NEW PEOPLES BANKSHARES INC
Form 10-Q
August 14, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

þ **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 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)

Virginia	**31-1804543**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
67 Commerce Drive	
Honaker, Virginia	**24260**
(Address of principal executive offices)	**(Zip Code)**

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

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 þ 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 þ 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	þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

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

Class	**Outstanding at August 13, 2012**
Common Stock, $2.00 par value	10,010,178

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Part I Financial Information

Item 1 Financial Statements

NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011

(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

(UNAUDITED)

	2012	2011
INTEREST AND DIVIDEND INCOME		
Loans including fees	$ 16,795	$ 21,402
Federal funds sold	1	9
Interest-earning deposits with banks	95	80
Investments	441	84
Dividends on equity securities (restricted)	55	50
Total Interest and Dividend Income	17,387	21,625
INTEREST EXPENSE		
Deposits		
Demand	54	89
Savings	120	324
Time deposits below $100,000	1,657	2,630
Time deposits above $100,000	1,112	1,574
FHLB Advances	331	444
Other borrowings	88	105
Trust Preferred Securities	247	200
Total Interest Expense	3,609	5,366
NET INTEREST INCOME	13,778	16,259
PROVISION FOR LOAN LOSSES	3,126	3,457
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,652	12,802
NONINTEREST INCOME		
Service charges	1,199	1,159
Fees, commissions and other income	1,188	1,019
Insurance and investment fees	232	191
Net realized gains on sale of investment securities	337	
Life insurance investment income	145	176
Total Noninterest Income	3,101	2,545
NONINTEREST EXPENSES		
Salaries and employee benefits	7,107	7,859
Occupancy and equipment expense	2,184	2,144

Advertising and public relations	211	183
Data processing and telecommunications	889	798
FDIC insurance premiums	845	1,096
Other real estate owned and repossessed vehicles, net	3,247	2,490
Other operating expenses	2,756	2,660
Total Noninterest Expenses	17,239	17,230
LOSS BEFORE INCOME TAXES	(3,486)	(1,883)
INCOME TAX EXPENSE (BENEFIT)	1,587	(757)
NET LOSS	$ (5,073)	$ (1,126)
Loss Per Share		
Basic	$ (0.51)	$ (0.11)
Fully Diluted	$ (0.51)	$ (0.11)
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.

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NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED JUNE 30, 2012 AND 2011

(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

(UNAUDITED)

	2012	2011
INTEREST AND DIVIDEND INCOME		
Loans including fees	$ 8,047	$ 10,514
Federal funds sold	1	
Interest-earning deposits with banks	48	54
Investments	240	45
Dividends on equity securities (restricted)	29	28
Total Interest and Dividend Income	8,365	10,641
INTEREST EXPENSE		
Deposits		
Demand	28	44
Savings	58	138
Time deposits below $100,000	782	1,242
Time deposits above $100,000	525	769
FHLB Advances	150	223
Other borrowings	44	44
Trust Preferred Securities	125	92
Total Interest Expense	1,712	2,552
NET INTEREST INCOME	6,653	8,089
PROVISION FOR LOAN LOSSES	1,176	2,312
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,477	5,777
NONINTEREST INCOME		
Service charges	642	607
Fees, commissions and other income	573	445
Insurance and investment fees	123	93
Net realized gains on sale of investment securities	265	
Life insurance investment income	31	89
Total Noninterest Income	1,634	1,234
NONINTEREST EXPENSES		
Salaries and employee benefits	3,509	3,946
Occupancy and equipment expense	1,085	1,119
Advertising and public relations	121	98
Data processing and telecommunications	450	392
FDIC insurance premiums	414	421
Other real estate owned and repossessed vehicles, net	1,273	2,246

Other operating expenses	1,400	1,395
Total Noninterest Expenses	8,252	9,617
LOSS BEFORE INCOME TAXES	(1,141)	(2,606)
INCOME TAX EXPENSE (BENEFIT)	1,397	(931)
NET LOSS	$ (2,538)	$ (1,675)
Loss Per Share		
Basic	$ (0.25)	$ (0.17)
Fully Diluted	$ (0.25)	$ (0.17)
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.

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NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011

(IN THOUSANDS)

(UNAUDITED)

	2012	2011
Net Loss	$ (5,073)	$ (1,126)
Other comprehensive income (loss):		
Investment Securities Activity		
Unrealized gains (losses) arising during the period	214	126
Tax related to unrealized gains (losses)	(73)	(43)
Reclassification of realized (gains) during the period	(337)	
Tax related to realized gains	114	
Total other comprehensive income (loss)	(82)	83
Total comprehensive loss	$ (5,155)	$ (1,043)

The accompanying notes are an integral part of this statement.

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NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS EXCEPT PER SHARE AND SHARE DATA)

	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
ASSETS		
Cash and due from banks	$ 16,957	$ 18,306
Interest-bearing deposits with banks	54,029	72,170
Federal funds sold	2	77
Total Cash and Cash Equivalents	70,988	90,553
Investment securities		
Available-for-sale	46,187	32,434
Loans receivable	554,103	597,816
Allowance for loan losses	(18,065)	(18,380)
Net Loans	536,038	579,436
Bank premises and equipment, net	32,763	33,141
Equity securities (restricted)	3,348	3,573
Other real estate owned	11,597	15,092
Accrued interest receivable	2,648	3,067
Life insurance investments	11,801	11,351
Goodwill and other intangibles	81	123
Deferred taxes	5,645	7,220
Other assets	4,519	4,394
Total Assets	$ 725,615	$ 780,384
LIABILITIES		
Deposits:		
Demand deposits:		
Noninterest bearing	$ 108,799	$ 109,629
Interest-bearing	63,326	58,459
Savings deposits	91,820	94,569
Time deposits	405,392	445,658
Total Deposits	669,337	708,315
Federal Home Loan Bank advances	7,158	17,983
Accrued interest payable	1,954	1,796
Accrued expenses and other liabilities	1,502	1,471
Other borrowings	5,450	5,450
Trust preferred securities	16,496	16,496
Total Liabilities	701,897	751,511
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)	(18,158)	(13,085)
Accumulated other comprehensive income	167	249
Total Stockholders Equity	23,718	28,873
Total Liabilities and Stockholders Equity	$ 725,615	$ 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 SIX MONTHS ENDED JUNE 30, 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 loss				(1,126)		(1,126)	(1,126)
Unrealized gain on available-for-sale securities, net of $43 tax					83	83	83
Balance, June 30, 2011	10,010	$ 20,020	$ 21,689	$ (5,301)	$ 72	$ 36,480	(1,043)
Balance, December 31, 2011	10,010	$ 20,020	$ 21,689	$ (13,085)	$ 249	$ 28,873	
Net loss				(5,073)		(5,073)	(5,073)
Realized gains on available-for-sale securities, net of $114 tax					(223)	(223)	(223)
Unrealized gain on available-for-sale securities, net of $73 tax					141	141	141
Balance, June 30, 2012	10,010	$ 20,020	$ 21,689	$ (18,158)	$ 167	$ 23,718	(5,155)

The accompanying notes are an integral part of this statement.

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NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011

(IN THOUSANDS)

(UNAUDITED)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (5,073)	$ (1,126)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	1,277	1,245
Provision for loan losses	3,126	3,457
Income (less expenses) on life insurance	(450)	(176)
Gain on sale of securities available-for-sale	(337)	
(Gain) loss on sale of fixed assets	(5)	152
Loss on sale of foreclosed real estate	201	47
Adjustment of carrying value of foreclosed real estate	2,316	1,869
Accretion of bond premiums/discounts	238	4
Deferred tax expense	1,617	631
Amortization of core deposit intangible	42	58
Net change in:		
Interest receivable	419	332
Other assets	(125)	(2,452)
Accrued interest payable	158	75
Accrued expenses and other liabilities	31	(325)
Net Cash Provided by Operating Activities	3,435	3,791
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease in loans	35,911	30,655
Purchase of securities available-for-sale	(27,109)	(2,455)
Proceeds from sale and maturities of securities available-for-sale	13,331	2,853
Sale of Federal Home Loan Bank stock	225	145
Payments for the purchase of premises and equipment	(915)	(1,204)
Proceeds from sales of premises and equipment	21	168
Proceeds from sales of other real estate owned	5,339	2,655
Net Cash Provided by Investing Activities	26,803	32,817
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	(10,825)	(5,600)
Net change in:		
Demand deposits	4,037	10,544
Savings deposits	(2,749)	(8,127)
Time deposits	(40,266)	(27,344)
Net Cash Used in Financing Activities	(49,803)	(30,227)

Net (decrease) increase in cash and cash equivalents	(19,565)	6,381
Cash and Cash Equivalents, Beginning of Period	90,553	82,529
Cash and Cash Equivalents, End of Period	$ 70,988	$ 88,910
Supplemental Disclosure of Cash Paid During the Period for:		
Interest	$ 3,767	$ 5,441
Taxes	$	$
Supplemental Disclosure of Non Cash Transactions:		
Other real estate acquired in settlement of foreclosed loans	$ 4,361	$ 3,362

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 June 30, 2012, and the results of operations for the three month and six month periods ended June 30, 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 and six month periods ended June 30, 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 June 30, 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.

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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 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 June 30, 2012, the Company remained below the minimum capital requirements as a result of the Tier 1 leverage ratio decreasing to 3.72%, which was below the minimum requirement of 4.00%. As of June 30, 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 June 30, 2012 and December 31, 2011, respectively.

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars are in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2012:						
Total Capital to Risk Weighted Assets						
The Company	$ 41,632	9.07%	36,726	8%	$ N/A	N/A
The Bank	49,113	10.68%	36,788	8%	45,986	10%
Tier 1 Capital Risk Weighted Assets:						
The Company	27,558	6.00%	18,363	4%	N/A	N/A
The Bank	43,213	9.40%	18,394	4%	27,591	6%
Tier 1 Capital to Average Assets:						
The Company	27,558	3.72%	29,666	4%	N/A	N/A
The Bank	43,213	5.82%	29,703	4%	37,129	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:						
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%

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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%

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
June 30, 2012				
U.S. Government Agencies	$ 26,012	$ 260	$ 56	$ 26,216
Taxable municipals	856	5	5	856
Tax-exempt municipals				
Mortgage backed securities	19,066	92	43	19,115
Total Securities AFS	$ 45,934	$ 357	$ 104	$ 46,187
December 31, 2011				
U.S. Government Agencies	$ 21,405	$ 238	$ 10	$ 21,633
Taxable municipals	1,465	89	2	1,552
Tax-exempt municipals	1,043	11		1,054
Mortgage backed securities	8,144	67	16	8,195
Total Securities AFS	$ 32,057	$ 405	$ 28	$ 32,434

The following table details unrealized losses and related fair values in the available-for-sale portfolio. This information is aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2012 and December 31, 2011.

	Less than 12 Months		12 Months or More		Total	
(Dollars are in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2012						
U.S. Government Agencies	$ 7,125	$ 56	$	$	$ 7,125	$ 56
Taxable municipals	281	5			281	5
Mtg. backed securities	9,924	43			9,924	43
Total Securities AFS	$ 17,330	$ 104	$	$	$ 17,330	$ 104
December 31, 2011						
U.S. Government Agencies	$ 5,592	$ 10	$	$	$ 5,592	$ 10
Taxable municipals	572	2			572	2
Mtg. backed securities	4,055	16			4,055	16
Total Securities AFS	$ 10,219	$ 28	$	$	$ 10,219	$ 28

At June 30, 2012, the available-for-sale portfolio included twenty one investments for which the fair market value was less than amortized cost. At December 31, 2011, the available-for-sale portfolio included eleven investments for which the fair market value was less than amortized cost. Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial conditions and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. No securities had an other than temporary impairment.

The amortized cost and fair value of investment securities at June 30, 2012, by contractual maturity, are shown in the following schedule. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars are in thousands) Securities Available for Sale	Amortized Cost	Fair Value	Weighted Average Yield
Due in one year or less	$	$	%
Due after one year through five years	1,527	1,529	1.02%
Due after five years through fifteen years	11,764	11,771	1.75%
Due after fifteen years	32,643	32,887	2.21%
Total	$ 45,934	$ 46,187	2.05%

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Investment securities with a carrying value of $19.6 million and $15.7 million at June 30, 2012 and December 31, 2011, were pledged to secure public deposits, overnight payment processing and for other purposes required by law.

The Bank, as a member of the Federal Reserve Bank and the Federal Home Loan Bank, is required to hold stock in each. These equity securities are restricted from trading and are recorded at a cost of $3.3 million and $3.6 million as of June 30, 2012 and December 31, 2011, respectively.

NOTE 6 LOANS:

Loans receivable outstanding are summarized as follows:

(Dollars are in thousands)	June 30, 2012	December 31, 2011
Real estate secured:		
Commercial	$ 160,710	$ 170,789
Construction and land development	25,288	32,389
Residential 1-4 family	244,520	255,998
Multifamily	12,944	14,320
Farmland	38,099	40,106
Total real estate loans	481,561	513,602
Commercial	33,677	39,327
Agriculture	5,287	6,147
Consumer installment loans	33,381	38,522
All other loans	197	218
Total loans	$ 554,103	$ 597,816

Loans receivable on nonaccrual status are summarized as follows:

(Dollars are in thousands)	June 30, 2012	December 31, 2011
Real estate secured:		
Commercial	$ 20,703	$ 19,169
Construction and land development	2,621	5,583
Residential 1-4 family	3,744	4,829
Multifamily	1,664	2,101
Farmland	9,075	5,257
Total real estate loans	37,807	36,939
Commercial	2,757	4,522
Agriculture	750	854
Consumer installment loans	15	1
All other loans		
Total loans receivable on nonaccrual status	$ 41,329	$ 42,316

Total interest income not recognized on nonaccrual loans for six months ended June 30, 2012 and 2011 was $777 thousand and $1.1 million, respectively.

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The following table presents information concerning the Company s investment in loans considered impaired as of June 30, 2012 and December 31, 2011:

As of June 30, 2012 (Dollars are in thousands)	Average Recorded Investment	Interest Income Recognized	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:					
Real estate secured:					
Commercial	$ 30,406	$ 539	$ 27,096	$ 30,208	$
Construction and land development	5,340	59	4,054	8,913	
Residential 1-4 family	8,421	218	8,330	8,580	
Multifamily	994	36	1,205	1,205	
Farmland	8,433	(88)	8,828	9,182	
Commercial	3,116	40	2,791	3,369	
Agriculture	579	8	617	617	
Consumer installment loans	68	7	140	140	
All other loans					
With an allowance recorded:					
Real estate secured:					
Commercial	14,739	151	16,677	17,339	3,778
Construction and land development	2,091	38	1,620	1,763	284
Residential 1-4 family	6,274	85	4,421	4,503	690
Multifamily	1,200	9	1,787	1,831	490
Farmland	5,658	37	4,352	4,436	788
Commercial	1,723	9	1,445	1,477	244
Agriculture	504		263	271	64
Consumer installment loans	93	3	60	60	18
All other loans					
Total	$ 89,639	$ 1,151	$ 83,686	$ 93,894	$ 6,356

As of December 31, 2011 (Dollars are in thousands)	Average Recorded Investment	Interest Income Recognized	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:					
Real estate secured:					
Commercial	$ 32,370	$ 1,356	$ 31,633	$ 33,175	$
Construction and land development	14,288	125	6,954	12,838	
Residential 1-4 family	6,406	315	8,221	8,296	
Multifamily	619	31	613	613	
Farmland	13,005	435	10,364	10,554	
Commercial	2,958	60	3,529	4,070	
Agriculture	396	1	521	817	
Consumer installment loans	4	1	9	9	
All other loans					
With an allowance recorded:					
Real estate secured:					
Commercial	9,887	691	14,482	14,973	2,794
Construction and land development	2,917	87	2,289	2,310	474
Residential 1-4 family	5,111	277	6,473	6,764	1,052
Multifamily					
Farmland	2,354	119	4,192	4,192	605
Commercial	1,982	75	1,857	1,857	649

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Agriculture	758	28	641	641	448
Consumer installment loans	41	3	43	43	24
All other loans					
Total	$ 93,096	$ 3,604	$ 91,821	$ 101,152	$ 6,046

An age analysis of past due loans receivable was as follows:

As of June 30, 2012 (Dollars are in thousands)	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Real estate secured:							
Commercial	$ 5,386	$ 1,314	$ 10,422	$ 17,122	$ 143,588	$ 160,710	$
Construction and land development	730	142	510	1,382	23,906	25,288	48
Residential 1-4 family	8,275	1,964	4,006	14,245	230,275	244,520	2,880
Multifamily	163	1,842		2,005	10,939	12,944	
Farmland	533	506	7,057	8,096	30,003	38,099	
Total real estate loans	15,087	5,768	21,995	42,850	438,711	481,561	2,928
Commercial	377	73	2,134	2,584	31,093	33,677	62
Agriculture	162	15	306	483	4,804	5,287	
Consumer installment Loans	666	59	58	783	32,598	33,381	47
All other loans	12	3	7	22	175	197	7
Total loans	$ 16,304	$ 5,918	$ 24,500	$ 46,722	$ 507,381	$ 554,103	$ 3,044

As of December 31, 2011 (Dollars are in thousands)	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Real estate secured:							
Commercial	$ 9,754	$ 2,294	$ 7,771	$ 19,819	$ 150,970	$ 170,789	$
Construction and land development	595	238	5,280	6,113	26,276	32,389	
Residential 1-4 family	9,471	1,412	4,101	14,984	241,014	255,998	1,129
Multifamily		1,777	218	1,995	12,325	14,320	
Farmland	2,841	624	3,800	7,265	32,841	40,106	
Total real estate loans	22,661	6,345	21,170	50,176	463,426	513,602	1,129
Commercial	551	34	2,938	3,523	35,804	39,327	117
Agriculture	268	88	458	814	5,333	6,147	3
Consumer installment Loans	822	133	221	1,176	37,346	38,522	222
All other loans	26	9	33	68	150	218	33

Total loans	$ 24,328	$ 6,609	$ 24,820	$ 55,757	$ 542,059	$ 597,816	$ 1,504

The Company categorizes loans receivable into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans and leases individually by classifying the loans receivable as to credit risk. The Company uses the following definitions for risk ratings:

Pass Loans in this category are considered to have a low likelihood of loss based on relevant information analyzed about the ability of the borrowers to service their debt and other factors.

Special Mention Loans in this category are currently protected but are potentially weak, including adverse trends in borrower s operations, credit quality or financial strength. Those loans constitute an undue and unwarranted credit risk but not to the point of justifying a substandard classification. The credit risk may be relatively minor yet constitute an unwarranted risk in light of the circumstances. Special mention loans have potential weaknesses which may, if not checked or corrected, weaken the loan or inadequately protect the Company s credit position at some future date.

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Substandard A substandard loan is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt; they are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful Loans classified Doubtful have all the weaknesses inherent in loans classified 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.

Based on the most recent analysis performed, the risk category of loans receivable was as follows:

As of June 30, 2012

(Dollars are in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real estate secured:					
Commercial	$ 105,571	$ 18,353	$ 36,642	$ 144	$ 160,710
Construction and land development	18,039	1,300	5,949		25,288
Residential 1-4 family	198,904	15,348	28,958	1,310	244,520
Multifamily	9,759	465	2,720		12,944
Farmland	22,954	1,725	13,420		38,099
Total real estate loans	355,227	37,191	87,689	1,454	481,561
Commercial	25,109	4,635	3,236	697	33,677
Agriculture	4,118	234	932	3	5,287
Consumer installment loans	31,567	608	1,128	78	33,381
All other loans	197				197
Total	$ 416,218	$ 42,668	$ 92,985	$ 2,232	$ 554,103

As of December 31, 2011

(Dollars are in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real estate secured:					
Commercial	$ 112,694	$ 18,377	$ 39,573	$ 145	$ 170,789
Construction and land development	23,203	1,224	7,962		32,389
Residential 1-4 family	209,863	17,137	27,730	1,268	255,998
Multifamily	11,727	1,909	684		14,320
Farmland	21,715	4,957	13,022	412	40,106
Total real estate loans	379,202	43,604	88,971	1,825	513,602
Commercial	32,018	2,045	4,227	1,037	39,327
Agriculture	4,743	678	726		6,147
Consumer installment loans	36,107	900	1,484	31	38,522
All other loans	218				218
Total	$ 452,288	$ 47,227	$ 95,408	$ 2,893	$ 597,816

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NOTE 7 ALLOWANCE FOR LOAN LOSSES:

The following table details activity in the allowance for loan losses by portfolio segment for the period ended June 30, 2012. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

As of June 30, 2012

(Dollars are in thousands)	Beginning Balance	Charge Offs	Recoveries	Advances	Provisions	Ending Balance
Real estate secured:						
Commercial	$ 5,671	$ (1,679)	$ 1	$	$ 3,073	$ 7,066
Construction and land development	3,848	(280)	69		(734)	2,903
Residential 1-4 family	3,759	(679)	24		235	3,339
Multifamily	148				426	574
Farmland	951	(187)			383	1,147
Total real estate loans	14,377	(2,825)	94		3,383	15,029
Commercial	1,883	(625)	55		291	1,604
Agriculture	486	(2)	11		(78)	417
Consumer installment loans	781	(174)	25		(140)	492
All other loans	2				(1)	1
Unallocated	851				(329)	522
Total	$ 18,380	$ (3,626)	$ 185	$	$ 3,126	$ 18,065

As of June 30, 2012	Allowance for Loan Losses			Recorded Investment in Loans		
(Dollars are in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Real estate secured:						
Commercial	$ 3,778	$ 3,288	$ 7,066	$ 43,773	$ 116,937	$ 160,710
Construction and land development	284	2,619	2,903	5,674	19,614	25,288
Residential 1-4 family	690	2,649	3,339	12,751	231,769	244,520
Multifamily	490	84	574	2,992	9,952	12,944
Farmland	788	359	1,147	13,180	24,919	38,099
Total real estate loans	6,030	8,999	15,029	78,370	403,191	481,561
Commercial	244	1,360	1,604	4,236	29,441	33,677
Agriculture	64	353	417	880	4,407	5,287
Consumer installment loans	18	474	492	200	33,181	33,381
All other loans		1	1		197	197
Unallocated		522	522			
Total	$ 6,356	$ 11,709	$ 18,065	$ 83,686	$ 470,417	$ 554,103

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The following table details activity in the allowance for loan losses by portfolio segment for the period ended December 31, 2011. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

As of December 31, 2011

(Dollars are in thousands)	Beginning Balance	Charge Offs	Recoveries	Advances	Provisions	Ending Balance
Real estate secured:						
Commercial	$ 5,141	$ (4,147)	$ 877	$	$ 3,800	$ 5,671
Construction and land development	4,913	(7,245)	1,296	153	4,731	3,848
Residential 1-4 family	1,699	(1,299)	141		3,218	3,759
Multifamily	42				106	148
Farmland	922	(511)	66		474	951
Total real estate loans	12,717	(13,202)	2,380	153	12,329	14,377
Commercial	3,281	(2,480)	140		942	1,883
Agriculture	1,120	(1,031)	18		379	486
Consumer installment loans	1,733	(694)	123		(381)	781
All other loans					2	2
Unallocated	6,163				(5,312)	851
Total	$ 25,014	$ (17,407)	$ 2,661	$ 153	$ 7,959	$ 18,380

As of December 31, 2011	Allowance for Loan Losses			Recorded Investment in Loans		
(Dollars are in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Real estate secured:						
Commercial	$ 2,794	$ 2,877	$ 5,671	$ 46,115	$ 124,674	$ 170,789
Construction and land development	474	3,374	3,848	9,243	23,146	32,389
Residential 1-4 family	1,052	2,707	3,759	14,694	241,304	255,998
Multifamily		148	148	613	13,707	14,320
Farmland	605	346	951	14,556	25,550	40,106
Total real estate loans	4,925	9,452	14,377	85,221	428,381	513,602
Commercial	649	1,234	1,883	5,386	33,941	39,327
Agriculture	448	38	486	1,162	4,985	6,147
Consumer installment loans	24	757	781	52	38,470	38,522
All other loans		2	2		218	218
Unallocated		851	851			
Total	$ 6,046	$ 12,334	$ 18,380	$ 91,821	$ 505,995	$ 597,816

In determining the amount of our allowance, we rely on an analysis of our loan portfolio, our experience and our evaluation of general economic conditions, as well as the requirements of the written agreement and other regulatory input. If our assumptions prove to be incorrect, our current allowance may not be sufficient to cover future loan losses and we may experience significant increases to our provision.

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NOTE 8 TROUBLED DEBT RESTRUCTURINGS:

The following table presents information related to loans modified as troubled debt restructurings during the six and three months ended June 30, 2012 and 2011.

Troubled Debt Restructurings (Dollars are in thousands)	For the six months ended June 30, 2012			For the six months ended June 30, 2011		
	# of Loans	Pre-Mod. Recorded Investment	Post-Mod. Recorded Investment	# of Loans	Pre-Mod. Recorded Investment	Post-Mod. Recorded Investment
Real estate secured:						
Commercial	7	$ 991	$ 988	5	$ 3,779	$ 3,770
Construction and land Development				1	29	29
Residential 1-4 family	35	2,052	2,038	4	329	329
Multifamily						
Farmland						
Total real estate loans	42	3,043	3,026	10	4,137	4,128
Commercial				1	37	35
Agriculture				1	300	300
Consumer installment loans	3	25	21	4	67	65
All other loans						
Total	45	$ 3,068	$ 3,047	16	$ 4,541	$ 4,528

Troubled Debt Restructurings (Dollars are in thousands)	For the three months ended June 30, 2012			For the three months ended June 30, 2011		
	# of Loans	Pre-Mod. Recorded Investment	Post-Mod. Recorded Investment	# of Loans	Pre-Mod. Recorded Investment	Post-Mod. Recorded Investment
Real estate secured:						
Commercial		$	$	3	$ 803	$ 803
Construction and land Development				1	29	29
Residential 1-4 family	34	2,002	1,989	3	205	205
Multifamily						
Farmland						
Total real estate loans	34	2,002	1,989	7	1,037	1,037
Commercial						
Agriculture						
Consumer installment loans						
All other loans						
Total	34	$ 2,002	$ 1,989	7	$ 1,037	$ 1,037

During the six months ended June 30, 2012, the Company modified 45 loans that were considered to be troubled debt restructurings. We extended the terms for 6 of these loans and the interest rate was lowered for 35 of these loans. During the six months ended June 30, 2011, the Company modified 16 loans that were considered to be troubled debt restructurings. We extended the terms for 11 of these loans and the interest rate was lowered for 8 of these loans.

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The following table presents information related to loans to modified as a troubled debt restructurings that defaulted during the six and three months ended June 30, 2012 and 2011, and within twelve months of their modification date. A troubled debt restructuring is considered to be in default once it becomes 90 days or more past due following a modification.

Troubled Debt Restructurings That Subsequently Defaulted During the Period	For the six months ended June 30, 2012		For the six months ended June 30, 2011	
(Dollars are in thousands)	# of Loans	Recorded Investment	# of Loans	Recorded Investment
Real estate secured:				
Commercial	4	$ 2,029		$
Construction and land development				
Residential 1-4 family	1	113		
Multifamily				
Farmland				
Total real estate loans	5	2,142		
Commercial				
Agriculture	1	300		
Consumer installment loans				
All other loans				
Total	6	$ 2,442		$

Troubled Debt Restructurings That Subsequently Defaulted During the Period	For the three months ended June 30, 2012		For the three months ended June 30, 2011	
(Dollars are in thousands)	# of Loans	Recorded Investment	# of Loans	Recorded Investment
Real estate secured:				
Commercial	1	$ 274		$
Construction and land development				
Residential 1-4 family				
Multifamily				
Farmland				
Total real estate loans	1	274		
Commercial				
Agriculture				
Consumer installment loans				
All other loans				
Total	1	$ 274		$

In determination of the allowance for loan losses, management considers troubled debt restructurings and subsequent defaults in these restructurings in its estimate. The Company evaluates all troubled debt restructurings for possible further impairment. As a result, the allowance may be increased, adjustments may be made in the allocation of the allowance, or charge-offs may be taken to further writedown the carrying value of the loan. At June 30, 2012 there were $26.8 million in loans that are classified as troubled debt restructurings compared to $29.1 million at December 31, 2011.

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NOTE 9 EARNINGS PER SHARE:

Basic earnings per share computations are based on the weighted average number of shares outstanding during each year. Dilutive earnings per share reflect the additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued relate to outstanding options and are determined by the Treasury method. For the three and six months ended June 30, 2012 and 2011, potential common shares were anti-dilutive and were not included in the calculation. Basic and diluted net loss per common share calculations follows:

(Amounts in Thousands, Except Share and Per Share Data)	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Net loss	$ (2,538)	$ (1,675)	$ (5,073)	$ (1,126)
Weighted average shares outstanding	10,010,178	10,010,178	10,010,178	10,010,178
Dilutive shares for stock options				
Weighted average dilutive shares outstanding	10,010,178	10,010,178	10,010,178	10,010,178
Basic loss per share	$ (0.25)	$ (0.17)	$ (0.51)	$ (0.11)
Diluted loss per share	$ (0.25)	$ (0.17)	$ (0.51)	$ (0.11)

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NOTE 10 FAIR VALUES:

Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures provides a framework for measuring fair value under generally accepted accounting principles and requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available for sale investment securities) or on a nonrecurring basis (for example, impaired loans and other real estate acquired through foreclosure).

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair Value Measurements and Disclosures also establishes fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an exchange market, as well as U. S. Treasury, other U. S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain derivative contracts and impaired loans.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. For example, this category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights, and highly structured or long-term derivative contracts.

Investment Securities Available for Sale Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices. The Company s available for sale securities, totaling $46.2 million and $32.4 million at June 30, 2012 and December 31, 2011, respectively, are the only assets whose fair values are measured on a recurring basis using Level 2 inputs from an independent pricing service.

Loans The Company does not record loans at fair value on a recurring basis. The Company is predominantly an asset based lender with real estate serving as collateral on a substantial majority of loans. From time to time a loan is considered impaired and an allowance for loan losses is established. Loans which are deemed to be impaired and require a reserve are primarily valued on a non-recurring basis at the fair values of the underlying real estate collateral. Such fair values are obtained using independent appraisals, which management evaluates and determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, or an appraised value does not include estimated costs of disposition and management must make an estimate, the Company records the impaired loan as nonrecurring Level 3. The aggregate carrying amount of impaired loans carried at fair value were $77.3 million and $85.8 million at June 30, 2012 and December 31, 2011, respectively.

Foreclosed Assets Foreclosed assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Foreclosed assets are carried at the lower of the carrying value or fair value. Fair value is based upon independent observable market prices or appraised values of the collateral with a third party estimate of disposition costs, which the Company considers to be level 2 inputs. When the appraised value is not available, management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, or an appraised value does not include estimated costs of disposition and management must make an estimate, the Company records the foreclosed asset as nonrecurring Level 3. The aggregate carrying amounts of foreclosed assets were $11.6 million and $15.1 million at June 30, 2012 and December 31, 2011, respectively.

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Assets and liabilities measured at fair value are as follows as of June 30, 2012 (for purpose of this table the impaired loans are shown net of the related allowance):

(Dollars are in thousands)	Quoted market price in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
(On a recurring basis)			
Available for sale investments			
U.S. Government Agencies	$	$ 26,216	$
Taxable municipals		856	