

NEW PEOPLES BANKSHARES INC

Form FWP

July 20, 2012

Common Stock Offering

2012

Issuer

Free

Writing

Prospectus  
Dated  
July  
20,  
2012  
Filed  
Pursuant  
to  
Rule  
433  
Registration  
Statement  
No.  
333-180456

Forward-Looking Information  
Certain  
statements  
in  
this  
presentation  
may

constitute

forward-looking

statements

within

the

meaning

of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise and are not statements of historical fact. Such statements are often characterized by the use of qualified

words

(and

their

derivatives)

such

as

expect,

believe,

estimate,

plan,

project,

anticipate

or

other

statements

concerning

opinions

or

judgments

of

New

Peoples

Bankshares,

Inc.

the

Company

and

its management about future events. Although the Company believes that its expectations with respect to forward-looking statements are based upon reasonable assumptions within the bounds of its existing knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of the Company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual future results and trends may differ materially from historical results or those anticipated depending on a variety of factors, including, but not limited to, the effects of and changes in: general economic conditions, the interest rate environment, legislative and regulatory requirements, competitive pressures, new products and delivery systems, inflation, changes in the stock and bond markets, technology, and consumer spending and savings habits. The Company does not update any forward-looking statements that may be made from time to time by or on behalf of the Company.

Other Information

The Company has filed a registration statement (including a prospectus) with the Securities and Exchange Commission (the SEC) for the offering to which this communication relates, and the registration

statement became effective on July 6, 2012. Before you invest, you should read the prospectus in that registration statement and other documents the Company has filed with the SEC for more complete information about the Company and the offering. You may get these documents for free by visiting EDGAR on the SEC website at [www.sec.gov](http://www.sec.gov). The final prospectus, dated July 6, 2012, was filed with the SEC on July 16, 2012. Alternatively, the Company will arrange to send you the prospectus if you request it by calling 1-276-873-6288.

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Why Are We Conducting a Common Stock Offering?  
Why Are We Conducting a Common Stock Offering?

To enable us to fulfill our mission of meeting the expectations of our vested stakeholders, i.e. Shareholders, Regulators, Customers, Employees and Communities by:

Increasing our capital and improving our capital ratios to strengthen our balance sheet as we continue to resolve and manage our elevated level of nonperforming assets and potential future loan losses

Raising  
sufficient  
capital  
to  
enable  
compliance  
with  
our  
capital  
plan  
as  
approved  
by  
our  
regulators

We did not participate in TARP funds

We have not solicited out-of-market institutional investors

The Common Stock Offering is the most fair to our exiting shareholders and best source of capital available

Complying with the requirements of the Formal Written Agreement with regulators

Restoring our capital position as impacted by a cumulative net loss of \$24.2 million from January 1, 2009 through March 31, 2012 due primarily to increases in our provisions for loan losses and write-downs of our other real estate owned properties

Positioning ourselves for proposed Basel III capital proposals in future years that may impact the bank

Allowing us to return to profitability more quickly

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Offering Overview

Offering Overview

Issuer:

New Peoples Bankshares, Inc. (OTCBB:NWPP)

Offering

Structure:

Common Stock Rights Offering to Existing Shareholders and Standby Public Offering, whereby shares that



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are not purchased by the existing shareholders may be sold to the public

Offering Size:

Up to \$25.0 Million (\$10.0 Million Minimum)

Shares Offered:

6,666,667 shares @ minimum offering, or 16,676,845 shares outstanding minimum pro forma

16,666,667 shares @ maximum offering, or 26,676,845 shares outstanding maximum pro forma

Offering Price:

\$1.50 per share, or 57.69% of tangible book value at March 31, 2012

Director

Commitment :

All of the Directors have collectively committed to a total of \$1.0 million, or 666,667 shares, which is applied toward the \$10.0 million minimum.

Directors Keene  
and White Debt

Conversion

Have agreed to the conversion of \$5.45 million of holding company debt plus accrued interest to common stock at the same terms as included in the offering, resulting in 3,813,225 shares issued and 762,643 warrants issued

Securities Issued:

\*

Rights to acquire 1.665 shares of our common stock for each share held

\*

Nontransferable stock warrant for every 5 shares purchased with a 5 year maturity and an exercise price of \$1.75 per warrant. Immediately exercisable.

Use of Proceeds:

Up to \$8.0 million will be applied to increase the Bank's equity capital as necessary and appropriate, to serve as a buffer for any possible future unanticipated degradation in the Bank's loan or asset portfolios, and for general corporate purposes. The remaining funds will be used for general corporate purposes, as well as to provide additional capital support to the Bank should that become necessary and appropriate.

Expected Closing

Rights Offering

August 15, 2012 (may extend to September 15, 2012) -

Public Offering

October 15, 2012

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COMPETITIVE STRENGTHS

4

Our Mission  
Our Mission

Our overall mission continues to be to build a high performing community bank focused on providing high quality, state of the art, golden rule banking services within our

communities, resulting in increased shareholder value

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New Peoples  
differentiating factors that provide a foundation for a  
high performing institution built on customer service and franchise  
value creation through profitable growth:

Leading Deposit Market Share

Core Deposit Base

Historically Strong Net Interest Margin Management

Experienced Management Team

Committed Board of Directors

6

Competitive Strengths

Competitive Strengths

Leading Deposit Market Share

#2 in the Tri-State Area Deposit Market

8.85% of the Tri-State Area deposits

Outpaced deposit growth for our market area which had a 5 year compounded annual rate of 2.3%, our growth was 4.6%

Strong market penetration with 23 convenient branch locations

Competitive Strengths

Competitive Strengths

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Note: Information as of June 30, 2011, except branch locations.



New Peoples Bank  
New Peoples Bank  
Branch Locations  
Branch Locations  
Virginia  
Locations  
Honaker (HQ)

Abingdon  
Big Stone Gap  
Bland  
Bluefield  
Bristol-Linden Square  
Castlewood  
Chilhowie  
Clintwood  
Gate City  
Grundy  
Haysi  
Jonesville  
Lebanon  
Norton  
Pound  
Pounding Mill  
Tazewell  
Weber City  
Wise  
West  
Virginia  
Locations  
Bluewell  
Princeton  
Tennessee  
Locations  
Kingsport  
8

Core Deposit Base

Focused  
on  
high  
quality,

golden  
rule  
banking  
services  
within  
our  
communities

Provider of superior service through one of the largest branch networks in our market area

Strong core deposit base funding our loan growth

39.15% of our deposits are in checking, money market and savings accounts

77.21% of our deposits are core deposits (Total Deposits less time deposits greater than \$100,000 and brokered deposits)

Only \$2.7 million in brokered deposits which is very favorable to peers

Competitive Strengths

Competitive Strengths

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Note: Information as of March 31, 2012.

Company Statistics

Company Statistics

New Peoples Bank opened in October 28, 1998

New Peoples Bankshares formed in 2001

Total Shareholders

4,437 <sup>1</sup>

Total Customer Relationships

47,164 <sup>2</sup>

Total Households

38,023 <sup>2</sup>

Total # of Deposits

64,099 <sup>2</sup>

Total # of Loans

11,841 <sup>2</sup>

Total # of Branches

23 <sup>3</sup>

# of Counties Served in VA, TN and WV

12 <sup>3</sup>

Market Share of Deposits in Tri-State Area based on

June 30, 2011 FDIC Deposit Summary Data

# 2 position in Deposit

Market Share

8.85% of total deposits

10

1

Information as of Shareholder Record Date, June 26, 2012

2

Information as of May 14, 2012

3

Information as of May 31, 2012

#### Historically Strong Net Interest Margin Management

Successfully managing a strong net interest margin, a key contributor to delivering consistent profitability resulting in solid returns to shareholders

Historically maintained a net interest margin over 4%

We believe we can continue this trend as we continue to improve asset quality, cultivate and grow core deposits, and effectively position ourselves

to

maintain

or

improve

our

net

interest

margin

in

both

rising

and falling interest rate cycles

Competitive Strengths

Competitive Strengths

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Net Interest Margin Trend

Net Interest Margin Trend

December 31, 2007 through March 31, 2012

December 31, 2007 through March 31, 2012

Peer Data Source: Federal Reserve Board of Governors Bank Holding Company Performance Report

12

4.11%

4.13%

4.14%

4.35%

4.29%

3.88%

3.65%

3.61%

3.76%

3.81%

3.72%

0.00%

1.00%

2.00%

3.00%

4.00%

5.00%

2007

2008

2009

2010

2011

3/31/2012

Net Interest Margin

Peer Data BHC \$500 Million to \$1 Billion

4.15%

#### Experienced Management Team

Our executive team consists of 4 officers with over 130 years of combined experience

An average of 33 years experience in the financial services industry

Strongly committed to leading the organization to profitability,  
strength and shareholder value

Competitive Strengths

Competitive Strengths

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Name

Position

Years of

Experience

Years with

NPB

Jonathan H. Mullins

President and Chief Executive

Officer

31

14

Frank Sexton, Jr.

Executive Vice President and Chief

Operating Officer

40

14

C. Todd Asbury

Executive Vice President, Chief

Financial Officer, Secretary and

Treasurer

24

8

Stephen W. Trescot

Executive Vice President and Chief

Credit Officer

39

1

Committed Board of Directors

11 community leaders native to our market area

Actively  
involved

in  
local  
economic  
development  
and  
promotion  
of  
our  
market area

Fully engaged in the oversight of bank management

Committed to investing \$1.0 million, or 10% of the minimum offering amount

2 Directors invested \$5.45 million to payoff holding company debt and have agreed to the conversion of the debt plus accrued interest to common stock after the rights offering is complete

Dedicated to increasing shareholder value through enhanced stock value

Devoted to paying dividends as soon as possible

Competitive Strengths

Competitive Strengths

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Board of Directors  
Board of Directors  
15  
Name  
Position  
Committees  
Director

Since

Michael G. McGlothlin

Chairman of  
the Board

Executive

(Chair), Compliance, Nominating, Offering

1998

John Cox

Vice Chairman  
of the Board

Asset Liability Management, Audit, Compensation

(Chair), Compliance, Executive, Nominating,

Offering

1998

Tim

W. Ball

Director

n/a

1999

Joe M. Carter

Director

Asset Liability Management,

Director Loan

1998

Charles H.

Gent, Jr.

Director

Audit, Compensation

1998

Eugene Hearl

Director

Asset

Liability Management, Audit, Compensation,

Compliance, Director Loan, Executive

2010

Harold Lynn Keene,

Jr.

Director

Asset Liability Management, Audit (Chair), Compliance,

Director Loan (Chair), Executive, Nominating, Offering

1998

A. Frank

Kilgore

Director

Compensation

1998

Fred W. Meade

Director

Compensation, Director

Loan, Executive, Nominating



1998

Jonathan H. Mullins

Director

Asset Liability Management,

Compensation,

Compliance, Executive

2010

B. Scott White

Director

Asset Liability Management,

Audit, Compliance (Chair),

Executive, Nominating, Offering

1998

FINANCIAL SNAPSHOT

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Consolidated Financial Snapshot  
Consolidated Financial Snapshot  
March 31, 2012 and December 31, 2011  
17  
Balance Sheet  
March 31, 2012  
December 31, 2011

Total Assets  
\$768.4 million  
\$780.4 million  
Total Loans  
\$573.8 million  
\$597.8 million  
Total Allowance for Loan Loss  
\$ 18.0 million  
\$ 18.4 million  
Total Deposits  
\$699.1 million  
\$708.3 million  
Total Equity Capital  
\$ 26.2 million  
\$ 28.9 million  
Tangible Book Value  
\$2.60  
\$2.87  
Basic Shares Outstanding  
10,010,178  
10,010,178  
Diluted Shares Outstanding  
10,010,178  
10,010,178  
Equity to Assets Ratio  
3.41%  
3.70%  
Tier 1 Leverage Ratio  
3.92%  
4.23%  
Total Risk Based Capital Ratio  
9.08%  
9.15%

Consolidated  
Consolidated  
Financial  
Financial  
Snapshot  
Snapshot  
(continued)

(continued)

March 31, 2012 and December 31, 2011

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Earnings

Quarter Ended

March 31, 2012

Year Ended

December 31, 2011

Net

Interest Income

\$ 7.1 million

\$ 32.2

million

Net Interest

Margin %

4.15%

4.29%

Provision for Loan Losses

\$ 2.0 million

\$ 8.0 million

Noninterest Income

\$ 1.5 million

\$ 5.5 million

Noninterest Expenses

\$ 9.0 million

\$ 39.4

million

Net (Loss)

(\$ 2.5 million)

(\$ 8.9 million)

Net (Loss)

per Share

(\$0.25)

(\$0.89)

Asset Quality

March 31, 2012

December 31, 2011

Total Non Performing Assets (NPAs)

\$ 61.4 million

\$ 58.9 million

NPAs/ Total Assets Ratio

7.98%

7.60%

ALLL to Total Loans Ratio

3.14%

3.07%

STRATEGIC INITIATIVES

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Our Strategy  
Our Strategy

Our immediate business strategy is directed towards building  
shareholder value by:

Returning to profitability



Improving asset quality

Enhancing our regulatory capital levels

Over the long-term, we want to position ourselves favorably to take advantage of future growth opportunities within our markets and to pay dividends to shareholders

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STRATEGIC INITIATIVES -  
RETURNING TO PROFITABILITY  
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Strategic Actions and Initiatives Taken to  
Strategic Actions and Initiatives Taken to  
Improve **Profitability**,  
Improve **Profitability**,  
Asset Quality, and Capital  
Asset Quality, and Capital

### Improving Profitability

Continuing to maintain a net interest margin in excess of 4.00% and have historically been able to do this

Lowered our cost of deposits over 122 basis points from 2.25% at December 31, 2009 to 1.03% at March 31, 2012

Reduced total employees from 367 at December 31, 2009 to 295 at March 31, 2012, a total reduction of 72, or 19.62%

Frozen salaries in the year 2012

Reduced the 100% matching employee 401K contribution from up to 5% to up to 3% in 2012

Closed/consolidated eight underperforming branch offices since 2010, and will continue to evaluate performance of the branch network

Reduced overhead through aforementioned branch closings and a reduction in full time equivalent employees resulting in estimated annual cost savings of \$1.0 million

Stabilizing asset quality issues

22

Net  
Net  
Income/  
Income/  
(Loss)  
(Loss)  
Trend

Trend

(In

(In

thousands)

thousands)

For Years Ending December 31, 2007 Through December 31, 2011 and

For Years Ending December 31, 2007 Through December 31, 2011 and

First Quarter March 31, 2012

First Quarter March 31, 2012

23

(1) Includes a one-time non cash Goodwill impairment loss totaling \$4 million.

-\$10,000

-\$8,000

-\$6,000

-\$4,000

-\$2,000

\$0

\$2,000

\$4,000

\$6,000

Net Income/ (Loss)

Provision  
Provision  
for  
for  
Loan  
Loan  
Loss

Loss  
 Expense  
 Expense  
 and  
 and  
 Net  
 Net  
 Charge  
 Charge  
 Offs  
 Offs  
 (In  
 (In  
 thousands)  
 thousands)  
 For Years Ending December 31, 2007 through December 31, 2011 and  
 For Years Ending December 31, 2007 through December 31, 2011 and  
 First Quarter Ended March 31, 2012  
 First Quarter Ended March 31, 2012  
 24  
 2007  
 2008  
 2009  
 2010  
 2011  
 3/31/2012  
 Provision  
 for  
 Loan  
 Loss  
 \$3,840  
 \$1,500  
 \$12,841  
 \$22,328  
 \$7,959  
 \$1,950  
 Net Charge Offs  
 \$2,090  
 \$1,216  
 \$1,157  
 \$15,902  
 \$14,746  
 \$2,299  
 \$0  
 \$2,000  
 \$4,000  
 \$6,000  
 \$8,000  
 \$10,000  
 \$12,000



\$14,000  
\$16,000  
\$18,000  
\$20,000  
\$22,000  
\$24,000  
Provision  
for  
Loan  
Loss  
compared  
to  
Net  
Charge-Offs

OREO  
OREO  
Expenses/  
Expenses/  
(Gains)  
(Gains)  
(In

(In  
thousands)  
thousands)

For Years Ending December 31, 2007 through December 31, 2011 and

For Years Ending December 31, 2007 through December 31, 2011 and

First Quarter Ended March 31, 2012

First Quarter Ended March 31, 2012

25

(\$1,000)

(\$500)

\$0

\$500

\$1,000

\$1,500

\$2,000

\$2,500

\$3,000

\$3,500

\$4,000

\$4,500

\$5,000

\$5,500

\$6,000

OREO Expenses/ (Gains)

STRATEGIC INITIATIVES-  
IMPROVING ASSET QUALITY  
26

Enhanced and Reorganized Management and Board of Directors

Hired a new, outside Chief Credit Officer with over 30 years experience in credit administration and loan portfolio risk

Re-positioned our former Chief Credit Officer to Senior Loan Officer with responsibility for the Bank's loan production and business development

Appointed a new outside director, Eugene Hearl, who has over 40 years of banking experience

Formed a standing Director Loan Committee to enhance the loan approval process and Board knowledge of loan credits

Strategic Actions and Initiatives Taken to

Strategic Actions and Initiatives Taken to

Improve Profitability, **Asset Quality**, and Capital

Improve Profitability, **Asset Quality**, and Capital

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#### Asset Quality Improvement Initiatives

Adopted new loan policies and procedures with stricter credit underwriting standards, streamlined the loan approval process, and implemented a continuing education program for employees

Formed, fully developed and staffed a special assets department with eight full-time employees concentrating on problem asset resolution

Created and trained a commercial lending division with nine lenders and support staff managed by the Bank's Senior Lending Officer specialized to serve our commercial business

Enhanced loan concentration identification and implemented new procedures for monitoring and managing loan concentrations

Reduced all loan concentration limits below Federal Reserve guidelines

Established a new allowance for loan loss model and policy and assigned oversight to an employee with significant Allowance for Loan Loss ( ALLL ) experience

Hired an expert outside loan review company to periodically review our loan portfolio resulting in more accurate risk grading of our loan portfolio

Strategic Actions and Initiatives Taken to

Strategic Actions and Initiatives Taken to

Improve Profitability, Asset Quality, and Capital

Improve Profitability, Asset Quality, and Capital

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Nonperforming  
Nonperforming  
Assets  
Assets  
(In  
(In  
thousands)

thousands)

December 31, 2007 through March 31, 2012

December 31, 2007 through March 31, 2012

29

2007

2008

2009

2010

2011

3/31/2012

Total NPAs

\$5,364

\$8,943

\$34,231

\$59,820

\$58,912

\$61,355

OREO

\$2,051

\$2,496

\$5,643

\$12,346

\$15,092

\$15,009

Nonaccrual Loans

\$2,946

\$6,414

\$24,713

\$45,781

\$42,316

\$43,679

90 Days + Accruing Interest

\$267

\$33

\$3,875

\$1,693

\$1,504

\$2,667

\$0

\$10,000

\$20,000

\$30,000

\$40,000

\$50,000

\$60,000

\$70,000

Nonperforming Assets

Delinquency  
Delinquency  
Trends  
Trends  
30+  
30+  
days

days  
 (In  
 (In  
 thousands)  
 thousands)  
 December 31, 2010 through March 31, 2012  
 December 31, 2010 through March 31, 2012  
 30  
 \$0  
 \$10,000  
 \$20,000  
 \$30,000  
 \$40,000  
 \$50,000  
 \$60,000  
 \$70,000  
 12/31/2010  
 3/31/2011  
 6/30/2011  
 9/30/2011  
 12/31/2011  
 3/31/2012  
 90 Days+  
 \$23,404  
 \$21,185  
 \$31,137  
 \$30,784  
 \$24,820  
 \$33,000  
 60-89 Days  
 \$10,110  
 \$5,836  
 \$6,197  
 \$4,752  
 \$6,609  
 \$3,760  
 30-59 Days  
 \$22,426  
 \$14,754  
 \$22,269  
 \$13,849  
 \$24,328  
 \$12,755  
 Loan Portfolio Delinquencies

31  
Loan  
Loan  
Risk  
Risk  
Grades  
Grades

(In  
(In  
millions)  
millions)

December 31, 2010 through March 31, 2012

December 31, 2010 through March 31, 2012

\$50

\$200

\$300

\$350

\$400

\$500

\$550

\$600

\$650

\$700

\$750

Loan Classifications Trend

\$0

\$100

\$150

\$250

\$450

12/31/2010

3/31/2011

6/30/2011

9/30/2011

12/31/2011

3/31/2012

Doubtful

\$6

\$7

\$7

\$6

\$3

\$3

Substandard

\$86

\$94

\$99

\$94

\$95

\$97

Special Mention

\$30

\$35

\$44

\$52

\$47

\$49

Pass  
\$586  
\$546  
\$514  
\$477  
\$452  
\$426

Allowance for Loan Loss as % of Loans Trend  
Allowance for Loan Loss as % of Loans Trend  
December 31, 2007 through March 31, 2012  
December 31, 2007 through March 31, 2012  
32



STRATEGIC INITIATIVES  
ENHANCING OUR REGULATORY CAPITAL RATIOS  
33

Strategic Actions and Initiatives Taken to Improve  
Strategic Actions and Initiatives Taken to Improve  
Profitability, Asset Quality, and **Capital**  
Profitability, Asset Quality, and **Capital**

Proactively Downsized Balance Sheet and Higher Risk Assets

Reduced total assets \$96.6 million from \$865.0 million at March 31, 2011 to \$768.4 million at March 31, 2012

Reduced gross loans over \$189.8 million from \$763.6 million to \$573.8 million from December 31, 2009 to March 31, 2012

Reduced total deposits \$83.3 million from \$782.4 million at March 31, 2011 to \$699.0 million at March 31, 2012, mainly higher cost time deposits

Reduced risk profile of the loan portfolio in compliance with regulatory standards

Reduced higher risk weighted assets overall for the Bank by \$164.5 million since December 31, 2009

Developed a three year strategic and capital plan that incorporates these strategic initiatives including the common stock offering

Paid off Silverton line of credit at the holding company with the proceeds from the unsecured Director Notes (being converted to common stock in this offering)

34

35  
Strategic  
Strategic  
Shrinking  
Shrinking  
Trend  
Trend

(In  
(In  
Millions)  
Millions)  
December 31, 2007-  
December 31, 2007-  
March 31, 2012  
March 31, 2012

Risk Weighted Assets Shrinking Trend **(In Millions)**

Risk Weighted Assets Shrinking Trend **(In Millions)**

December 31, 2007-

December 31, 2007-

March 31, 2012

March 31, 2012

36

2007

2008

2009

2010

2011

3/31/2012

Total Assets

\$616.9

\$639.8

\$645.8

\$597.3

\$502.4

\$481.3

\$400

\$450

\$500

\$550

\$600

\$650

\$700

Total Bank Risk Weighted Assets

Consolidated Capital Trend  
Consolidated Capital Trend  
Actual  
Actual  
and  
and  
Pro



Pro  
Forma  
Forma  
(In  
(In  
Millions)  
Millions)  
December 31, 2007-  
December 31, 2007-  
March 31, 2012  
March 31, 2012  
37  
\$-  
\$10.0  
\$20.0  
\$30.0  
\$40.0  
\$50.0  
\$60.0  
2007  
2008  
2009  
2010  
2011  
3/31/2012  
Total Common Equity  
Proforma Minimum  
Proforma Maximum

Capital Ratio Trend  
Capital Ratio Trend  
Actual and Pro Forma  
Actual and Pro Forma  
Consolidated Tier 1 Leverage Ratio  
Consolidated Tier 1 Leverage Ratio  
December 31, 2007 through March 31, 2012

December 31, 2007 through March 31, 2012

38

7.22%

7.72%

6.14%

4.62%

4.23%

3.92%

0.00%

2.00%

4.00%

6.00%

8.00%

10.00%

12.00%

2007

2008

2009

2010

2011

3/31/2012

Leverage Ratio

Pro Forma Min

Pro Forma Max

Minimum Leverage to Remain Well Capitalized

6.44% Min

8.50% Max

Capital Ratio Trend  
Capital Ratio Trend  
Actual and Pro Forma Total  
Actual and Pro Forma Total  
Risk Based Capital Ratio  
Risk Based Capital Ratio  
Consolidated

Consolidated

December 31, 2007 through March 31, 2012

December 31, 2007 through March 31, 2012

39

10.29%

10.78%

9.83%

8.87%

9.15%

9.08%

0.00%

2.00%

4.00%

6.00%

8.00%

10.00%

12.00%

14.00%

16.00%

18.00%

2007

2008

2009

2010

2011

3/31/2012

Leverage Ratio

Pro Forma Min

Pro Forma Max

Minimum Leverage to Remain Well Capitalized

12.20% Min

15.32% Max

INVESTMENT SUMMARY

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Competitive Strengths

Attractive retail deposit franchise and proven ability to grow market share to further develop and enhance our position

Provider of quality banking services to our customers through

innovative products, community involvement and excellent customer service in which we have proven success

Effective management of a strong net interest margin that historically has outpaced our peers and is the key driving force to strong core earnings

Committed Board of Directors and Management that have been instrumental to resolve issues through collaborative efforts involving talents, time, experience and finances

Investment Summary

Investment Summary

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Strategic Initiatives Taken

Returning to profitability

Instituted efficiencies that will produce immediate and long term cost savings

Tied employee compensation with the interest of investors

Identified and managing credit problems and expecting loan related losses to be less than in the past

Improving asset quality

Stabilized asset quality issues

Implemented numerous policies and procedures to ensure the quality of new loans going forward

Learned valuable lessons during this extended economic recession and have implemented necessary changes to weather future similar situations, should they arise, more favorably

Investment Summary

Investment Summary

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Enhancing our regulatory capital levels

Reduced balance sheet risk resulting in stronger asset quality and lower capital requirements due to lower concentrations in certain industries and loan sectors

This stock offering is the best solution available to successfully enhance our

regulatory capital levels

### The Offering

First rights to purchase are to our loyal shareholders who have supported us faithfully

Priced attractively below book value

Added value, warrants offer the potential for future investment possibly at a discount

The success of this stock offering helps us to move forward and fulfill our mission and purpose

We believe the offering price and accompanying warrants provide good upside potential to investors in the offering

Investment Summary -

Investment Summary -

continued

continued

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Appendix 1 -Financial Trends and Ratios  
Appendix 1 -Financial Trends and Ratios  
44

At and for  
the Three Months  
ended  
March 31,

At and for the Years ended December 31,

2012

2011

2011

2010

2009

2008

2007

(Dollars in thousands and shares in whole numbers)

Balance Sheet

Total Assets.....

\$ 768,447

\$

864,665

\$ 780,384

\$ 852,627

\$ 857,910

\$ 807,898

\$ 765,951

Gross Loans.....

573,752

683,025

597,816

707,794

763,570

721,174

682,260

Allowance for Loan Losses.....

(18,031)

(19,660)

(18,380)

(25,014)

(18,588)

(6,904)

(6,620)

Other Real Estate Owned.....

15,009

13,553

15,092

12,346

5,643

2,496

2,051

Deposits.....

699,085

782,411

708,315

766,080

760,714

705,688

657,033  
 Total Borrowings.....  
 39,629  
 40,829  
 39,929  
 45,829  
 46,779  
 47,991  
 58,930  
 Shareholders Equity.....  
 26,170  
 38,086  
 28,873  
 37,523  
 46,619  
 50,323  
 45,249  
 Summary of Operations  
 Interest Income.....  
 \$ 9,022  
 \$ 10,984  
 \$ 41,769  
 \$ 48,028  
 \$ 50,378  
 \$ 52,317  
 \$ 51,447  
 Interest Expense.....  
 1,897  
 2,814  
 9,606  
 13,898  
 18,563  
 23,095  
 25,738  
 Net Interest Income.....  
 7,125  
 8,170  
 32,163  
 34,130  
 31,815  
 29,222  
 25,709  
 Provision for Loan Losses.....  
 1,950  
 1,145  
 7,959  
 22,328  
 12,841  
 1,500  
 3,840

Noninterest Income.....	
1,467	
1,311	
5,524	
5,934	
5,449	
5,550	
4,651	
Noninterest Expense.....	
8,987	
7,613	
39,422	
31,894	
29,847	
26,619	
23,674	
Net Income before Taxes.....	
(2,345)	
723	
(9,694)	
(14,158)	
(5,424)	
6,653	
2,846	
Income Tax Expense (Benefit).....	
190	
174	
(784)	
(5,093)	
(1,738)	
1,916	
(24)	
Net Income (Loss).....	
\$ (2,535)	
\$ 549	
\$ (8,910)	
\$ (9,065)	
\$ (3,686)	
\$ 4,737	
\$ 2,870	
Per Share Data	
Book Value.....	
\$ 2.61	
\$ 3.83	
\$ 2.88	
\$ 3.75	
\$ 4.66	
\$ 5.03	
\$ 4.54	
Tangible Book Value.....	



2.60  
 3.40  
 2.87  
 3.31  
 4.21  
 4.56  
 4.06  
 Net Income (Loss), Basic.....  
 (0.25)  
 0.05  
 (0.89)  
 (0.91)  
 (0.37)  
 0.47  
 0.29  
 Net Income (Loss), Diluted.....  
 (0.25)  
 0.05  
 (0.89)  
 (0.91)  
 (0.37)  
 0.46  
 0.28  
 Basic Shares Outstanding.....  
 10,010,178  
 10,010,178  
 10,010,178  
 10,009,468  
 10,008,943  
 9,980,348  
 9,957,949  
 Diluted Shares Outstanding.....  
 10,010,178  
 10,010,178  
 10,010,178  
 10,009,468  
 10,008,943  
 10,234,909  
 10,371,577  
 Profitability  
 Return (Loss) on Average Assets.....  
 (1.32%)  
 (1.96%)  
 (1.07%)  
 (1.05%)  
 (0.44%)  
 0.61%  
 0.42%  
 Return (Loss) on Average Equity.....  
 (36.09%)

(39.76%)

(24.35%)

(19.60%)

(7.37%)

9.98%

6.60%

Net Interest Margin (1).....

4.15%

4.12%

4.29%

4.35%

4.14%

4.13%

4.11%

Efficiency Ratio.....

105.06%

86.16%

104.63%

79.28%

80.10%

76.55%

77.98%

Appendix 1 (continued)  
Appendix 1 (continued)  
Financial Trends and Ratios  
Financial Trends and Ratios  
45  
Liquidity Ratios  
Total Loans to Deposits.....

82.07%
87.30%
84.40%
92.39%
100.38%
102.19%
103.84%
Noninterest Bearing Deposits to
Total Deposits.....
16.14%
13.14%
15.48%
11.46%
11.61%
13.53%
12.74%
Nonbrokered Deposits to
Total Deposits.....
99.61%
97.47%
98.46%
97.41%
96.68%
98.96%
100.00%
Capital Adequacy Ratios
Total Equity to Total Assets.....
3.41%
4.44%
3.70%
4.40%
5.43%
6.23%
5.91%
Leverage Ratio.....
3.92%
4.58%
4.23%
4.62%
6.14%
7.72%
7.22%
Tier 1 Capital.....
6.23%
6.75%
6.57%
6.54%
8.12%
9.50%
8.73%

Total Risk-Based Capital.....	
9.02%	
9.08%	
9.15%	
8.87%	
9.83%	
10.78%	
10.29%	
Asset Quality Ratios	
Net Charge-Offs to Average Loans.....	
1.57%	
1.58%	
2.24%	
2.14%	
0.15%	
0.17%	
0.34%	
Nonperforming Loans to Total Loans.....	
8.08%	
6.37%	
7.33%	
6.71%	
3.74%	
0.89%	
0.47%	
Nonperforming Assets to Total Assets....	
7.98%	
6.59%	
7.60%	
7.02%	
3.99%	
1.11%	
0.69%	
Allowance for Loan Losses to	
Gross Loans.....	
3.14%	
2.75%	
3.07%	
3.53%	
2.43%	
0.96%	
0.97%	
Allowance for Loan Losses to	
Nonperforming Loans.....	
38.91%	
43.14%	
41.94%	
52.69%	
65.02%	

107.09%

206.04%

Other Data

Number of Branch Offices.....

27

27

27

27

31

31

30

Number of Employees.....

295

341

312

362

367

377

371

(1) Net interest margin is calculated as tax-equivalent net interest income divided by average earning assets and represents  
At and for

the Three Months ended

March 31,

At and for the Years ended December 31,

2012

2011

2011

2010

2009

2008

2007

(Dollars in thousands and shares in whole numbers)

Appendix 2 -  
Appendix 2 -  
Pro Forma Capital Table  
Pro Forma Capital Table  
As of March 31, 2012  
(\$ in thousands, except per share amounts)  
As Adjusted

Actual  
 Minimum  
 \$10,000,000.50  
 Maximum  
 \$25,000,000.50  
 Short-Term Debt:  
 Capital Notes  
 \$ 5,450  
 \$ -  
 \$ -  
 Long-Term Debt:  
 Trust Preferred Securities  
 16,496  
 16,496  
 16,496  
 Stockholders' Equity:  
 Common Stock, \$2.00 par value; authorized 50,000,000 shares;  
 10,010,178 shares issued and outstanding at March 31, 2012;  
 20,310,178 pro forma for minimum; 30,310,178 pro forma for  
 maximum  
 20,020  
 40,980  
 60,980  
 Additional Paid-in Capital and Warrants  
 21,689  
 15,974  
 10,974  
 Accumulated Other Comprehensive Loss  
 81  
 81  
 81  
 Retained Earnings  
 (15,620)  
 (15,620)  
 (15,620)  
 Total Stockholders' Equity  
 \$ 26,170  
 \$ 41,415  
 \$ 56,415  
 Total Capitalization  
 \$ 48,116  
 \$ 57,911  
 \$ 72,911  
 Per Share:  
 Book Value per Share  
 \$ 2.61  
 \$ 2.02  
 \$ 1.85  
 Tangible Book Value per Share  
 \$ 2.60



\$ 2.02

\$ 1.85

Capital Ratios:

Tier 1 Leverage Ratio

3.92%

6.44%

8.50%

Tier 1 Risk-Based Capital Ratio

6.27%

10.43%

14.04%

Total Risk-Based Capital Ratio

9.08%

12.20%

15.32%

Tangible Equity to Tangible Assets (period-end)

3.39%

5.31%

7.10%

(1)

The

closing

date

of

the

offering

is

not

known

as

of

the

date

of

this

prospectus.

Consequently,

the

amount

of

accrued

interest

on

the

capital

notes

that

will

be

outstanding as of the closing date, and the number of

Conversion

Shares into which that interest will be convertible, are also not known as of the date of this prospectus. Therefore, the portion of interest accrued through September 15, 2012 in this table.

(2)

Assumes proceeds invested in cash with a zero risk-weightings.

(3)

Assumes proceeds added to average assets at period-end.

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Appendix 3  
Appendix 3  
March 31,  
2012  
\$10 Million  
Minimum-  
Less Cost

Notes  
Converted  
Total New  
Minimum  
Effect  
Tangible Capital  
\$  
26,069,336  
\$  
9,525,000.50  
\$  
5,719,839.04  
\$  
15,244,839.54  
\$  
41,314,176  
# of Shares  
10,010,178  
6,666,667  
3,813,225  
10,479,892  
20,490,070  
Book Value Per  
Share  
\$  
2.60  
\$  
1.43  
\$  
1.50  
\$  
1.45  
\$  
2.02  
Dilution to  
existing  
shareholder  
\$  
(0.58)  
March 31,  
2012  
All Exercised  
Subscription  
Rights  
\$25.0 Million  
Maximum -  
Less Cost  
Notes  
Converted  
Total New

Effect

Tangible Capital

\$

26,069,336

\$

24,525,000.50

\$

5,719,839.04

\$

30,244,839.54

\$

56,314,176

# of Shares

10,010,178

16,666,667

3,813,225

20,479,892

30,490,070

Book Value Per

Share

\$

2.60

\$

1.47

\$

1.50

\$

1.48

\$

1.85

Dilution to

Existing

Shareholders

\$

(0.75)

Assuming Minimum Amount is Raised

Assuming All Subscription Rights are Exercised -

Maximum

47

Dilution

Dilution

Effect

Effect

if

if

Existing

Existing

Shareholders

Shareholders

Do

Do  
Not  
Not  
Participate  
Participate

Glossary of terms

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Allowance for Loan Losses -

The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb credit losses in the loan portfolio. The loan portfolio is analyzed periodically and loans are assigned a risk rating. Allowances for impaired loans are based on the present value of expected cash flows. A general allowance is made for all other loans not considered impaired as deemed appropriate. In determining the adequacy of the allowance, management considers the following factors: the nature of the portfolio, credit concentrations, trends in the portfolio, and the economic environment.

loans, the estimated value of any underlying collateral, prevailing environmental factors and economic conditions, and other information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changing cash flows on impaired loans. This evaluation is inherently subjective as it requires estimates that are susceptible to significant

Efficiency ratio -

The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries of loan losses when management believes that collectability of all or part of the principal is unlikely. Past due status is determined by this ratio indicates the percentage of each dollar of revenue spent to support the entity. It is computed by dividing Non-Interest expense (Noninterest expense/ (Net interest income + other income)). It indicates how efficiently a bank is spending the revenues generated by the provision for loan losses, nonrecurring items and income taxes.

Net interest margin -

This ratio is the average yield earned on average earning assets. It is computed by annualizing net interest income for the period shown divided by average earning assets for the period shown. It is one of the most telling indicators of a bank's profitability as it accounts for all interest

Loan 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 borrower to service 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 rating. They are relatively minor yet constitute an unwarranted risk in light of the circumstances. Special mention loans have potential weaknesses that, if not 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; the weakness is such that the 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 there is a high probability of collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable and improbable.

Other Real Estate Owned

Other real estate owned represents properties acquired through foreclosure or deed taken in lieu of foreclosure. At the time of acquisition, these properties are recorded at the lower of cost or fair value less estimated costs to sell. Expenses incurred in connection with these properties and subsequent write-downs, if any, are charged to expense. Subsequent to foreclosure, management periodically evaluates these properties for losses on the property. Gains and losses on the sales of these properties are credited or charged to income in the year of the sale.

Risk weighted assets -

Risk-weighted assets are computed by adjusting each asset class for risk in order to determine a bank's real world exposure to credit risk. Regulators then use the risk weighted total to calculate how much loss-absorbing capital a bank needs to sustain it through