of securities available-for-sale	(72)	
(Gain) loss on sale of fixed assets	(3)	4
(Gain) loss on sale of foreclosed real estate	63	(1)
Adjustment of carrying value of foreclosed real estate	1,410	
Accretion of bond premiums/discounts	104	3
Deferred tax expense	220	1,564
Amortization of core deposit intangible	21	29
Net change in:		
Interest receivable	362	234
Other assets	(1,171)	(1,903)
Accrued interest payable	77	40
Accrued expenses and other liabilities	219	104
Net Cash Provided by Operating Activities	1,173	2,261
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease in loans	18,418	16,916
Purchase of securities available-for-sale	(14,554)	(2,455)
Proceeds from sale and maturities of securities available-for-sale	3,205	1,061
Payments for the purchase of property and equipment	(414)	(781)
Proceeds from sales of property and equipment	19	5
Proceeds from sales of other real estate owned	1,957	148
Net Cash Provided by Investing Activities	8,631	14,894
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of line of credit borrowings		(4,900)
Net increase in other borrowings		5,200
Repayments to Federal Home Loan Bank	(300)	(5,300)
Net change in:		
Demand deposits	6,718	11,066
Savings deposits	4,292	7,199
Time deposits	(20,240)	(1,934)
Net Cash Provided by (Used in) Financing Activities	(9,530)	11,331

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Net increase in cash and cash equivalents	274	28,486
Cash and Cash Equivalents, Beginning of Period	90,553	82,529
Cash and Cash Equivalents, End of Period	\$ 90,827	\$ 111,015

Supplemental Disclosure of Cash Paid During the Period for:

Interest	\$ 1,974	\$ 2,854
Taxes	\$	\$

Supplemental Disclosure of Non Cash Transactions:

Other real estate acquired in settlement of foreclosed loans	\$ 3,347	\$ 1,354
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The accompanying notes are an integral part of this statement.

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NEW PEOPLES BANKSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 NATURE OF OPERATIONS:

New Peoples Bankshares, Inc. (The Company) is a bank holding company whose principal activity is the ownership and management of a community bank. New Peoples Bank, Inc. (Bank) was organized and incorporated under the laws of the Commonwealth of Virginia on December 9, 1997. The Bank commenced operations on October 28, 1998, after receiving regulatory approval. As a state chartered member bank, the Bank is subject to regulation by the Virginia Bureau of Financial Institutions, the Federal Deposit Insurance Corporation and the Federal Reserve Bank. The Bank provides general banking services to individuals, small and medium size businesses and the professional community of southwestern Virginia, southern West Virginia, and eastern Tennessee. On June 9, 2003, the Company formed two wholly owned subsidiaries, NPB Financial Services, Inc. and NPB Web Services, Inc. On July 7, 2004 the Company established NPB Capital Trust I for the purpose of issuing trust preferred securities. On September 27, 2006, the Company established NPB Capital Trust 2 for the purpose of issuing additional trust preferred securities. NPB Financial Services, Inc. was a subsidiary of the Company until January 1, 2009 when it became a subsidiary of the Bank.

NOTE 2 ACCOUNTING PRINCIPLES:

The financial statements conform to U. S. generally accepted accounting principles and to general industry practices. In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position at March 31, 2012, and the results of operations for the three month periods ended March 31, 2012 and 2011. The notes included herein should be read in conjunction with the notes to financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011. The results of operations for the three month periods ended March 31, 2012 and 2011 are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions.

NOTE 3 FORMAL WRITTEN AGREEMENT:

Effective July 29, 2010, the Company and the Bank entered into a written agreement with the Federal Reserve Bank of Richmond (Reserve Bank) and the Virginia State Corporation Commission Bureau of Financial Institutions (the Bureau) called (the Written Agreement). At March 31, 2012, we believe we have not yet achieved full compliance with the Written Agreement but we have made progress in our compliance efforts under the Written Agreement and all of the written plans required to date, as discussed in the following paragraphs, have been submitted on a timely basis.

Under the terms of the Written Agreement, the Bank has agreed to develop and submit for approval within specified time periods written plans to: (a) strengthen board oversight of management and the Bank s operation; (b) if appropriate after review, to strengthen the Bank s management and board governance; (c) strengthen credit risk management policies; (d) enhance lending and credit administration; (e) enhance the Bank s management of commercial real estate concentrations; (f) conduct ongoing review and grading of the Bank s loan portfolio; (g) improve the Bank s position with respect to loans, relationships, or other assets in excess of \$1 million which are now or in the future become past due more than 90 days, which are on the Bank s problem loan list, or which are adversely classified in any report of examination of the Bank; (h) review and revise, as appropriate, current policy and maintain sound processes for maintaining an adequate allowance for loan and lease losses; (i) enhance management of the Bank s liquidity position and funds management practices; (j) revise its contingency funding plan; (k) revise its strategic plan; and (l) enhance the Bank s anti-money laundering and related activities.

In addition, the Bank has agreed that it will: (a) not extend, renew, or restructure any credit that has been criticized by the Reserve Bank or the Bureau absent prior board of directors approval in accordance with the restrictions in the Written Agreement; (b) eliminate all assets or portions of assets classified as loss and thereafter charge off all assets classified as loss in a federal or state report of examination, unless otherwise

approved by the Reserve Bank.

Under the terms of the Written Agreement, both the Company and the Bank have agreed to submit capital plans to maintain sufficient capital at the Company, on a consolidated basis, and the Bank, on a stand-alone basis, and to refrain

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from declaring or paying dividends without prior regulatory approval. The Company has agreed that it will not take any other form of payment representing a reduction in the Bank's capital or make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without prior regulatory approval. The Company may not incur, increase or guarantee any debt without prior regulatory approval and has agreed not to purchase or redeem any shares of its stock without prior regulatory approval.

Under the terms of the Written Agreement, the Company and the Bank have appointed a committee to monitor compliance with the Written Agreement. The directors of the Company and the Bank have recognized and unanimously agree with the common goal of financial soundness represented by the Written Agreement and have confirmed the intent of the directors and executive management to diligently seek to comply with all requirements of the Written Agreement.

NOTE 4 CAPITAL REQUIREMENTS:

The Company and the Bank are subject to various capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and, possibly, additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined).

As of March 31, 2012, the Company fell below the minimum capital requirements as a result of the Tier 1 leverage ratio decreasing to 3.92%, which was below the minimum requirement of 4.00%. As of March 31, 2012 the Bank was well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Company's and Bank's category.

The Company's and the Bank's actual capital amounts and ratios are presented in the table as of March 31, 2012 and December 31, 2011, respectively.

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars are in thousands)						
March 31, 2012:						
Total Capital to Risk Weighted Assets						
The Company	\$ 43,609	9.08%	38,420	8%	\$ N/A	N/A
The Bank	51,056	10.61%	38,507	8%	48,134	10%
Tier 1 Capital Risk Weighted Assets:						
The Company	30,119	6.27%	19,210	4%	N/A	N/A
The Bank	44,891	9.33%	19,254	4%	28,880	6%
Tier 1 Capital to Average Assets:						
The Company	30,119	3.92%	30,749	4%	N/A	N/A
The Bank	44,891	5.83%	30,790	4%	38,488	5%
December 31, 2011:						
Total Capital to Risk Weighted Assets						
The Company	\$ 45,856	9.15%	40,104	8%	\$ N/A	N/A
The Bank	53,070	10.56%	40,189	8%	50,236	10%
Tier 1 Capital Risk Weighted Assets:						

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The Company	32,941	6.57%	20,052	4%	N/A	N/A
The Bank	46,641	9.28%	20,095	4%	30,142	6%
Tier 1 Capital to Average Assets:						
The Company	33,461	4.23%	31,658	4%	N/A	N/A
The Bank	46,641	5.99%	31,160	4%	38,950	5%

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NOTE 5 INVESTMENT SECURITIES:

The amortized cost and estimated fair value of securities (all available-for-sale) are as follows:

(Dollars are in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
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