NEW PEOPLES BANKSHARES INC
Form 10-Q
May 16, 2016
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, 2016

[ ] **Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from ____________ to _____________

Commission file number: 000-33411

NEW PEOPLES BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

Virginia	**31-1804543**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

67 Commerce Drive

Honaker, Virginia	**24260**
(Address of principal executive offices)	(Zip Code)

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

n/a

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [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 13, 2016
Common Stock, $2.00 par value	23,354,082

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, 2016 AND 2015

(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

(UNAUDITED)

INTEREST AND DIVIDEND INCOME	2016	2015
Loans including fees	$5,565	$5,781
Federal funds sold	—	1
Interest-earning deposits with banks	21	26
Investments	464	426
Dividends on equity securities (restricted)	32	32
Total Interest and Dividend Income	6,082	6,266
INTEREST EXPENSE		
Deposits		
Demand	11	9
Savings	41	41
Time deposits below $100,000	265	387
Time deposits above $100,000	154	271
FHLB advances	36	40
Federal funds purchased	2	—
Trust preferred securities	122	108
Total Interest Expense	631	856
NET INTEREST INCOME	5,451	5,410
PROVISION FOR LOAN LOSSES	—	—
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,451	5,410
NONINTEREST INCOME		
Service charges	488	536
Fees, commissions and other income	805	714
Insurance and investment fees	158	124
Net realized gains on sale of investment securities	105	35
Life insurance investment income	30	35

Total Noninterest Income	1,586	1,444
NONINTEREST EXPENSES		
Salaries and employee benefits	3,210	2,942
Occupancy and equipment expense	853	942
Advertising and public relations	104	57
Data processing and telecommunications	581	499
FDIC insurance premiums	134	218
Other real estate owned and repossessed vehicles, net	163	359
Other operating expenses	1,292	1,212
Total Noninterest Expenses	6,337	6,229
INCOME BEFORE INCOME TAXES	700	625

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INCOME TAX EXPENSE	2	3
NET INCOME	$698	$622
Income Per Share		
Basic	$0.03	$0.03
Fully Diluted	$0.03	$0.03
Average Weighted Shares of Common Stock		
Basic	23,354,082	22,878,654
Fully Diluted	23,354,082	22,878,654

The accompanying notes are an integral part of this statement.

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NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015

(IN THOUSANDS)

(UNAUDITED)

	2016	2015
NET INCOME	$698	$622
Other comprehensive income:		
Investment Securities Activity		
Unrealized gains arising during the period	785	626
Tax related to unrealized gains	(267)	(213)
Reclassification of realized gains during the period	(105)	(35)
Tax related to realized gains	36	12
TOTAL OTHER COMPREHENSIVE INCOME	449	390
TOTAL COMPREHENSIVE INCOME	$1,147	$1,012

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)

ASSETS	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
Cash and due from banks	$ 15,549	$ 15,087
Interest-bearing deposits with banks	23,838	11,251
Total Cash and Cash Equivalents	39,387	26,338
Investment securities available-for-sale	84,710	101,642
Loans receivable	450,309	441,169
Allowance for loan losses	(7,219)	(7,493)
Net Loans	443,090	433,676
Bank premises and equipment, net	30,812	28,148
Equity securities (restricted)	2,755	2,441
Other real estate owned	13,196	12,398
Accrued interest receivable	1,794	1,816
Life insurance investments	12,135	12,105
Deferred taxes, net	4,960	5,121
Other assets	3,620	2,213
Total Assets	$ 636,459	$ 625,898
LIABILITIES		
Deposits:		
Demand deposits:		
Noninterest bearing	$ 147,970	$ 149,714
Interest-bearing	42,691	30,251
Savings deposits	113,260	121,076
Time deposits	251,295	256,978
Total Deposits	555,216	558,019
Federal Home Loan Bank advances	12,658	2,958
Accrued interest payable	287	288
Accrued expenses and other liabilities	4,568	2,050
Trust preferred securities	16,496	16,496
Total Liabilities	589,225	579,811
Commitments and contingencies	—	—
STOCKHOLDERS' EQUITY		

Common stock - $2.00 par value; 50,000,000 shares authorized; 23,354,082 shares issued and outstanding	46,708	46,708
Common stock warrants	764	764
Additional paid-in-capital	13,965	13,965
Retained deficit	(14,325)	(15,023)
Accumulated other comprehensive income (loss)	122	(327)
Total Stockholders' Equity	47,234	46,087
Total Liabilities and Stockholders' Equity	$ 636,459	$ 625,898

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, 2016 AND 2015

(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, 2014	22,878	$45,757	$ 1,176	$ 13,672	$(17,685)	$ (69)	$ 42,851
Net income	—	—	—	—	622	—	622
Other comprehensive income, net of tax	—	—	—	—	—	390	390
Balance, March 31, 2015	22,878	$45,757	$ 1,176	$ 13,672	$(17,063)	$ 321	$ 43,863
Balance, December 31, 2015	23,354	$46,708	$ 764	$ 13,965	$(15,023)	$ (327)	$ 46,087
Net income	—	—	—	—	698	—	698
Other comprehensive income, net of tax	—	—	—	—	—	449	449
Balance, March 31, 2016	23,354	$46,708	$ 764	$ 13,965	$(14,325)	$ 122	$ 47,234

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, 2016 AND 2015

(IN THOUSANDS)

(UNAUDITED)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$698	$622
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	551	535
Income on life insurance	(30)	(35)
Gain on sale of securities available-for-sale	(105)	(35)
(Gain) loss on sale of foreclosed assets	(43)	5
Adjustment of carrying value of foreclosed real estate	(4)	134
Accretion of bond premiums/discounts	253	270
Deferred tax benefit	(70)	—
Net change in:		
Interest receivable	22	178
Other assets	(1,407)	173
Accrued interest payable	(1)	80
Accrued expenses and other liabilities	2,518	122
Net Cash Provided by Operating Activities	2,382	2,049
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase) decrease in loans	(10,233)	6,336
Purchase of securities available-for-sale	(100)	(10,765)
Proceeds from sale and maturities of securities available-for-sale	17,564	11,057
Sale (Purchase) of Federal Home Loan Bank stock	(314)	30
Purchase of Federal Reserve Bank stock	—	(37)
Payments for the purchase of premises and equipment	(3,215)	(339)
Payments for the purchase of other real estate owned	—	(5)
Proceeds from sales of other real estate owned	68	400
Net Cash Provided by Investing Activities	3,770	6,677
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in Federal Home Loan Bank advances	9,700	(300)
Net change in:		
Demand deposits	10,696	10,426
Savings deposits	(7,816)	6,283
Time deposits	(5,683)	(8,577)
Net Cash Provided by Financing Activities	6,897	7,832
Net increase in cash and cash equivalents	13,049	16,558
Cash and Cash Equivalents, Beginning of Period	26,338	35,560

Cash and Cash Equivalents, End of Period	$39,387	$52,118
Supplemental Disclosure of Cash Paid During the Period for:		
Interest	$632	$776
Taxes	$70	$—
Supplemental Disclosure of Non Cash Transactions:		
Other real estate acquired in settlement of foreclosed loans	$1,063	$367
Loans made to finance sale of foreclosed real estate	$244	$45
Change in unrealized gains (losses) on securities available-for-sale	$680	$591

The accompanying notes are an integral part of this statement.

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NEW PEOPLES BANKSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 NATURE OF OPERATIONS:

New Peoples Bankshares, Inc. (“The Company”) is a financial 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. On March 4, 2016 the Federal Reserve Bank of Richmond approved the Company’s election to become a financial holding company.

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, 2016 and December 31, 2015, and the results of operations for the three-month periods ended March 31, 2016 and 2015. 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, 2015. The results of operations for the three month periods ended March 31, 2016 and 2015 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 related 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:

The Company and the Bank had previously entered into the Written Agreement with the Federal Reserve Bank of Richmond and the Virginia State Corporation Commission Bureau of Financial Institutions. On February 2, 2016, the Company and the Bank announced that they had successfully complied with all of the requirements of the Written Agreement and accordingly, effective January 20, 2016, the agreement had been terminated.

Under the terms of the Written Agreement, the Bank developed and submitted for approval within specified time periods written plans related to board oversight; the Bank's management and governance, including management of the Bank's operations, credit risk management, lending and credit risk administration, management of commercial real estate concentrations; the review and grading of the Bank's loan portfolio; the improvement of Bank problem assets in excess of $1 million; the maintenance of an adequate allowance for loan and lease losses; the enhanced management of the Bank's liquidity position and funds management practices; the revision of the Bank's contingency funding and strategic plans; and the enhancement of the Bank's anti-money laundering activities. The Written Agreement also imposed limitations on actions taken on criticized credits and credits classified as "loss". The Written Agreement required the submission of capital plans and the maintenance of adequate capital and restricted the payment of dividends and other distributions, the redemption of stock and the incurrence of debt.

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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), Tier 1 capital (as defined) to average assets (as defined), and Common Equity Tier 1 capital (as defined) to risk-weighted assets (as defined). Management believes that, as of March 31, 2016, the Company and the Bank meet all capital adequacy requirements to which they are subject. The Company's and the Bank's actual capital amounts and ratios are presented in the following table as of March 31, 2016 and December 31, 2015, 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	
(Dollars are in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2016:						
Total Capital to Risk Weighted Assets:						
The Company	67,718	17.54%	$30,888	8.0%	N/A	N/A
The Bank	66,711	17.28%	30,883	8.0%	38,604	10.0%
Tier 1 Capital to Risk Weighted Assets:						
The Company	62,566	16.20%	23,166	6.0%	N/A	N/A
The Bank	61,856	16.02%	23,162	6.0%	30,883	8.0 %
Tier 1 Capital to Average Assets:						
The Company	62,566	9.95 %	25,157	4.0%	N/A	N/A
The Bank	61,856	9.83 %	25,158	4.0%	31,447	5.0 %
Common Equity Tier 1 Capital to Risk Weighted Assets:						

The Company	46,862	12.14%	17,374	4.5%	N/A	N/A
The Bank	61,856	16.02%	17,372	4.5%	25,093	6.5 %
December 31, 2015:						
Total Capital to Risk Weighted Assets:						
The Company	66,649	17.80%	$29,954	8.0%	N/A	N/A
The Bank	65,713	17.55%	29,954	8.0%	37,443	10.0%
Tier 1 Capital to Risk Weighted Assets:						
The Company	61,406	16.40%	22,465	6.0%	N/A	N/A
The Bank	60,998	16.29%	22,466	6.0%	29,954	8.0 %
Tier 1 Capital to Average Assets:						
The Company	61,406	9.74 %	25,229	4.0%	N/A	N/A
The Bank	60,998	9.67 %	25,239	4.0%	31,549	5.0 %
Common Equity Tier 1 Capital to Risk Weighted Assets:						
The Company	45,934	12.27%	16,849	4.5%	N/A	N/A
The Bank	60,998	16.29%	16,849	4.5%	24,338	6.5 %

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As of March 31, 2016, 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 Company's and Bank's category.

Beginning January 1, 2016, a capital conservation buffer of 0.625% became effective. 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 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 Approximate Unrealized Losses	Fair Value
March 31, 2016				
U.S. Government Agencies	$34,827	$ 356	$ 58	$35,125
Taxable municipals	2,421	21	10	2,432
Corporate bonds	2,045	15	44	2,016
Mortgage backed securities	45,233	115	211	45,137
Total Securities AFS	$84,526	$ 507	$ 323	$84,710
December 31, 2015				
U.S. Government Agencies	$41,488	$ 244	$ 209	$41,523
Taxable municipals	3,337	5	61	3,281
Corporate bonds	1,944	15	20	1,939
Mortgage backed securities	55,369	41	511	54,899
Total Securities AFS	$102,138	$ 305	$ 801	$101,642

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, 2016 and December 31, 2015.

(Dollars are in thousands)	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2016						
U.S. Government Agencies	$7,243	$ 23	$3,855	$ 35	$11,098	$ 58
Taxable municipals	549	8	276	2	825	10

Corporate bonds	901	44	—	—	901	44
Mtg. backed securities	14,946	101	9,376	110	24,322	211
Total Securities AFS	$23,639	$ 176	$13,507	$ 147	$37,146	$ 323
December 31, 2015						
U.S. Government Agencies	$14,995	$ 81	$7,708	$ 128	$22,073	$ 209
Taxable municipals	2,136	57	278	4	2,414	61
Corporate bonds	923	20	—	—	923	20
Mtg. backed securities	38,945	354	8,719	157	47,664	511
Total Securities AFS	$56,999	$ 512	$16,705	$ 289	$73,074	$ 801

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At March 31, 2016, the available-for-sale portfolio included seventy four investments for which the fair market value was less than amortized cost. At December 31, 2015, the available-for-sale portfolio included one hundred and thirty four 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. Based on the Company's analysis, the Company concluded that no securities had an other-than-temporary impairment.

Gross proceeds on the sale of investment securities were $12.9 million for the three months ended March 31, 2016, with $119 thousand of gross gains realized and $14 thousand of gross losses realized. Gross proceeds on the sale of investment securities were $7.1 million for the three months ended March 31, 2015, with $62 thousand of gross gains realized and $27 thousand of gross losses realized.

The amortized cost and fair value of investment securities at March 31, 2016, 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	$ 1,243	$ 1,246	0.91 %
Due after one year through five years	1,338	1,342	1.61 %
Due after five years through ten years	13,667	13,714	2.08 %
Due after ten years	68,278	68,408	1.96 %
Total	$ 84,526	$ 84,710	1.96 %

Investment securities with a carrying value of $15.5 million and $15.4 million at March 31, 2016 and December 31, 2015, respectively, were pledged as collateral 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. The Bank also owns stock in CBB Financial Corp., which is a correspondent of the Bank. These equity securities are restricted from trading and are recorded at a cost of $2.8 million and $2.4 million as of March 31, 2016 and December 31, 2015, respectively.

NOTE 6 LOANS:

Loans receivable outstanding are summarized as follows:

(Dollars are in thousands)	March 31, 2016	December 31, 2015
Real estate secured:		
Commercial	$98,644	$98,569
Construction and land development	17,977	14,672
Residential 1-4 family	246,321	242,916
Multifamily	13,430	12,954
Farmland	23,458	22,174
Total real estate loans	399,830	391,285
Commercial	22,106	21,469
Agriculture	3,958	3,793
Consumer installment loans	24,373	24,568
All other loans	42	54
Total loans	$450,309	$441,169

Loans receivable on nonaccrual status are summarized as follows:

(Dollars are in thousands)	March 31, 2016	December 31, 2015
Real estate secured:		
Commercial	$3,249	$4,358
Construction and land development	723	436
Residential 1-4 family	7,720	8,338
Multifamily	341	430
Farmland	1,157	1,170
Total real estate loans	13,190	14,732
Commercial	75	65
Agriculture	206	9
Consumer installment loans	56	41
All other loans	—	—
Total loans receivable on nonaccrual status	$13,527	$14,847

Total interest income not recognized on nonaccrual loans for the three months ended March 31, 2016 and 2015 was $94 thousand and $166 thousand, respectively.

The following table presents information concerning the Company's investment in loans considered impaired as of March 31, 2016 and December 31, 2015:

As of March 31, 2016 (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	$ 4,479	$ 35	$ 4,745	$5,442	$ —
Construction and land development	171	(1)	331	376	—
Residential 1-4 family	3,599	51	4,161	4,475	—
Multifamily	269	2	108	149	—
Farmland	4,149	51	4,314	5,240	—
Commercial	—	—	—	—	—
Agriculture	36	1	36	36	—
Consumer installment loans	27	1	43	43	—
All other loans	—	—	—	—	—
With an allowance recorded:					
Real estate secured:					
Commercial	1,768	—	1,033	1,104	150
Construction and land development	283	—	277	492	143
Residential 1-4 family	1,271	5	622	656	79

Multifamily	117	2	233	235	41
Farmland	640	6	518	525	310
Commercial	74	1	78	78	33
Agriculture	117	(2)	215	215	114
Consumer installment loans	28	—	11	11	3
All other loans	—	—	—	—	—
Total	$ 17,028	$ 152	$ 16,725	$ 19,077	$ 873

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As of December 31, 2015 (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	$4,534	$163	$4,212	$5,173	$—
Construction and land development	12	1	10	10	—
Residential 1-4 family	3,506	161	3,037	3,150	—
Multifamily	520	9	430	471	—
Farmland	5,073	213	3,983	4,620	—
Commercial	267	—	—	—	—
Agriculture	42	4	36	36	—
Consumer installment loans	31	1	11	11	—
All other loans	—	—	—	—	—
With an allowance recorded:					
Real estate secured:					
Commercial	2,935	37	2,503	2,849	288
Construction and land development	373	—	289	499	155
Residential 1-4 family	2,219	99	1,920	2,121	168
Multifamily	23	—	—	—	—
Farmland	906	38	761	778	328
Commercial	80	3	69	69	24
Agriculture	24	2	18	18	18
Consumer installment loans	19	4	45	45	2
All other loans	—	—	—	—	—
Total	$20,564	$735	$17,324	$19,850	$983

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

	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
As of March 31, 2016							

(Dollars are in thousands)							
Real estate secured:							
Commercial	$1,094	$260	$1,321	$2,675	$95,969	$98,644	$ —
Construction and land development	89	322	—	411	17,566	17,977	—
Residential 1-4 family	6,440	1,168	1,564	9,172	237,149	246,321	—
Multifamily	502	—	233	735	12,695	13,430	—
Farmland	292	—	522	814	22,644	23,458	—
Total real estate loans	8,417	1,750	3,640	13,807	386,023	399,830	—
Commercial	—	17	75	92	22,014	22,106	—
Agriculture	870	—	—	870	3,088	3,958	—
Consumer installment Loans	74	21	21	116	24,257	24,373	—
All other loans	4	—	—	4	38	42	—
Total loans	$9,365	$1,788	$3,736	$14,889	$435,420	$450,309	$ —

As of December 31, 2015	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
(Dollars are in thousands)							
Real estate secured:							
Commercial	$311	$105	$2,534	$2,950	$95,619	$98,569	$ —
Construction and land development	144	—	17	161	14,511	14,672	—
Residential 1-4 family	4,694	1,487	2,891	9,072	233,844	242,916	—
Multifamily	47	—	320	367	12,587	12,954	—
Farmland	363	—	251	614	21,560	22,174	—
Total real estate loans	5,559	1,592	6,013	13,164	378,121	391,285	—
Commercial	18	1	64	83	21,386	21,469	—
Agriculture	—	—	—	—	3,793	3,793	—
Consumer installment Loans	113	1	27	141	24,427	24,568	—
All other loans	6	—	—	6	48	54	—
Total loans	$5,696	$1,594	$6,104	$13,394	$427,775	$441,169	$ —

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 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.

Doubtful - Loans classified Doubtful have all the weaknesses inherent in loans classified as 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, 2016 (Dollars are in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real estate secured:					
Commercial	$85,360	$8,448	$4,836	$—	$98,644
Construction and land development	15,618	1,636	723	—	17,977
Residential 1-4 family	234,317	3,493	8,511	—	246,321
Multifamily	12,812	205	413	—	13,430
Farmland	17,576	3,311	2,571	—	23,458
Total real estate loans	365,683	17,093	17,054	—	399,830
Commercial	21,283	715	108	—	22,106
Agriculture	3,737	—	221	—	3,958
Consumer installment loans	24,271	—	102	—	24,373
All other loans	42	—	—	—	42
Total	$415,016	$17,808	$17,485	$—	$450,309

As of December 31, 2015 (Dollars are in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real estate secured:					
Commercial	$85,255	$7,543	$5,771	$—	$98,569
Construction and land development	12,262	1,974	436	—	14,672
Residential 1-4 family	229,182	3,572	10,162	—	242,916
Multifamily	12,264	187	503	—	12,954
Farmland	16,663	2,923	2,588	—	22,174
Total real estate loans	355,626	16,199	19,460	—	391,285
Commercial	20,641	724	104	—	21,469
Agriculture	3,767	—	26	—	3,793
Consumer installment loans	24,478	—	90	—	24,568
All other loans	54	—	—	—	54
Total	$404,566	$16,923	19,680	$—	$441,169

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, 2016. 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, 2016	Recoveries	Advances	Provisions

(Dollars are in thousands)	Beginning Balance	Charge Offs				Ending Balance
Real estate secured:						
Commercial	$ 2,384	$ (31)	$ 3	$ —	$ (316)	$ 2,040
Construction and land development	332	(5)	14	—	(12)	329
Residential 1-4 family	2,437	(261)	8	—	137	2,321
Multifamily	232	(2)	—	—	49	279
Farmland	675	—	—	—	(1)	674
Total real estate loans	6,060	(299)	25	—	(143)	5,643
Commercial	266	—	4	—	(62)	208
Agriculture	124	—	2	—	8	134
Consumer installment loans	128	(9)	3	—	4	126
All other loans	1	—	—	—	—	1
Unallocated	914	—	—	—	193	1,107
Total	$ 7,493	$ (308)	$ 34	$ —	$ —	$ 7,219

As of March 31, 2016	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
(Dollars are in thousands)						
Real estate secured:						
Commercial	$150	$ 1,890	$2,040	$5,778	$ 92,866	$98,644
Construction and land development	143	186	329	608	17,369	17,977
Residential 1-4 family	79	2,242	2,321	4,783	241,538	246,321
Multifamily	41	238	279	341	13,089	13,430
Farmland	310	364	674	4,832	18,626	23,458
Total real estate loans	723	4,920	5,643	16,342	383,488	399,830
Commercial	33	175	208	78	22,028	22,106
Agriculture	114	20	134	251	3,707	3,958
Consumer installment loans	3	123	126	54	24,319	24,373
All other loans	—	1	1	—	42	42
Unallocated	—	1,107	1,107	—	—	—
Total	$873	$ 6,346	$7,219	$16,725	$ 433,584	$450,309

The following table details activity in the allowance for loan losses by portfolio segment for the period ended December 31, 2015. 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, 2015	Beginning Balance	Charge Offs	Recoveries	Advances	Provisions	Ending Balance
(Dollars are in thousands)						
Real estate secured:						
Commercial	$ 4,418	$(724)	$ 147	$ —	$(1,457)	$2,384
Construction and land development	199	(226)	215	—	144	332
Residential 1-4 family	2,572	(743)	93	—	515	2,437
Multifamily	154	(384)	6	—	456	232
Farmland	913	(90)	214	—	(362)	675
Total real estate loans	8,256	(2,167)	675	—	(704)	6,060
Commercial	457	(92)	1,412	—	(1,511)	266
Agriculture	125	—	3	—	(4)	124
Consumer installment loans	171	(101)	41	—	17	128
All other loans	1	—	—	—	—	1
Unallocated	912	—	—	—	2	914
Total	$ 9,922	$(2,360)	$ 2,131	$ —	$(2,200)	$7,493

As of December 31, 2015	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
(Dollars are in thousands)						
Real estate secured:						
Commercial	$288	$ 2,096	$2,384	$6,715	$ 91,854	$98,569
Construction and land development	155	177	332	299	14,373	14,672
Residential 1-4 family	168	2,269	2,437	4,957	237,959	242,916
Multifamily	—	232	232	430	12,524	12,954
Farmland	328	347	675	4,744	17,430	22,174
Total real estate loans	939	5,121	6,060	17,145	374,140	391,285
Commercial	24	242	266	69	21,400	21,469
Agriculture	18	106	124	54	3,739	3,793
Consumer installment loans	2	126	128	56	24,512	24,568
All other loans	—	1	1	—	54	54
Unallocated	—	914	914	—	—	—
Total	$983	$ 6,510	7,493	$17,324	$ 423,845	$441,169

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.

NOTE 8 TROUBLED DEBT RESTRUCTURINGS:

At March 31, 2016 there were $9.6 million in loans that are classified as troubled debt restructurings compared to $9.5 million at December 31, 2015. The following table presents information related to loans modified as troubled debt restructurings during the three months ended March 31, 2016 and 2015.

Troubled Debt Restructurings (Dollars are in thousands)	For the three months ended March 31, 2016			For the three months ended March 31, 2015		
	# of Loans	Pre-Mod. Recorded Investment	Post-Mod. Recorded Investment	# of Loans	Pre-Mod. Recorded Investment	Post-Mod. Recorded Investment
Real estate secured:						
Commercial	1	$ 341	$ 339	—	$ —	$ —
	—	—	—	1	551	360

Construction and land Development						
Residential 1-4 family	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—
Farmland	—	—	—	—	—	—
Total real estate loans	1	341	339	1	551	360
Commercial	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—
Consumer installment loans	—	—	—	—	—	—
All other loans	—	—	—	—	—	—
Total	1	$ 341	$ 339	1	$ 551	$ 360

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During the three months ended March 31, 2016, the Company modified the terms of one loan for which the modification was considered to be a troubled debt restructuring. The interest rate and maturity date were not modified; however, the payment terms were changed. During the three months ended March 31, 2015, the Company modified the terms of one loan for which the modification was considered to be a troubled debt restructuring. The interest rate was not modified on the loan; however, the maturity date was extended.

There was one commercial real estate loan with a recorded investment of $310 thousand that had been modified as a troubled debt restructuring that defaulted during the three months ended March 31, 2016, which was within twelve months of the loan's modification date. No loans modified as troubled debt restructurings defaulted during the three months ended March 31, 2015. Generally, a troubled debt restructuring is considered to be in default once it becomes 90 days or more past due following a modification.

In determination of the allowance for loan losses, management considers troubled debt restructurings and subsequent defaults in these restructurings in its estimate. The Company evaluates all troubled debt restructurings for possible further impairment. As a result, the allowance may be increased, adjustments may be made in the allocation of the allowance, or charge-offs may be taken to further writedown the carrying value of the loan.

NOTE 9 OTHER REAL ESTATE OWNED:

The following table summarizes the activity in other real estate owned for the three months ended March 31, 2016 and the year ended December 31, 2015:

(Dollars are in thousands)	March 31, 2016	December 31, 2015
Balance, beginning of period	$12,398	$15,049
Additions	1,063	3,277
Purchases of other real estate owned	—	12
Donation of other real estate owned	—	(33)
Proceeds from sales	(312)	(2,709)
Proceeds from insurance claims	—	(101)
Adjustment of carrying value	4	(3,246)
Deferred gain from sales	—	50
Gain (loss) from sales	43	99
Balance, end of period	$13,196	$12,398

NOTE 10 EARNINGS PER SHARE:

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. Potential common shares that may be issued relate to outstanding options and common stock warrants are determined by the Treasury method. For the three-months ended March 31, 2016 and 2015, potential common shares of 882,353 and 1,539,877, respectively, 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,	
	2016	2015
Net income	$698	$622
Weighted average shares outstanding	23,354,082	22,878,654
Dilutive shares for stock options and warrants	—	—
Weighted average dilutive shares outstanding	23,354,082	22,878,654
Basic income per share	$0.03	$0.03
Diluted income per share	$0.03	$0.03

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NOTE 11 TRUST PREFERRED SECURITIES AND DEFERRAL OF INTEREST PAYMENTS:

On July 7, 2004, the Company completed the issuance of $11.3 million in floating rate trust preferred securities offered by its wholly owned subsidiary, NPB Capital Trust I. The proceeds of the funds were used for general corporate purposes which included capital management for affiliates, retirement of indebtedness and other investments. The securities have a floating rate of 3 month LIBOR plus 260 basis points, which resets quarterly, with a current rate at March 31, 2016 of 3.22%.

On September 27, 2006, the Company completed the issuance of $5.2 million in floating rate trust preferred securities offered by its wholly owned subsidiary, NPB Capital Trust 2. The proceeds of the funds were used for general corporate purposes, which include capital management for affiliates and the acquisition of two branch banks. The securities have a floating rate of 3 month LIBOR plus 177 basis points, which resets quarterly, with a current rate at March 31, 2016 of 2.39%.

Under the terms of the subordinated debt transactions, the securities mature in 30 years from the date of issuance and are redeemable, in whole or in part, without penalty, at the option of the Company after five years. Due to the ability to defer interest and principal payments for 60 months without being considered in default, the regulatory agencies consider the trust preferred securities as Tier 1 capital up to certain limits.

In October 2009, a restriction to pay dividends from the Bank to the Company was issued by the Federal Reserve Bank of Richmond. In July 2010 the Company and the Bank entered into the Written Agreement discussed in Note 3. The Written Agreement prohibited the payment of interest on the trust preferred securities without prior regulatory approval. As a result, interest on trust preferred securities was deferred. This deferral was for a period of 60 months, and was set to expire on January 7, 2015. In the fourth quarter of 2014, the Company requested and received regulatory approval to pay the cumulative deferred interest on the trust preferred securities due on January 7, 2015 totaling $2.5 million, which the Company paid on December 10, 2014. As a result of this payment there was no interest in arrears on the trust preferred securities as of December 31, 2014.

The Company is currently not deferring the quarterly interest payments on the trust preferred securities. However, as discussed above, regulatory approval was needed to pay the interest while the Company was under the formal Written Agreement. In March 2015 the Company requested and received regulatory approval to pay the $107 thousand in interest on the trust preferred securities due on April 7, 2015, which the Company paid on April 3, 2015. In June 2015 the Company requested and received regulatory approval to pay the $109 thousand in interest on the trust preferred securities due on July 7, 2015, which the Company paid on July 2, 2015. In September 2015 the Company requested and received regulatory approval to pay the $111 thousand in interest on the trust preferred securities due on October 7, 2015, which the Company paid on October 5, 2015. In December 2015 the Company requested and received regulatory approval to pay the $112 thousand in interest on the trust preferred securities due on January 7, 2016, which the Company paid on January 5, 2016.

The restriction requiring regulatory approval before the payment of interest on the trust preferred securities was lifted when the Written Agreement was terminated effective January 20, 2016. On April 4, 2016, the Company paid $124 thousand in interest on the trust preferred securities, which was due on April 7, 2016.

NOTE 12 FAIR VALUES:

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

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

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

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

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

Investment Securities Available-for-Sale – Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices. The Company's available-for-sale securities, totaling $84.7 million and $101.6 million at March 31, 2016 and December 31, 2015, respectively, are the only assets whose fair values are measured on a recurring basis using Level 2 inputs from an independent pricing service.

Loans - The Company does not record loans at fair value on a recurring basis. Real estate serves as collateral on a substantial majority of the Company's loans. When a loan is considered impaired a specific reserve may be established. Loans which are deemed to be impaired and require a reserve are primarily valued on a non-recurring basis at the fair values of the underlying real estate collateral. Such fair values are obtained using independent appraisals, which management evaluates and determines whether or not the fair value of the collateral is further impaired below the appraised value and there is no observable market price, or whether or not an appraised value does not include estimated costs of disposition. The Company records impaired loans as nonrecurring Level 3 assets. The aggregate carrying amounts of impaired loans carried at fair value were $15.9 million and $16.3 million at March 31, 2016 and December 31, 2015, respectively.

Foreclosed Assets – Foreclosed assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Foreclosed assets are carried at the lower of the carrying value or fair value. Fair value is based upon independent observable market prices or appraised values of the collateral with a third party less an estimate of disposition costs, which the Company considers to be level 2 inputs. When the appraised value is not available, management determines

the fair value of the collateral if further impaired below the appraised value and there is no observable market price, or an appraised value does not include estimated costs of disposition and management must make an estimate, the Company records the foreclosed asset as nonrecurring Level 3. The aggregate carrying amounts of foreclosed assets were $13.2 million and $12.4 million at March 31, 2016 and December 31, 2015, respectively.

Assets and liabilities measured at fair value are as follows as of March 31, 2016 (for purpose of this table the impaired loans are shown net of the related allowance):

(Dollars are in thousands)	Quoted market price in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
(On a recurring basis)			
Available-for-sale investments			
U.S. Government Agencies	$ —	$ 35,125	$ —
Taxable municipals	—	2,432	—
Corporate bonds	—	2,016	—
Mortgage backed securities	—	45,137	—
(On a non-recurring basis) Other real estate owned	—	—	13,196
Impaired loans:			
Real estate secured:			
Commercial	—	—	5,628
Construction and land development	—	—	465
Residential 1-4 family	—	—	4,704
Multifamily	—	—	300
Farmland	—	—	4,522
Commercial	—	—	45
Agriculture	—	—	137
Consumer installment loans	—	—	51
All other loans	—	—	—
Total	$ —	$ 84,710	$ 29,048

Assets and liabilities measured at fair value are as follows as of December 31, 2015 (for purpose of this table the impaired loans are shown net of the related allowance):

(Dollars are in thousands)	Quoted market price in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
(On a recurring basis)			
Available-for-sale investments			
U.S. Government Agencies	$ —	$ 41,523	$ —
Taxable municipals	—	3,281	—
Corporate bonds	—	1,939	—
Mortgage backed securities	—	54,899	—
(On a non-recurring basis) Other real estate owned	—	—	12,398
Impaired loans:			
Real estate secured:			
Commercial	—	—	6,427
Construction and land development	—	—	144
Residential 1-4 family	—	—	4,789
Multifamily	—	—	430
Farmland	—	—	4,416
Commercial	—	—	45
Agriculture	—	—	36
Consumer installment loans	—	—	54
All other loans	—	—	—
Total	$ —	$ 101,642	$ 28,739

For Level 3 assets measured at fair value on a recurring or non-recurring basis as of March 31, 2016, the significant unobservable inputs used in the fair value measurements were as follows:

For Level 3 assets measured at fair value on a recurring or non-recurring basis as of March 31, 2014, the significant unobservable inputs used in the fair value measurements were as follows:

(Dollars in thousands)	Fair Value at March	Valuation Technique	Significant Unobservable Inputs	General Range of Significant Unobservable Input

	31, 2016			Values
Impaired Loans	$15,852	Appraised Value/Discounted Cash Flows/Market Value of Note	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	0 – 18%
Other Real Estate Owned	$13,196	Appraised Value/Comparable Sales/Other Estimates from Independent Sources	Discounts to reflect current market conditions and estimated costs to sell	0 – 18%

Fair Value of Financial Instruments

Fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practical to estimate the value is based upon the characteristics of the instruments and relevant market information. Financial instruments include cash, evidence of ownership in an entity, or contracts that convey or impose on an entity that contractual right or obligation to either receive or deliver cash for another financial instrument.

The following summary presents the methodologies and assumptions used to estimate the fair value of the Company's financial instruments presented below. The information used to determine fair value is highly subjective and judgmental in nature and, therefore, the results may not be precise. Subjective factors include, among other things, estimates of cash flows, risk characteristics, credit quality, and interest rates, all of which are subject to change. Since the fair value is estimated as of the balance sheet date, the amounts that will actually be realized or paid upon settlement or maturity on these various instruments could be significantly different.

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments as of March 31, 2016 and December 31, 2015. This table excludes financial instruments for which the carrying amount approximates fair value. The carrying value of cash and due from banks, federal funds sold, interest-bearing deposits, deposits with no stated maturities, trust preferred securities and accrued interest approximates fair value. The remaining financial instruments were valued based on the present value of estimated future cash flows, discounted at various rates in effect for similar instruments as of March 31, 2016 and December 31, 2015.

			Fair Value Measurements		
(Dollars are in thousands)	Carrying Amount	Fair Value	Quoted market price in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
March 31, 2016					
Financial Instruments – Assets					
Net Loans	$443,090	$445,827	$—	$429,975	$ 15,852
Financial Instruments – Liabilities					
Time Deposits	251,295	250,854	—	250,854	—
FHLB Advances	12,658	12,658	—	12,658	—
December 31, 2015					

Financial Instruments – Assets					
Net Loans	$433,676	$438,589	$—	$422,248	$ 16,341
Financial Instruments – Liabilities					
Time Deposits	256,978	256,797	—	256,797	—
FHLB Advances	2,958	2,958	—	2,958	—

NOTE 13 RECENT ACCOUNTING DEVELOPMENTS:

The following is a summary of recent authoritative announcements:

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Company for reporting periods beginning after December 15, 2017. The Company will apply the guidance using a modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2015, the FASB issued guidance to eliminate from U.S. GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. Under the new guidance, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company applied the guidance prospectively. Adoption of these amendments did not have a material effect on the Company's financial statements.

In February 2015, the FASB issued guidance which amends the consolidation requirements and significantly changes the consolidation analysis required under U.S. GAAP. Although the amendments are expected to result in the deconsolidation of many entities, the Company will need to reevaluate all its previous consolidation conclusions. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted (including during an interim period), provided that the guidance is applied as of the beginning of the annual period containing the adoption date. Adoption of these amendments did not have a material effect on the Company's financial statements.

In June 2015, the FASB issued amendments to clarify the Accounting Standards Codification ("ASC"), correct unintended application of guidance, and make minor improvements to the ASC that are not expected to have a significant effect on current accounting practice or create a significant cost to most entities. The amendments were effective upon issuance (June 12, 2015) for amendments that do not have transition guidance. Amendments that are subject to transition guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. Adoption of these amendments did not have a material effect on the Company's financial statements.

In August 2015, the FASB deferred the effective date of ASU 2014-09, Revenue from Contracts with Customers. As a result of the deferral the guidance in ASU 2014-09 will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2015, the FASB issued amendments to the Interest topic of the ASC to clarify the SEC staff's position on presenting and measuring debt issuance costs incurred in connection with line-of-credit arrangements. The amendments were effective upon issuance. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2016, the FASB amended the Financial Instruments topic of the ASC to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company will

apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values will be applied prospectively to equity investments that exist as of the date of adoption of the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2016, the FASB amended the Leases topic of the ASC to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In March 2016, the FASB amended the Revenue from Contracts with Customers topic of the ASC to clarify the implementation guidance on principal versus agent considerations and address how an entity should assess whether it is the principal or the agent in contracts that include three or more parties. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2016, the FASB issued guidance to simplify several aspects of the accounting for share-based payment award transactions including the income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. Additionally, the guidance simplifies two areas specific to entities other than public business entities allowing them to apply a practical expedient to estimate the expected term for all awards with performance or service conditions that have certain characteristics and also allowing them to make a one-time election to switch from measuring all liability-classified awards at fair value to measuring them at intrinsic value. The amendments will be effective for the Company for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The Company does not expect these amendments to have a material effect on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Caution About Forward Looking Statements

We make forward looking statements in this quarterly report that are subject to risks and uncertainties. These forward looking statements include statements regarding our profitability, liquidity, allowance for loan losses, interest rate sensitivity, market risk, business strategy, and financial and other goals. The words "believes," "expects," "may," "will," "should," "projects," "contemplates," "anticipates," "forecasts," "intends," or other similar words or terms are intended to iden forward looking statements.

Certain information contained in this discussion may include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements contain the Company's expectations, plans, future financial performance, and other statements that are not historical facts. These forward-looking statements are generally identified by phrases such as "the Company expects," "the Company believes" or words of similar importance. Such forward-looking statements involve known and unknown risks including, but not limited to, changes in general economic and business conditions, interest rate fluctuations, competition within and from outside the banking industry, new products and services in the banking industry, risk inherent in making loans such as repayment risks and fluctuating collateral values, problems with technology utilized by the Company, changing trends in customer profiles and changes in laws and regulations applicable to the Company. Although the Company believes that its expectations with respect to the forward-looking statements are based upon reasonable assumptions within the bounds of its 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.

Because of these uncertainties, our actual future results may be materially different from the results indicated by these forward looking statements. In addition, our past results of operations do not necessarily indicate our future results.

Written Agreement

The Company and the Bank had previously entered into the Written Agreement with the Federal Reserve Bank of Richmond and the Virginia State Corporation Commission Bureau of Financial Institutions. On February 2, 2016, the Company and the Bank announced that they had successfully complied with all of the requirements of the Written Agreement and accordingly, effective January 20, 2016, the agreement had been terminated.

Under the terms of the Written Agreement, the Bank developed and submitted for approval within specified time periods written plans related to board oversight; the Bank's management and governance, including management of the Bank's operations, credit risk management, lending and credit risk administration, management of commercial real estate concentrations; the review and grading of the Bank's loan portfolio; the improvement of Bank problem assets in excess of $1 million; the maintenance of an adequate allowance for loan and lease losses; the enhanced management of the Bank's liquidity position and funds management practices; the revision of the Bank's contingency funding and strategic plans; and the enhancement of the Bank's anti-money laundering activities. The Written Agreement also imposed limitations on actions taken on criticized credits and credits classified as "loss". The Written Agreement required the submission of capital plans and the maintenance of adequate capital and restricted the payment of dividends and other distributions, the redemption of stock and the incurrence of debt.

Critical Accounting Policies

For discussion of our significant accounting policies see our Annual Report on Form 10-K for the year ended December 31, 2015. Certain critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements. Our most critical accounting policies relate to our provision for loan losses and the calculation of our deferred tax asset and related valuation allowance.

The provision for loan losses reflects the estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our borrowers were to further deteriorate, resulting in an impairment of their ability to make payments, our estimates would be updated, and additional provisions could be required.

Our deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. If all or a portion of the net deferred tax asset is determined to be unlikely to be realized in the foreseeable future, a valuation allowance is established to reduce the net deferred tax asset to the amount that is more likely than not to

be realized. For further discussion of the deferred tax asset and valuation allowance, we refer you to the section on “Deferred Tax Asset and Income Taxes” below.

Overview

The Company had net income for the quarter ended March 31, 2016 of $698 thousand, or basic net income per share of $0.03, as compared to a net income of $622 thousand, or basic net income per share of $0.03, for the quarter ended March 31, 2015. This is an improvement of $76 thousand, or 12.22%.

Quarter-to-Date Results

Highlights from the first quarter of 2016 include:

- Fully complied with and released from formal Written Agreement with bank regulators;
- Strong net interest margin of 3.95% for the quarter;
- No provision for loan losses taken in the first quarter;
- Received regulatory approval to make the first quarter interest payments on trust preferred securities;
- A reduction in nonaccrual loans of $1.3 million, or 8.89% during the quarter;
- Net charge offs of $274 thousand for the three-months ended March 31, 2016, which is an improvement of $688 thousand, or 71.52%, versus net charges offs of $962 thousand reported for the three-months end March 31, 2015.
- Gains on the sales of investment securities was $105 thousand for the quarter as compared to $35 thousand for the same period in 2015;
- A decrease of $5.7 million, or 2.21%, in higher costing time deposits during the quarter;
- The Bank is considered well-capitalized under regulatory standards; and,
- Book value per share of $2.02 as of March 31, 2016.

In the first quarter of 2016, our net interest margin was 3.95%, as compared to 3.74% for the same period in 2015, an improvement of 21 basis points. The Company's primary source of income, net interest income, increased $41 thousand, or 0.75%, to $5.5 million for the first quarter of 2016 from $5.4 million for the same period in 2015. Loan interest income decreased $216 thousand, or 3.74%, from $5.8 million for the first quarter of 2015 to $5.6 million for the first quarter of 2016. Investment interest income has grown for the first quarter of 2016 to $464 thousand from $426 thousand for the first quarter of 2015. Interest expense decreased $225 thousand, or 26.29%, from $856 thousand for the quarter ended March 31, 2016 to $631 thousand for the same quarter of 2016 as a result of time deposits re-pricing at lower interest rates at maturity, as well as a favorable shift in the deposit mix whereby our higher-cost time deposits were replaced with lower-cost deposit products.

Noninterest income for the first quarter of 2016 was $1.6 million, which is an increase of $142 thousand when compared to the $1.4 million for the same period in 2015. This increase was primarily due to the $105 thousand gain on the sale of investment securities during the quarter, compared to only $35 thousand in 2015.

Noninterest expense increased $108 thousand, or 1.73%, to $6.3 million for the first quarter 2016 as compared to $6.2 million for the first quarter of 2015. Salaries and employee benefits increased $268 thousand, or 9.11% in the quarter-to-quarter comparison from $2.9 million at March 31, 2015 to $3.2 million for the same period in 2016. This increase was primarily the result of salaries for the four seasoned commercial bankers the Bank hired during the fourth quarter of 2015 and first quarter of 2016. Occupancy and equipment expenses decreased $89 thousand from $942 thousand for the first quarter of 2015 to $853 thousand for the first quarter of 2016. Advertising expense increased $47 thousand in the quarter-to-quarter comparison. Other real estate owned and repossessed asset expenses decreased $196 thousand, or 54.60%, to $163 thousand for the first quarter of 2016 as compared to $359 thousand for the same period in 2015. During the first three months of 2016 we had net gains on the sale of other real estate owned of $43 thousand as compared to a net loss on the sale of other real estate owned for the same period in 2015. Writedowns on other real estate owned were $24 thousand for the first three months of 2016 as compared to writedowns of $148 thousand for the same period in 2015.

Our efficiency ratio, a non-GAAP measure which is defined as noninterest expense divided by the sum of net interest income plus noninterest income, was 90.05% for the first quarter of 2016 as compared to 90.88% for the same period in 2015. Included in this calculation are the other real estate owned write-downs which significantly and negatively impact the ratio. We continue to seek opportunities to operate more efficiently through the use of technology, improving processes, reducing nonperforming assets and increasing productivity.

Balance Sheet

Total assets increased $10.6 million, or 1.69%, to $636.5 million at March 31, 2016 from $625.9 million at December 31, 2015. The main driver in the increase was an increase of $9.1 million in loans as a result of our efforts to conservatively grow the loan portfolio.

Total investments decreased $16.9 million, or 16.66%, to $84.7 million at March 31, 2016 from $101.6 million at December 31, 2015. We sold $12.9 million in investment securities during the first three months of 2016. These sales resulted in net realized gains of $105 thousand. These sales were executed in order to take advantage of gains in the investment portfolio while providing liquidity to fund loan growth. Interest bearing deposits with banks increased $12.5 million, or 111.87%, in the first three months of 2016 to $23.8 million from $11.3 million at December 31, 2015.

Total loans increased $9.1 million, or 2.07%, to $450.3 million at March 31, 2016 as compared to $441.2 million at December 31, 2015. This was due to our strategy to conservatively grow the loan portfolio as we refocus our efforts away from complying with the Written Agreement to enhancing shareholder value. To assist in these efforts, we are further developing our commercial lending staff and have added new members to the team in an effort to grow the loan portfolio. We believe the focus on developing new and existing lending relationships should continue the pace of increasing total loans as experienced in the first three months of 2016, subject to the economy and heightened competition in our markets.

Total deposits decreased $2.8 million from $558.0 million at December 31, 2015 to $555.2 million at March 31, 2016. Noninterest bearing deposits declined 1.16%, or $1.7 million, from $149.7 million at December 31, 2015 to $148.0 million at March 31, 2016. We experienced an increase of $12.4 million, or 41.12%, in interest-bearing demand deposits during the first three months of 2016. We have experienced a $7.8 million, or 6.46%, decrease in non-maturity deposits. Time deposits decreased by $5.7 million, or 2.21%, from $257.0 million at December 31, 2015 to $251.3 million at March 31, 2016. Overall, we continue to maintain core deposits through attractive consumer and commercial deposit products and strong ties with our customer base and communities. The shift from higher-costing time deposits to lower-costing deposit products represents a favorable repositioning of the Company's deposit mix. We believe the continued decrease in time deposits is primarily the result of the prolonged low interest rate environment. We also expect to continue to lose higher cost deposits at a slower pace in the near future as the remaining longer term time deposits mature and some of these will likely reprice at much lower interest rates. We believe despite the deposit decrease, we have adequate liquidity.

Total borrowings increased to $12.7 million at March 31, 2016, an increase of $9.7 million from the $3.0 million outstanding balance at December 31, 2015. The increase in advances from the Federal Home Loan Bank are short-term borrowings we expect to pay off as we anticipate growing deposits and utilizing sales of available for sale securities to fund our loan growth.

Total equity at March 31, 2016 was $47.2 million. That represents an increase of $1.1 million, or 2.49%, when compared to the December 31, 2015 balance of $46.1 million. Net income of $698 thousand and the $449 thousand increase in other comprehensive income resulting from an increase in net unrealized gains in the investment portfolio during the three months ended March 31, 2016 were the drivers of the increase in equity.

Asset Quality

We continue to make significant progress in reducing the levels of non-performing assets. However, as asset quality improves the level of nonperforming assets remains elevated as a result of the prolonged deteriorated residential and commercial real estate markets, as well as the sluggish economy. Loans rated substandard decreased $2.2 million, or 11.15%, to $17.5 million at March 31, 2016 from $19.7 million at December 31, 2015.

The ratio of nonperforming assets to total assets lowered to 4.20% at March 31, 2016 as compared to 4.35% at December 31, 2015. Nonperforming assets, which include nonaccrual loans, other real estate owned and past due loans greater than 90 days still accruing interest, decreased to $26.7 million at March 31, 2016 from $27.2 million at December 31, 2015, a reduction of $522 thousand, or 1.92%. We continue undertaking extensive and more aggressive measures to work out problem credits and liquidate foreclosed properties in an effort to accelerate a reduction of nonperforming assets. Our goal is to reduce the nonperforming assets being mindful of the impact to earnings and capital; however, we may recognize some losses and reductions in the allowance for loan loss as we expedite the resolution of these problem assets. Delinquencies increased in the first three months of 2016 as total past due loans increased to $14.9 million at March 31, 2016 from $13.4 million at December 31, 2015, an increase of $1.5 million, or 11.16%. Overall, we believe the asset quality has stabilized.

Other real estate owned (“OREO”) increased $798 thousand to $13.2 million at March 31, 2016 from $12.4 million at December 31, 2015. All properties are available for sale by commercial and residential realtors under the direction of our Special Assets division. During the first three months of 2016, we acquired $1.1 million in other real estate owned as a result of settlement of foreclosed loans, which was offset by sales of $312 thousand of our properties with gains of $43 thousand realized as a result of the sales. Future sales of these properties are contingent upon an economic recovery; consequently, it is difficult to estimate the duration of our ownership of these assets. We do have lease agreements on certain other real estate owned properties which are generating rental income at market rates. Rental income on OREO properties was $67 thousand for the first three months of 2016, an increase of $22 thousand, or 48.89%, when compared to the $45 thousand recognized in the first three months of 2015.

Our allowance for loan losses at March 31, 2016 was $7.2 million, or 1.60% of total loans as compared to $7.5 million, or 1.70% of total loans at December 31, 2015. Impaired loans decreased $599 thousand, or 3.46%, to $16.7 million with an estimated related allowance of $873 thousand for potential losses at March 31, 2016 as compared to $17.3 million in impaired loans with an estimated related allowance of $983 thousand at the end of 2015. No provision for loan losses was recorded during first three months of 2016 or 2015. In the first three months of 2016, net charge offs were $274 thousand, or 0.25% of average loans, as compared to $962 thousand, or 0.75% of average

loans, in the same period of 2015. The allowance for loan losses is being maintained at a level that management deems appropriate to absorb any potential future losses and known impairments within the loan portfolio whether or not the losses are actually ever realized. We continue to adjust the allowance for loan loss model to best reflect the risks in the portfolio and the improvements made in our internal policies and procedures; however, future provisions may be deemed necessary.

Capital Ratios

At March 31, 2016, the Company remains well-capitalized. The Tier 1 leverage ratio was 9.95% at March 31, 2016, compared to 9.74% at December 31, 2015. The Tier 1 risk based ratio was 16.20% at March 31, 2016, compared to 16.40% at December 31, 2015. The Total risked based capital ratio was 17.54% at March 31, 2016, compared to 17.80% at December 31, 2015. The Common Equity Tier 1 ratio was 12.14% at March 31, 2016, compared to 12.27% at December 31, 2015.

At March 31, 2016, the Bank also remains well capitalized under the regulatory framework for prompt corrective action. The following ratios existed at March 31, 2016 for the Bank: Tier 1 leverage ratio of 9.83%, Tier 1 risk based capital ratio of 16.02%, Total risk based capital ratio of 17.28%, and Common Equity Tier 1 ratio of 16.02%. The ratios were as follows at December 31, 2015: Tier 1 leverage ratio of 9.67%, Tier 1 risk based capital ratio of 16.29%, Total risk based capital ratio of 17.55%, and Common Equity Tier 1 ratio of 16.29%.

The ratios mentioned above for the Company and Bank comply with the Federal Reserve rules to align with the Basel III Capital requirements effective January 1, 2015. As a result of these new rules the Company and Bank are now subject to a Common Equity Tier 1 ratio set out above.

Deferred Tax Asset and Income Taxes

Due to timing differences between book and tax treatment of several income and expense items, a net deferred tax asset of $5.0 million existed at March 31, 2016 as compared to a net deferred tax asset of $5.1 million at December 31, 2015. At March 31, 2016 we had a valuation allowance of $5.4 million as compared to a valuation allowance of $5.7 million at December 31, 2015. During the first three months of 2016 we reversed $272 thousand of our deferred tax valuation allowance. As of March 31, 2016, the Company had $15.1 million of net operating loss carryforwards which will expire in 2031 thru 2035. Management expects to utilize all of these carryforwards prior to expiration. Direct charge-offs contributed to a reduction of the tax asset and are permitted as tax deductions. In addition, writedowns on other real estate owned property are expensed for book purposes but are not deductible for tax purposes until disposition of the property. Goodwill expense also was realized for book purposes in 2011 but continues to only be tax deductible based on the statutory requirements; thus, creating a deferred tax asset. When, and if, taxable income increases in the future and during the net operating loss carryforward period, this valuation allowance may be reversed and used to decrease tax obligations in the future. Our income tax expense was computed at the normal corporate income tax rate of 34% of taxable income included in net income. We do not have significant nontaxable income or nondeductible expenses.

Capital Resources

Our total capital at the end of the first quarter 2016 was $47.2 million compared to $46.1 million at December 31, 2015. The increase was $1.1 million, or 2.49%. The Bank and the Company were both well capitalized as of March 31, 2016, as defined by the regulatory capital guidelines. New Peoples equity as a percentage of total assets was 7.42% at March 31, 2016 compared to 7.36% at December 31, 2015. The tangible book value per common share was $2.02 at March 31, 2016 compared to $1.97 at December 31, 2015.

Total assets increased during the first quarter of 2016 and we anticipate asset levels to increase in the future due to an emphasis on growing the loan portfolio and the core deposit base of the Bank. Our primary source of capital comes

from earnings. Under current economic conditions, we believe it is prudent to continue to increase capital to support planned asset

growth while being able to absorb potential losses that may occur if asset quality deteriorates further. Based upon projections, we believe retained earnings will be sufficient to support the Bank's planned asset growth. As part of our initiative to maintain well capitalized status as defined by regulatory guidelines, we are working to further replace our nonperforming assets with high-quality interest-earning assets. We are also focused on improving earnings by maintaining a strong net interest margin and decreasing overhead expenses. However, these efforts alone may not provide us adequate capital if further losses related to OREO or loans are realized.

No cash dividends have been paid historically and we do not anticipate paying a cash dividend in the foreseeable future as the Company continues to have a retained deficit. Earnings will continue to be retained to build capital and position the Company to pay a dividend to its shareholders as soon as practicable.

Liquidity

We closely monitor our liquidity and our liquid assets which consists of cash, due from banks, federal funds sold, and unpledged available for sale investments. Collectively, those balances were $108.6 million at March 31, 2016, down from $112.6 million at December 31, 2015. A surplus of short-term assets are maintained at levels management deems adequate to meet potential liquidity needs.

At March 31, 2016, all of our investments are classified as available-for-sale. These investments provide an additional source of liquidity in the amount of $69.2 million, which is net of the $15.5 million of securities pledged as collateral. Investment securities available for sale serve as a source of liquidity while yielding a higher return versus other short term investment options, such as federal funds sold and overnight deposits with the Federal Reserve Bank. Due to maturities, paydowns, and sales of securities our investment portfolio has declined from $101.6 million at December 31, 2015 to $84.7 million at March 31, 2016. A $680 thousand increase in the fair market value of the investment portfolio during the 1st quarter of 2016 resulted in a net unrealized gain of $184 thousand at March 31, 2016 compared to the net unrealized loss of $496 thousand at December 31, 2015.

Our loan to deposit ratio was 81.10% at March 31, 2016 and 79.06% at December 31, 2015. We anticipate this ratio to remain at or below 85% in the near future as we work to increase the loan portfolio and grow the core deposit base of the Bank.

Available third-party sources of liquidity at March 31, 2016 include the following: a line of credit with the Federal Home Loan Bank of Atlanta, access to brokered certificates of deposit markets and internet certificates of deposit, and the discount window at the Federal Reserve Bank of Richmond. In May 2015, we received notification that a $3.0 million unsecured federal funds line of credit facility with a correspondent bank had been reinstated. In February 2016, we received notification that this facility had been increased to $5.0 million. In March 2016, we received notification that another correspondent bank had reinstated an unsecured federal funds line of credit facility in the amount of $5.0 million. As a result we had the ability to borrow $10.0 million in unsecured federal funds as of March 31, 2016, which gives us an additional source of liquidity.

At March 31, 2016, we had borrowings from the Federal Home Loan Bank (“FHLB”) totaling $12.7 million as compared to $3.0 million at December 31, 2015. None of the FHLB advances are overnight borrowings and therefore none of the advance is subject to daily interest rate changes. Of the $12.7 million outstanding balance, $10.0 million mature in April 2016. The remaining $2.7 million in borrowings have a maturity date in the year 2018, but are amortizing monthly or quarterly. These borrowings decreased $300 thousand during the first three months of 2016 due to regularly scheduled principal payments. We also used our line of credit with the Federal Home Loan Bank to issue letters of credit for $7.0 million in 2013 and $5.0 million in 2015 to the Treasury Board of Virginia for collateral on public funds. An additional $95.4 million was available on March 31, 2016 on the $120.1 million line of credit, which is secured by a blanket lien on our residential real estate loans.

We have access to the brokered deposits market. Currently we have $2.7 million in 10-year term time deposits comprised of $3 thousand incremental deposits which yield an interest rate of 4.10%. With the exception of CDARS time deposits, we have no other brokered deposits. Though this has not been a strategy in the past, we may utilize this source in the future as a lower cost source of funds. In February 2016, our ability to participate in CDARS one way buys was reinstated. As of March 31, 2016 we had $3.2 million in CDARS one way buys outstanding.

We are a member of an internet certificate of deposit network whereby we may purchase funds from other financial institutions at auction. We may invest funds through this network as well. Currently, we only intend to use this source of liquidity in a liquidity crisis event.

The Bank has access to additional liquidity through the Federal Reserve Bank discount window for overnight funding needs. We may collateralize this line with investment securities and loans at our discretion; however, we do not anticipate using this funding source except as a last resort.

Additional liquidity is expected to be provided by loan repayments and core deposit growth that will result from an increase in market share in our targeted trade area. During the first quarter of 2016, rates paid on time deposits were increased in an effort to slow down the trend of declining time deposit balances.

With the increased asset liquidity and other external sources of funding, we believe we have adequate liquidity and capital resources to meet our requirements and needs for the foreseeable future. However, liquidity can be further affected by a number of factors such as counterparty willingness or ability to extend credit, regulatory actions and customer preferences, etc.

The bank holding company has $1.3 million in cash on deposit at the Bank as of March 31, 2016. These funds will be used to pay operating expenses, trust preferred interest payments, and provide additional capital injections to the Bank, if needed.

The Company is making quarterly interest payments on the trust preferred securities. The restriction requiring regulatory approval before the payment of interest on the trust preferred securities was lifted when the Written Agreement was terminated effective January 20, 2016.

During the capital raise in 2012, common stock warrants were issued to investors. The warrants are immediately exercisable through December 2017 at a price of $1.75 per share. No warrants were exercised during the first three months of 2016 and the number of warrants outstanding at March 31, 2016 was 882,353. If these warrants are exercised, additional funds may be received by the Company, which provides potentially up to $1.5 million in additional liquidity and capital to the holding company. Additional contingent funding sources will be explored as available.

Off Balance Sheet Items and Contractual Obligations

There have been no material changes during the quarter ended March 31, 2016 to the off-balance sheet items and the contractual obligations disclosed in our annual report on Form 10-K for the fiscal year ended December 31, 2015.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable.

Item 4. Controls and Procedures

We have carried out an evaluation, under the supervision and with the participation of our management, including our President and Chief Executive Officer (our “CEO”) and our Senior Vice President and Chief Financial Officer (our “CFO”), of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were operating effectively in providing reasonable assurance that (a) the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and (b) such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely

decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended March 31, 2016 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

There are no pending or threatened legal proceedings to which the Company or any of its subsidiaries is a party or to which the property of the Company or any of its subsidiaries is subject that, in the opinion of management, may materially impact the financial condition of the Company.

Item 1A. Risk Factors

Not Applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits

See Index of Exhibits.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NEW PEOPLES BANKSHARES, INC.
(Registrant)

By: /s/ C. TODD ASBURY
C. Todd Asbury
President and Chief Executive Officer

Date: May 16, 2016

By: /s/ JOSEPH D. PENNINGTON
Joseph D. Pennington
Senior Vice President and Chief Financial Officer

Date: May 16, 2016

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Index of Exhibits

No.		Description
2.1		Agreement and Plan of Share Exchange dated August 15, 2011 (incorporated by reference to Exhibit 2 to Form 8-K filed December 17, 2011).
3.1		Amended Articles of Incorporation of New Peoples Bankshares, Inc. (incorporated by reference to Exhibit 3.1 to Form 10-Q for the quarterly period ended June 30, 2008 filed on August 11, 2008).
3.2		Bylaws of New Peoples Bankshares, Inc. (incorporated by reference to Exhibit 3.1 to Form 8-K filed on April 15, 2004).
4.1		Specimen Common Stock Certificate of New Peoples Bankshares, Inc. (incorporated by reference to Exhibit 4.1 to Form 10-Q for the quarterly period ended June 30, 2012 filed on August 14, 2012).
4.2		Form of Warrant to Purchase Shares of Common Stock (incorporated by reference to Exhibit 4.2 to Form 10-Q for the quarterly period ended June 30, 2012 filed on August 14, 2012).
4.3		Form of Rights Certificate (incorporated by reference to Exhibit 4.3 to Form 10-Q for the quarterly period ended June 30, 2012 filed on August 14, 2012).
10.1	*	New Peoples Bank, Inc. 2001 Stock Option Plan (incorporated by reference to Exhibit 10.1 to Annual Report on Form 10-KSB for the fiscal year ended December 31, 2001).
10.2	*	Form of Non-Employee Director Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.2 to Form 8-K filed November 30, 2004).
10.3	*	Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.3 to Form 8-K filed November 30, 2004).
10.4	*	Salary Continuation Agreement dated December 18, 2002 between New Peoples Bank, Inc. and Frank Sexton, Jr. (incorporated by reference to Exhibit 10.6 to Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
10.5	*	First Amendment dated June 30, 2003 to Salary Continuation Agreement between New Peoples Bank, Inc. and Frank Sexton, Jr. (incorporated by reference to Exhibit 10.7 to Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
10.6	*	Letter Agreement, dated as of June 29, 2009, between the Company and Kenneth D. Hart (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q for the quarter ended June 30, 2009).
10.7		Written Agreement, effective August 4, 2010, by and among New Peoples Bankshares, Inc., New Peoples Bank, Inc., the Federal Reserve Bank of Richmond and the State Corporation Commission Bureau of Financial Institutions (incorporated by reference to Exhibit 10.1 to Form 8-K filed August 6, 2010).
10.8		Engagement Letters of Scott & Stringfellow, LLC (incorporated by reference to Exhibit 10.8 to Form 10-Q for the quarterly period ended June 30, 2012 filed on August 14, 2012).
10.9		Convertible Note Payable, B. Scott White, dated June 27, 2012 (incorporated by reference to Exhibit 10.1 to Form 8-K filed June 29, 2012).
10.10		Convertible Note Payable, Harold Lynn Keene, dated June 27, 2012 (incorporated by reference to Exhibit 10.2 to Form 8-K filed June 29, 2012).
31.1		Certification by Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.
31.2		Certification by Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.
32		Certification by Chief Executive Officer and Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
101		The following materials for the Company’s 10-Q Report for the quarterly period ended March 31, 2016, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholders’ Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to the Consolidated Financial Statements, tagged as blocks of text.

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* Denotes management contract.

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