NEW PEOPLES BANKSHARES INC
Form 10-Q
May 10, 2013
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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, 2013

¨ **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	**(I.R.S. Employer**
incorporation or organization)	**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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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	x

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

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 May 9, 2013
Common Stock, $2.00 par value	21,871,063

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

NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012

(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

(UNAUDITED)

	2013	2012
INTEREST AND DIVIDEND INCOME		
Loans including fees	$ 7,253	$ 8,748
Federal funds sold	1	
Interest-earning deposits with banks	50	47
Investments	197	201
Dividends on equity securities (restricted)	28	26
Total Interest and Dividend Income	7,529	9,022
INTEREST EXPENSE		
Deposits		
Demand	30	26
Savings	68	62
Time deposits below $100,000	582	875
Time deposits above $100,000	406	587
FHLB Advances	64	181
Other borrowings		44
Trust Preferred Securities	113	122
Total Interest Expense	1,263	1,897
NET INTEREST INCOME	6,266	7,125
PROVISION FOR LOAN LOSSES	550	1,950
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,716	5,175
NONINTEREST INCOME		
Service charges	533	557
Fees, commissions and other income	721	615
Insurance and investment fees	77	109
Net realized gains on sale of investment securities	99	72
Life insurance investment income	39	114
Total Noninterest Income	1,469	1,467
NONINTEREST EXPENSES		

Salaries and employee benefits		3,446		3,598
Occupancy and equipment expense		1,081		1,099
Advertising and public relations		73		90
Data processing and telecommunications		411		439
FDIC insurance premiums		376		431
Other real estate owned and repossessed vehicles, net		377		1,974
Other operating expenses		1,255		1,356
Total Noninterest Expenses		7,019		8,987
INCOME (LOSS) BEFORE INCOME TAXES		166		(2,345)
INCOME TAX EXPENSE		19		190
NET INCOME (LOSS)	$	147	$	(2,535)
Income (Loss) Per Share				
Basic	$	0.01	$	(0.25)
Fully Diluted	$	0.01	$	(0.25)
Average Weighted Shares of Common Stock				
Basic		21,868,458		10,010,178
Fully Diluted		21,868,458		10,010,178

The accompany notes are an integral part of this statement.

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NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012

(IN THOUSANDS)

(UNAUDITED)

	2013	2012
NET INCOME (LOSS)	$ 147	$ (2,535)
Other comprehensive income (loss):		
Investment Securities Activity		
Unrealized losses arising during the period	(147)	(182)
Tax related to unrealized losses	50	62
Reclassification of realized gains during the period	(99)	(72)
Tax related to realized gains	33	24
TOTAL OTHER COMPREHENSIVE LOSS	(163)	(168)
TOTAL COMPREHENSIVE LOSS	$ (16)	$ (2,703)

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)

	March 31, 2013 (Unaudited)	December 31, 2012 (Audited)
ASSETS		
Cash and due from banks	$ 16,850	$ 17,517
Interest-bearing deposits with banks	69,922	76,590
Federal funds sold	1,012	2
Total Cash and Cash Equivalents	87,784	94,109
Investment securities		
Available-for-sale	54,129	49,615
Loans receivable	511,376	522,363
Allowance for loan losses	(14,944)	(16,810)
Net Loans	496,432	505,553
Bank premises and equipment, net	31,284	31,190
Equity securities (restricted)	2,704	2,803
Other real estate owned	13,781	13,869
Accrued interest receivable	2,203	2,374
Life insurance investments	12,003	11,964
Goodwill and other intangibles	39	53
Deferred taxes	4,734	4,686
Other assets	2,651	2,799
Total Assets	$ 707,744	$ 719,015
LIABILITIES		
Deposits:		
Demand deposits:		
Noninterest bearing	$ 103,855	$ 98,432
Interest-bearing	69,079	68,665
Savings deposits	103,559	113,280
Time deposits	364,802	372,473
Total Deposits	641,295	652,850
Federal Home Loan Bank advances	6,258	6,558
Accrued interest payable	1,974	1,880
Accrued expenses and other liabilities	1,892	1,365
Trust preferred securities	16,496	16,496
Total Liabilities	667,915	679,149

Commitments and contingencies		
STOCKHOLDERS EQUITY		
Common stock $2.00 par value; 50,000,000 shares authorized; 21,871,063 and 21,865,535 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	43,742	43,731
Common stock warrants	2,051	2,056
Additional paid-in-capital	13,054	13,081
Retained earnings (deficit)	(19,262)	(19,409)
Accumulated other comprehensive income	244	407
Total Stockholders Equity	39,829	39,866
Total Liabilities and Stockholders Equity	$ 707,744	$ 719,015

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, 2013 AND 2012

(IN THOUSANDS INCLUDING SHARE DATA)

(UNAUDITED)

	Shares of Common Stock	Common Stock	Common Stock Warrants	Additional Paid-in-Capital	Retained Earnings (Deficit)	Accum-ulated Other Compre-hensive Income (Loss)	Total Stockholders Equity
Balance, December 31, 2011	10,010	$ 20,020	$	$ 21,689	$ (13,085)	$ 249	$ 28,873
Net loss					(2,535)		(2,535)
Realized gains on available-for-sale securities, net of $24 tax						(48)	(48)
Unrealized loss on available-for-sale securities, net of $62 tax						(120)	(120)
Balance, March 31, 2012	10,010	$ 20,020	$	$ 21,689	$ (15,620)	$ 81	$ 26,170
Balance, December 31, 2012	21,866	$ 43,731	$ 2,056	$ 13,081	$ (19,409)	$ 407	$ 39,866
Net income					147		147
Exercise of Common Stock Warrants	5	11	(5)	5			11
Stock offering costs				(32)			(32)
Realized gains on available-for-sale securities, net of $33 tax						(66)	(66)
Unrealized loss on available-for-sale securities, net of $50 tax						(97)	(97)
Balance, March 31, 2013	21,871	$ 43,742	$ 2,051	13,054	$ (19,262)	$ 244	$ 39,829

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 THREE MONTHS ENDED MARCH 31, 2013 AND 2012

(IN THOUSANDS)

(UNAUDITED)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 147	$ (2,535)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	611	642
Provision for loan losses	550	1,950
Income (less expenses) on life insurance	(39)	(114)
Gain on sale of securities available-for-sale	(99)	(72)
(Gain) loss on sale of fixed assets	29	(3)
Loss (gain) on sale of foreclosed real estate	(12)	63
Adjustment of carrying value of foreclosed real estate	151	1,410
Accretion of bond premiums/discounts	199	104
Deferred tax expense	35	220
Amortization of core deposit intangible	14	21
Net change in:		
Interest receivable	171	362
Other assets	148	(1,171)
Accrued interest payable	94	77
Accrued expenses and other liabilities	527	219
Net Cash Provided by Operating Activities	2,526	1,173
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease in loans	7,235	18,418
Purchase of securities available-for-sale	(11,693)	(14,554)
Proceeds from sale and maturities of securities available-for-sale	6,833	3,205
Sale of Federal Home Loan Bank stock	309	
Purchase of Federal Reserve Bank stock	(210)	
Payments for the purchase of premises and equipment	(739)	(414)
Proceeds from sales of premises and equipment	5	19
Proceeds from sales of other real estate owned	1,285	1,957
Net Cash Provided by Investing Activities	3,025	8,631
CASH FLOWS FROM FINANCING ACTIVITIES		
Exercise of common stock warrants	11	
Stock offering costs	(32)	
Repayments to Federal Home Loan Bank	(300)	(300)
Net change in:		
Demand deposits	5,837	6,718
Savings deposits	(9,721)	4,292
Time deposits	(7,671)	(20,240)

Net Cash Used in Financing Activities	(11,876)	(9,530)
Net (decrease) increase in cash and cash equivalents	(6,325)	274
Cash and Cash Equivalents, Beginning of Period	94,109	90,553
Cash and Cash Equivalents, End of Period	$ 87,784	$ 90,827
Supplemental Disclosure of Cash Paid During the Period for:		
Interest	$ 1,357	$ 1,974
Taxes	$	$
Supplemental Disclosure of Non Cash Transactions:		
Other real estate acquired in settlement of foreclosed loans	$ 1,336	$ 3,347

The accompanying notes are an integral part of this statement.

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. In June 2012 the name of NPB Financial Services, Inc. was changed to NPB Insurance Services, Inc. which operates solely as an insurance agency.

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, 2013, and the results of operations for the three month periods ended March 31, 2013 and 2012. 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, 2012. The results of operations for the three month periods ended March 31, 2013 and 2012 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 and the determination of the deferred tax asset and valuation allowance are 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, 2013, 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 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:
Capital Requirements and Ratios

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). Management believes that, as of March 31, 2013, the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of March 31, 2013 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, 2013 and December 31, 2012, 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
March 31, 2013:						
Total Capital to Risk Weighted Assets						
The Company	$ 57,783	13.65%	33,861	8%	$ N/A	N/A
The Bank	55,474	13.08%	33,922	8%	42,403	10%
Tier 1 Capital Risk Weighted Assets:						
The Company	49,555	11.71%	16,931	4%	N/A	N/A
The Bank	50,055	11.80%	16,961	4%	25,442	6%
Tier 1 Capital to Average Assets:						
The Company	49,555	6.97%	28,420	4%	N/A	N/A
The Bank	50,055	7.04%	28,456	4%	35,570	5%
December 31, 2012:						
Total Capital to Risk Weighted Assets						
The Company	$ 57,894	13.51%	34,291	8%	$ N/A	N/A
The Bank	55,315	12.88%	34,353	8%	42,941	10%
Tier 1 Capital Risk Weighted Assets:						

The Company	49,530	11.56%	17,146	4%	N/A	N/A
The Bank	49,806	11.60%	17,176	4%	25,765	6%
Tier 1 Capital to Average Assets:						
The Company	49,530	7.05%	28,092	4%	N/A	N/A
The Bank	49,806	7.08%	28,120	4%	35,150	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
March 31, 2013				
U.S. Government Agencies	$ 22,616	$ 343	$ 6	$ 22,953
Taxable municipals				
Tax-exempt municipals				
Mortgage backed securities	31,142	140	106	31,176
Total Securities AFS	$ 53,758	$ 483	$ 112	$ 54,129
December 31, 2012				
U.S. Government Agencies	$ 23,177	$ 473	$ 13	$ 23,637
Taxable municipals				
Tax-exempt municipals				
Mortgage backed securities	25,822	210	54	25,978
Total Securities AFS	$ 48,999	$ 683	$ 67	$ 49,615

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 March 31, 2013 and December 31, 2012.

	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
March 31, 2013						
U.S. Government Agencies	$ 2,573	$ 4	$ 682	$ 2	$ 3,255	$ 6
Mtg. backed securities	17,101	106			17,101	106
Total Securities AFS	$ 19,674	$ 110	$ 682	$ 2	$ 20,356	$ 112
December 31, 2012						
U.S. Government Agencies	$ 2,931	$ 13	$	$	$ 2,931	$ 13
Mtg. backed securities	7,491	54			7,491	54
Total Securities AFS	$ 10,422	$ 67	$	$	$ 10,422	$ 67

At March 31, 2013, the available-for-sale portfolio included twenty four investments for which the fair market value was less than amortized cost. At December 31, 2012, the available-for-sale portfolio included ten 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 March 31, 2013, 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	1,456	1,466	0.98%
Due after five years through fifteen years	12,094	12,145	1.55%
Due after fifteen years	40,208	40,518	1.78%
Total	$ 53,758	$ 54,129	1.71%

Investment securities with a carrying value of $18.1 million and $18.4 million at March 31, 2013 and December 31, 2012, 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 $2.7 million and $2.8 million as of March 31, 2013 and December 31, 2012, respectively.

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NOTE 6 LOANS:

Loans receivable outstanding are summarized as follows:

(Dollars are in thousands)	March 31, 2013	December 31, 2012
Real estate secured:		
Commercial	$ 144,880	$ 149,935
Construction and land development	22,945	24,327
Residential 1-4 family	240,514	240,201
Multifamily	13,343	12,567
Farmland	31,895	33,068
Total real estate loans	453,577	460,098
Commercial	25,995	28,314
Agriculture	4,457	4,328
Consumer installment loans	27,179	29,445
All other loans	168	178
Total loans	$ 511,376	$ 522,363

Loans receivable on nonaccrual status are summarized as follows:

(Dollars are in thousands)	March 31, 2013	December 31, 2012
Real estate secured:		
Commercial	$ 14,496	$ 16,308
Construction and land development	2,707	2,412
Residential 1-4 family	4,588	3,403
Multifamily	442	442
Farmland	6,359	7,750
Total real estate loans	28,592	30,315
Commercial	1,964	2,762
Agriculture	149	450
Consumer installment loans	59	9
All other loans		
Total loans receivable on nonaccrual status	$ 30,764	$ 33,536

Total interest income not recognized on nonaccrual loans for three months ended March 31, 2013 and 2012 was $94 thousand and $439 thousand, respectively.

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The following table presents information concerning the Company s investment in loans considered impaired as of March 31, 2013 and December 31, 2012:

As of March 31, 2013 (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	$ 18,525	$ 136	$ 16,661	$ 17,292	$
Construction and land development	3,339	18	2,918	7,776	
Residential 1-4 family	6,080	87	5,852	6,286	
Multifamily	1,063	22	1,198	1,268	
Farmland	3,832	16	3,289	3,756	
Commercial	1,315	9	1,519	1,825	
Agriculture	72	2	34	34	
Consumer installment loans	95	2	92	92	
All other loans					
With an allowance recorded:					
Real estate secured:					
Commercial	13,561	115	13,626	13,955	2,583
Construction and land development	533	9	272	394	18
Residential 1-4 family	3,074	27	2,317	2,332	337
Multifamily	1,074	2	119	119	12
Farmland	5,407	26	5,112	5,492	231
Commercial	1,117	(2)	353	455	161
Agriculture	239	3	125	125	10
Consumer installment loans	33	1	38	38	16
All other loans					
Total	$ 59,359	$ 473	$ 53,525	$ 61,239	$ 3,368

As of December 31, 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	$ 26,662	$ 829	$ 20,389	$ 21,434	$
Construction and land development	4,759	118	3,759	8,618	
Residential 1-4 family	7,824	227	6,308	6,567	
Multifamily	1,021	44	928	998	
Farmland	7,748	168	4,375	4,810	
Commercial	2,499	18	1,111	1,147	
Agriculture	463	7	109	109	
Consumer installment loans	83	10	98	98	
All other loans					
With an allowance recorded:					
Real estate secured:					
Commercial	14,770	347	13,495	14,014	3,196
Construction and land development	1,728	41	793	945	177
Residential 1-4 family	5,473	203	3,830	3,836	577

Multifamily	1,589	68	2,028	2,096	456
Farmland	4,972	(123)	5,702	5,714	635
Commercial	1,689	19	1,881	1,885	491
Agriculture	373	3	353	353	308
Consumer installment loans	69	3	27	27	16
All other loans					
Total	$ 81,722	$ 1,982	$ 65,186	$ 72,651	$ 5,856

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

As of March 31, 2013 (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	$ 2,151	$	$ 5,406	$ 7,557	$ 137,323	$ 144,880	$
Construction and land development	188	17	1,912	2,117	20,828	22,945	
Residential 1-4 family	3,909	1,068	2,566	7,543	232,971	240,514	
Multifamily	90		442	532	12,811	13,343	
Farmland	636		5,422	6,058	25,837	31,895	
Total real estate loans	6,974	1,085	15,748	23,807	429,770	453,577	
Commercial	334	39	922	1,295	24,700	25,995	
Agriculture		25	9	34	4,423	4,457	
Consumer installment Loans	161	40	23	224	26,955	27,179	
All other loans	12	3		15	153	168	
Total loans	$ 7,481	$ 1,192	$ 16,702	$ 25,375	$ 486,001	$ 511,376	$

As of December 31, 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	$ 4,164	$ 998	$ 8,889	$ 14,051	$ 135,884	$ 149,935	$
Construction and land development	653		254	907	23,420	24,327	
Residential 1-4 family	9,031	861	3,027	12,919	227,282	240,201	304
Multifamily	90		442	532	12,035	12,567	
Farmland	1,777		5,871	7,648	25,420	33,068	191
Total real estate loans	15,715	1,859	18,483	36,057	424,041	460,098	495
Commercial	135	12	2,104	2,251	26,063	28,314	2
Agriculture	117	12	360	489	3,839	4,328	
Consumer installment Loans	506	66	55	627	28,818	29,445	54
All other loans	19	7		26	152	178	
Total loans	$ 16,492	$ 1,956	$ 21,002	$ 39,450	$ 482,913	$ 522,363	$ 551

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.

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.

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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 March 31, 2013

(Dollars are in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real estate secured:					
Commercial	$ 115,557	$ 5,841	$ 23,399	$ 83	$ 144,880
Construction and land development	17,111	2,070	3,764		22,945
Residential 1-4 family	222,736	4,396	12,897	485	240,514
Multifamily	10,565	175	2,603		13,343
Farmland	21,135	1,870	8,890		31,895
Total real estate loans	387,104	14,352	51,553	568	453,577
Commercial	23,134	756	2,066	39	25,995
Agriculture	4,273	37	147		4,457
Consumer installment loans	26,935	16	224	4	27,179
All other loans	168				168
Total	$ 441,614	$ 15,161	$ 53,990	$ 611	$ 511,376

As of December 31, 2012

(Dollars are in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real estate secured:					
Commercial	$ 117,945	$ 5,782	$ 26,120	$ 88	$ 149,935
Construction and land development	18,502	1,067	4,758		24,327
Residential 1-4 family	220,534	4,739	14,437	491	240,201
Multifamily	9,765	178	2,624		12,567
Farmland	21,560	1,247	10,261		33,068
Total real estate loans	388,306	13,013	58,200	579	460,098
Commercial	21,793	3,227	3,254	40	28,314
Agriculture	3,841	53	434		4,328
Consumer installment loans	29,159	21	261	4	29,445
All other loans	178				178
Total	$ 443,277	$ 16,314	$ 62,149	$ 623	$ 522,363

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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 March 31, 2013. 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 March 31, 2013

(Dollars are in thousands)	Beginning Balance	Charge Offs	Recoveries	Advances	Provisions	Ending Balance
Real estate secured:						
Commercial	$ 6,720	$ (1,073)	$ 207	$	$ 485	$ 6,339
Construction and land development	2,166	(190)	1		247	2,224
Residential 1-4 family	3,050	(374)	30		8	2,714
Multifamily	552				(408)	144
Farmland	1,074	(368)			145	851
Total real estate loans	13,562	(2,005)	238		477	12,272
Commercial	1,772	(302)	5		(86)	1,389
Agriculture	533	(303)	1		151	382
Consumer installment loans	388	(66)	16		8	346
All other loans	4				(1)	3
Unallocated	551				1	552
Total	$ 16,810	$ (2,676)	$ 260	$	$ 550	$ 14,944

As of March 31, 2013	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	$ 2,583	$ 3,756	$ 6,339	$ 30,287	$ 114,593	$ 144,880
Construction and land development	18	2,206	2,224	3,190	19,755	22,945
Residential 1-4 family	337	2,377	2,714	8,169	232,345	240,514
Multifamily	12	132	144	1,317	12,026	13,343
Farmland	231	620	851	8,401	23,494	31,895
Total real estate loans	3,181	9,091	12,272	51,364	402,213	453,577
Commercial	161	1,228	1,389	1,872	24,123	25,995
Agriculture	10	372	382	159	4,298	4,457
Consumer installment loans	16	330	346	130	27,049	27,179
All other loans		3	3		168	168
Unallocated		552	552			
Total	$ 3,368	$ 11,576	$ 14,944	$ 53,525	$ 457,851	$ 511,376

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The following table details activity in the allowance for loan losses by portfolio segment for the period ended December 31, 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 December 31, 2012

(Dollars are in thousands)	Beginning Balance	Charge Offs	Recoveries	Advances	Provisions	Ending Balance
Real estate secured:						
Commercial	$ 5,671	$ (2,845)	$ 61	$	$ 3,833	$ 6,720
Construction and land development	3,848	(357)	73		(1,398)	2,166
Residential 1-4 family	3,759	(1,615)	87		819	3,050
Multifamily	148	(75)			479	552
Farmland	951	(577)			700	1,074
Total real estate loans	14,377	(5,469)	221		4,433	13,562
Commercial	1,883	(942)	86		745	1,772
Agriculture	486	(4)	11		40	533
Consumer installment loans	781	(336)	63		(120)	388
All other loans	2				2	4
Unallocated	851				(300)	551
Total	$ 18,380	$ (6,751)	$ 381	$	$ 4,800	$ 16,810

As of December 31, 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	$ 3,196	$ 3,524	$ 6,720	$ 33,884	$ 116,051	$ 149,935
Construction and land development	177	1,989	2,166	4,552	19,775	24,327
Residential 1-4 family	577	2,473	3,050	10,138	230,063	240,201
Multifamily	456	96	552	2,956	9,611	12,567
Farmland	635	439	1,074	10,077	22,991	33,068
Total real estate loans	5,041	8,521	13,562	61,607	398,491	460,098
Commercial	491	1,281	1,772	2,992	25,322	28,314
Agriculture	308	225	533	462	3,866	4,328
Consumer installment loans	16	372	388	125	29,320	29,445
All other loans		4	4		178	178
Unallocated		551	551			
Total	$ 5,856	$ 10,954	$ 16,810	$ 65,186	$ 457,177	$ 522,363

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:

At March 31, 2013 there were $19.1 million in loans that are classified as troubled debt restructurings compared to $20.0 million at December 31, 2012. The following table presents information related to loans modified as troubled debt restructurings during the three months ended March 31, 2013 and 2012.

Troubled Debt Restructurings (Dollars are in thousands)	For the three months ended March 31, 2013 # of Loans	Pre-Mod. Recorded Investment	Post-Mod. Recorded Investment	For the three months ended March 31, 2012 # of Loans	Pre-Mod. Recorded Investment	Post-Mod. Recorded Investment
Real estate secured:						
Commercial		$	$	7	$ 991	$ 989
Construction and land Development						
Residential 1-4 family				2	109	109
Multifamily						
Farmland						
Total real estate loans				9	1,100	1,098
Commercial	1	51	49			
Agriculture						
Consumer installment loans	1	14	14	3	25	24
All other loans						
Total	2	$ 65	$ 63	12	$ 1,125	$ 1,122

During the three months ended March 31, 2013, the Company modified 2 loans that were considered to be troubled debt restructurings. We modified the terms for 1 loan and on 1 loan we modified the terms and lowered the interest rate. During the three months ended March 31, 2012, the Company modified 12 loans that were considered to be troubled debt restructurings. We modified the terms for 9 of these loans and the interest rate was lowered for 1 loan. On 2 loans we modified the terms and lowered the interest rate.

The following table presents information related to loans modified as a troubled debt restructurings that defaulted during the three months ended March 31, 2013 and 2012, 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 (Dollars are in thousands)	For the three months ended March 31, 2013 # of Loans	Recorded Investment	For the three months ended March 31, 2012 # of Loans	Recorded Investment
Real estate secured:				
Commercial		$	5	$ 2,151
Construction and land development				
Residential 1-4 family			1	113
Multifamily				
Farmland				
Total real estate loans			6	2,264
Commercial			1	327
Agriculture			1	300
Consumer installment loans				

All other loans