

NEW PEOPLES BANKSHARES INC
Form 10-Q
May 21, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2018

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

(State or other jurisdiction of
incorporation or organization)

31-1804543

(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 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

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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:

Class	Outstanding at May 12, 2018
Common Stock, \$2.00 par value	23,922,086

NEW PEOPLES BANKSHARES, INC.

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Part I Financial Information

Item 1. Financial Statements

NEW PEOPLES BANKSHARES, INC.**CONSOLIDATED STATEMENTS OF INCOME****FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017**

(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

(UNAUDITED)

INTEREST AND DIVIDEND INCOME	2018	2017
Loans including fees	\$6,458	\$5,664
Interest-earning deposits with banks	65	43
Investments	408	350
Dividends on equity securities (restricted)	35	32
Total Interest and Dividend Income	6,966	6,089
INTEREST EXPENSE		
Deposits	696	538
Borrowed funds	192	186
Total Interest Expense	888	724
NET INTEREST INCOME	6,078	5,365
PROVISION FOR LOAN LOSSES	63	—
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,015	5,365
NONINTEREST INCOME		
Service charges and fees	1,522	1,496
Insurance and investment fees	74	52
Other noninterest income	154	166
Total Noninterest Income	1,750	1,714
NONINTEREST EXPENSES		
Salaries and employee benefits	3,644	3,381
Occupancy and equipment expense	1,292	1,127
Data processing and telecommunications	604	553
Other operating expenses	2,099	1,917
Total Noninterest Expenses	7,639	6,978
INCOME BEFORE INCOME TAXES	126	101

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INCOME TAX EXPENSE (BENEFIT)	46	(14)
NET INCOME	\$80	\$115
Income Per Share		
Basic	\$0.00	\$0.00
Fully Diluted	\$0.00	\$0.00
Average Weighted Shares of Common Stock		
Basic	23,922,086	23,354,890
Fully Diluted	23,922,086	23,354,890

The accompanying notes are an integral part of this statement.

NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

(IN THOUSANDS)

(UNAUDITED)

	2018	2017
NET INCOME	\$80	\$115
Other comprehensive income (loss):		
Investment Securities Activity		
Unrealized gains (losses) arising during the period	(1,041)	89
Tax related to unrealized gains	220	(30)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(821)	59
TOTAL COMPREHENSIVE INCOME (LOSS)	\$(741)	\$174

The accompanying notes are an integral part of this statement.

NEW PEOPLES BANKSHARES, INC.**CONSOLIDATED BALANCE SHEETS**

(IN THOUSANDS EXCEPT PER SHARE AND SHARE DATA)

(UNAUDITED)

ASSETS	March 31, 2018	December 31, 2017
Cash and due from banks	\$ 16,461	\$ 18,249
Interest-bearing deposits with banks	21,419	14,452
Federal funds sold	136	4
Total Cash and Cash Equivalents	38,016	32,705
Investment securities available-for-sale	67,033	71,088
Loans receivable	516,363	513,008
Allowance for loan losses	(5,702)	(6,196)
Net Loans	510,661	506,812
Bank premises and equipment, net	26,387	26,115
Other real estate owned	6,711	6,859
Accrued interest receivable	2,033	2,036
Deferred taxes, net	5,671	5,499
Right-of-use assets – operating leases	5,176	5,253
Other assets	9,882	10,333
Total Assets	\$ 671,570	\$ 666,700

LIABILITIES

Deposits:		
Noninterest bearing	\$ 163,241	\$ 154,631
Interest-bearing	426,706	427,913
Total Deposits	589,947	582,544
Borrowed funds	23,754	24,054
Lease liabilities – operating leases	5,176	5,253
Accrued interest payable	455	426
Accrued expenses and other liabilities	2,006	3,450
Total Liabilities	621,338	615,727

Commitments and contingencies

STOCKHOLDERS' EQUITY

Common stock - \$2.00 par value; 50,000,000 shares authorized; 23,922,086 shares issued and outstanding at March 31, 2018 and December 31, 2017	47,844	47,844
Additional paid-in-capital	14,570	14,570
Retained deficit	(10,767)	(10,847)
Accumulated other comprehensive loss	(1,415)	(594)
Total Stockholders' Equity	50,232	50,973
Total Liabilities and Stockholders' Equity	\$671,570	\$666,700

The accompanying notes are an integral part of this statement.

NEW PEOPLES BANKSHARES, INC.**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY****FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017**

(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, 2016	23,354	\$46,709	\$ 764	\$ 13,965	\$(14,065)	\$ (456)	\$ 46,917
Net income	—	—	—	—	115	—	115
Exercise of common stock warrants	1	2	(1)	—	—	—	1
Other comprehensive income, net of tax	—	—	—	—	—	59	59
Balance, March 31, 2017	23,355	\$46,711	\$ 763	\$ 13,965	\$(13,950)	\$ (397)	\$ 47,092
Balance, December 31, 2017	23,922	\$47,844	\$ —	\$ 14,570	\$(10,847)	\$ (594)	\$ 50,973
Net income	—	—	—	—	80	—	80
Other comprehensive loss, net of tax	—	—	—	—	—	(821)	(821)
Balance, March 31, 2018	23,922	\$47,844	\$ —	\$ 14,570	\$(10,767)	\$ (1,415)	\$ 50,232

The accompanying notes are an integral part of this statement.

NEW PEOPLES BANKSHARES, INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

(IN THOUSANDS)

(UNAUDITED)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$80	\$115
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	63	—
Depreciation	645	638
Income on life insurance	(13)	(27)
Gain on sale of premises and equipment	(5)	(1)
Loss (gain) on sale of foreclosed assets	96	(24)
Adjustment of carrying value of foreclosed real estate	69	176
Accretion of bond premiums/discounts	169	201
Deferred income taxes	46	—
Net change in:		
Interest receivable	3	114
Other assets	495	77
Accrued interest payable	29	11
Accrued expenses and other liabilities	(1,444)	60
Net Cash Provided by Operating Activities	233	1,340
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in loans	(4,668)	(8,777)
Purchase of securities available-for-sale	—	(6,564)
Proceeds from principal paydowns of securities available-for-sale	2,845	4,453
Net sale (purchase) of equity securities (restricted)	(29)	217
Payments for the purchase of premises and equipment	(917)	(593)
Proceeds from sale of premises and equipment	5	4
Proceeds from sales of other real estate owned	739	1,154
Net Cash Used in Investing Activities	(2,025)	(10,106)
CASH FLOWS FROM FINANCING ACTIVITIES		
Exercise of common stock warrants	—	1
Net decrease in Federal Home Loan Bank advances	(300)	(5,300)
Increase in deposits	7,403	18,313

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Net Cash Provided by Financing Activities	7,103	13,014
Net increase in cash and cash equivalents	5,311	4,248
Cash and Cash Equivalents, Beginning of Period	32,705	35,448
Cash and Cash Equivalents, End of Period	\$38,016	\$39,696
Supplemental Disclosure of Cash Paid During the Period for:		
Interest	\$859	\$713
Taxes	\$—	\$—
Supplemental Disclosure of Non Cash Transactions:		
Other real estate acquired in settlement of foreclosed loans	\$1,023	\$1,624
Loans made to finance sale of foreclosed real estate	\$267	\$812
Change in unrealized loss on securities available-for-sale	\$(1,041)	\$89

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. (“New Peoples”) is a financial holding company whose principal activity is the ownership and management of a community bank, New Peoples Bank, Inc. (the “Bank”). The Bank is organized and incorporated under the laws of the Commonwealth of Virginia. 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 southwest Virginia, southern West Virginia, and northeastern Tennessee. These services include commercial and consumer loans along with traditional deposit products such as checking and savings accounts.

NOTE 2 ACCOUNTING PRINCIPLES:

These consolidated financial statements conform to U. S. generally accepted accounting principles and to general industry practices. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the Company’s financial position at March 31, 2018 and December 31, 2017, and the results of operations for the three-month periods ended March 31, 2018 and 2017. The notes included herein should be read in conjunction with the notes to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. The results of operations for interim periods are not necessarily indicative of the results of operations that may be expected for a full year or any future period.

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 related valuation allowance are based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions.

NOTE 3 EARNINGS PER SHARE:

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Basic earnings per share computations are based on the weighted average number of shares outstanding during each period. Dilutive earnings per share reflect the additional common shares that would have been outstanding if dilutive potential common shares had been issued. There were no potential common shares at March 31, 2018. For the three-months ended March 31, 2017, potential common shares consisted of 880,978 outstanding common stock warrants; however, the warrants were anti-dilutive and were not included in the calculation. Basic and diluted net income per common share calculations follows:

(Amounts in Thousands, Except Share and Per Share Data)	For the three months ended March 31,	
	2018	2017
Net income	\$80	\$115
Weighted average shares outstanding	23,922,086	23,354,890
Dilutive shares for stock warrants	—	—
Weighted average dilutive shares outstanding	23,922,086	23,354,890
Basic income per share	\$0.00	\$0.00
Diluted income per share	\$0.00	\$0.00

NOTE 4 CAPITAL:

The Bank is 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, 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.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios of Tier 1 and total capital as a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 1250%. Tier 1 capital consists of common stockholders' equity, excluding the unrealized gain or loss on securities available-for-sale, minus certain intangible assets. Tier 2 capital consists of the allowance for loan losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital. The Bank is also required to maintain capital at a minimum level based on quarterly average assets, which is known as the leverage ratio.

The Company meets eligibility criteria of a small bank holding company in accordance with the Federal Reserve Board's Small Bank Holding Company Policy Statement issued in February 2015, and is no longer obligated to report consolidated regulatory capital. The Bank's actual capital amounts and ratios are presented in the following table as of March 31, 2018 and December 31, 2017, respectively. These ratios comply with Federal Reserve rules to align with the Basel III Capital requirements effective January 1, 2015.

	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, 2018:						
Total Capital to Risk Weighted Assets:						
New Peoples Bank, Inc.	\$ 68,976	15.21%	\$ 36,273	8.0%	\$ 45,341	10.0%
Tier 1 Capital to Risk Weighted Assets:						
New Peoples Bank, Inc.	63,331	13.97%	27,205	6.0%	36,273	8.0%
Tier 1 Capital to Average Assets:						
New Peoples Bank, Inc.	63,331	9.56%	26,505	4.0%	33,131	5.0%
Common Equity Tier 1 Capital						

to Risk Weighted Assets:

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New Peoples Bank, Inc.	63,331	13.97%	20,403	4.5%	29,472	6.5%
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December 31, 2017:

Total Capital to Risk Weighted Assets:

New Peoples Bank, Inc.	\$ 68,787	15.30%	\$ 35,970	8.0%	\$ 44,962	10.0%
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Tier 1 Capital to Risk Weighted Assets:

New Peoples Bank, Inc.	63,160	14.05%	26,977	6.0%	35,970	8.0%
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Tier 1 Capital to Average Assets:

New Peoples Bank, Inc.	63,160	9.56%	26,422	4.0%	33,028	5.0%
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Common Equity Tier 1 Capital

to Risk Weighted Assets:

New Peoples Bank, Inc.	63,160	14.05%	20,233	4.5%	29,225	6.5%
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As of March 31, 2018, 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, Tier 1 leverage, and Common Equity Tier 1 ratios as set forth in the above tables. There are no conditions or events since the notification that management believes have changed the Bank's category.

Under Basel III Capital requirements, a capital conservation buffer of 0.625% became effective beginning on January 1, 2016. The capital conservation buffer will be gradually increased through January 1, 2019 to 2.5%. Banks will be required to maintain levels that meet the required minimum plus the capital conservation buffer in order to make distributions, such as dividends, or discretionary bonus payments.

NOTE 5 INVESTMENT SECURITIES:

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

(Dollars are in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
March 31, 2018				
U.S. Government Agencies	\$22,912	\$55	\$(354)	\$22,613
Taxable municipals	4,457	-	(165)	4,292
Corporate bonds	5,433	103	(130)	5,406
Mortgage backed securities	36,023	1	(1,302)	34,722
Total Securities AFS	\$68,825	\$159	\$(1,951)	\$67,033
December 31, 2017				
U.S. Government Agencies	\$23,986	\$79	\$(221)	\$23,844
Taxable municipals	4,466	9	(78)	4,397
Corporate bonds	5,437	168	(26)	5,579
Mortgage backed securities	37,950	3	(685)	37,268
Total Securities AFS	\$71,839	\$259	\$(1,010)	\$71,088

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, 2018 and December 31, 2017.