NEW PEOPLES BANKSHARES INC
Form 10-K
March 26, 2015
Table of Contents

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For fiscal year ended December 31, 2014

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

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

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock - $2 Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15 (d) of the Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K Section 229.405 is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 ¨ (Do not check if smaller reporting company)	Smaller reporting company x

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

The aggregate market value of the common stock held by non-affiliates, based on the last reported sales prices of $1.10 per share on the last business day of the second quarter of 2014 was $9,241,597.

The number of shares outstanding of the registrant s common stock was 22,878,654 as of March 24, 2015.

DOCUMENTS INCORPORATED BY REFERENCE:

The Proxy Statement for New Peoples Bankshares, Inc s 2015 Annual Meeting to Shareholders, is incorporated into Items 10 through 14 of this form 10-K.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I

Item 1. Business

General

New Peoples Bankshares, Inc. (New Peoples) is a Virginia bank holding company headquartered in Honaker, Virginia. Prior to January 1, 2009, New Peoples was a financial holding company. Our business is conducted primarily through New Peoples Bank, Inc., a Virginia banking corporation (the Bank). The Bank has a division doing business as New Peoples Financial Services which offers investment services through its broker dealer relationship with LPL Financial Services, Inc. NPB Insurance Services, Inc. (NPB Insurance) is a subsidiary of the Bank and offers insurance services only.

The Bank offers a range of banking and related financial services focused primarily on serving individuals, small to medium size businesses, and the professional community. We strive to serve the banking needs of our customers while developing personal, hometown relationships with them. Our board of directors believes that marketing customized banking services enables us to establish a niche in the financial services marketplace where we do business.

The Bank is headquartered in Honaker, Virginia and operates 19 full service offices in the southwestern Virginia counties of Russell, Scott, Washington, Tazewell, Buchanan, Dickenson, Wise, and Smyth; Mercer County in southern West Virginia and the eastern Tennessee county of Sullivan.

We provide professionals and small and medium size businesses in our market area with responsive and technologically enabled banking services. These services include loans that are priced on a deposit relationship basis, easy access to our decision makers, and quick and innovative action necessary to meet a customer s banking needs. Our capitalization and lending limit enable us to satisfy the credit needs of a large portion of the targeted market segment. When a customer needs a loan that exceeds our lending limit, we try to find other financial institutions to participate in the loan with us.

Our History

The Bank was incorporated under the laws of the Commonwealth of Virginia on December 9, 1997 and began operations on October 28, 1998. On September 27, 2001, the shareholders of the Bank approved a plan of reorganization under which they exchanged their shares of Bank common stock for shares of New Peoples common stock. On November 30, 2001, the reorganization was completed and the Bank became New Peoples wholly owned subsidiary.

In June 2003, New Peoples formed two new wholly-owned subsidiaries, NPB Financial Services, Inc. (currently named NPB Insurance Services, Inc.) and NPB Web Services, Inc. (NPB Web), a web design and hosting company.

NPB Insurance is a full-service insurance agency, selling property, general and professional liability, bonds, life and health products, and credit life and accident insurance to individual and commercial clients. However, the Bank, through its division New Peoples Financial services, offers fixed and variable annuities, fee based asset management and other investment products through a broker/dealer relationship with LPL Financial Services, Inc.

NPB Web is inactive.

In July 2004, NPB Capital Trust I was formed to issue $11.3 million in trust preferred securities.

In September 2006, NPB Capital Trust 2 was formed to issue $5.2 million in trust preferred securities.

Branch Locations

After a period of significant branch expansion between 2000 and 2008, we have consolidated some of our branch operations to improve efficiency. Currently, in addition to our headquarters in Honaker, Virginia we have 18 branches located in Abingdon, Virginia; Big Stone Gap, Virginia; Bluefield, Virginia; Bristol, Virginia; Castlewood, Virginia; Chilhowie, Virginia; Clintwood, Virginia; Gate City, Virginia; Grundy, Virginia; Haysi, Virginia; Lebanon, Virginia; Pound, Virginia; Pounding Mill, Virginia; Tazewell, Virginia; Weber City, Virginia; Wise, Virginia; Princeton, West Virginia; and Kingsport, Tennessee.

Table of Contents

Our Market Areas

Our primary market area consists of southwestern Virginia, southern West Virginia and northeastern Tennessee. Specifically, we operate in the southwestern Virginia counties of Russell, Scott, Washington, Tazewell, Buchanan, Dickenson, Wise, and Smyth; Mercer County in southern West Virginia and the northeastern Tennessee county of Sullivan (collectively, the Tri-State Area). The close proximity and mobile nature of individuals and businesses in adjoining counties and nearby cities in Virginia, West Virginia and Tennessee place these markets within our Bank s targeted trade area, as well.

Accessibility to Interstates I-77, I-81, I-26, I-64 and I-75, as well as major state and U.S. highways including US 19, US 23, US 58, US 460 and US 421, make the area an ideal location for businesses to serve markets in the Mid-Atlantic, Southeast and Midwest. The area is strategically located midway between Atlanta-Pittsburgh, Charlotte-Cincinnati, and Richmond-Louisville, and is within a day s drive of more than half of the U.S. population. A regional airport located in Bristol, Tennessee serves the area with commercial flights to and from major cities in the United States. Commercial rail service providers include CSX Transportation and Norfolk Southern Railways.

The Tri-State Area has a diversified economy supported by natural resources, which include coal, natural gas, limestone, and timber; agriculture; healthcare; education; technology; manufacturing and services industries. Predominantly, the market is comprised of locally-owned and operated small businesses. Considerable investments in high-technology communications, high-speed broadband network and infrastructure have been made which has opened the area to large technology companies and future business development potential for new and existing businesses. Industries are taking advantage of the low cost of doing business, training opportunities, available workforce and an exceptional quality of life experience for employers and employees alike.

Internet Site

We have our internet banking site at www.newpeoplesbank.com. The site includes a customer service area that contains branch and ATM locations, product descriptions and current interest rates offered on deposit accounts. Customers with internet access can access account balances, make transfers between accounts, enter stop payment orders, order checks, and use an optional bill paying service.

Available Information

We file annual, quarterly, and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). Our SEC filings are filed electronically and are available to the public over the internet at the SEC s web site at www.sec.gov. In addition, any document we file with the SEC can be read and copied at the SEC s public reference facilities at 100 F Street, N.E., Washington, D.C. 20549. Copies of documents can be obtained at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We also provide a link to our filings on the SEC website, free of charge, through our internet website www.npbankshares.com under Investor Relations.

Banking Services

General. We accept deposits, make consumer and commercial loans, issue drafts, and provide other services customarily offered by a commercial bank, such as business and personal checking and savings accounts, walk-up tellers, drive-in windows, and 24-hour automated teller machines. The Bank is a member of the Federal Reserve System and its deposits are insured under the Federal Deposit Insurance Act (the FDIA) to the maximum limit.

Loans. Generally, we offer a full range of short-to-medium term commercial, 1-4 family residential mortgages and personal loans. Commercial loans include both secured and unsecured loans for working capital (including inventory and receivables), business expansion (including acquisition of real estate and improvements) and purchase of equipment and machinery. Consumer loans may include secured and unsecured loans for financing automobiles, home improvements, education, personal investments and other purposes.

Our lending activities are subject to a variety of lending limits imposed by state law. While differing limits apply in certain circumstances based on the type of loan or the nature of the borrower (including the borrower s relationship to the Bank), in general, the Bank is subject to a loan-to-one borrower limit of an amount equal to 15% of its capital and surplus in the case of loans which are not fully secured by readily marketable or other permissible types of collateral. The Bank voluntarily may choose to impose a policy limit on loans to a single borrower that is less than the legal lending limit.

We obtain short-to-medium term commercial and personal loans through direct solicitation of business owners and continued business from existing customers. Completed loan applications are reviewed by our loan officers. As part of the application process, information is obtained concerning the income, financial condition, employment and credit history of the applicant. If commercial real estate is involved, information is also obtained concerning cash flow after debt service. Loan quality is analyzed based on the Bank s experience and its credit underwriting guidelines.

Loans by type as a percentage of total loans are as follows:

	December 31,				
	2014	2013	2012	2011	2010
Commercial, financial and agricultural	10.99%	11.70%	12.61%	14.35%	15.48%
Real estate construction	3.37%	4.55%	4.66%	5.42%	7.39%
Real estate mortgage	79.99%	78.46%	77.09%	73.79%	69.13%
Installment loans to individuals	5.65%	5.29%	5.64%	6.44%	8.00%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

In the above table the category Real estate mortgage includes both commercial loans secured by real estate and residential mortgage loans secured by real estate. At December 31, 2014 we had $108.1 million in loans secured by commercial real estate, or 23.62% of total loans, and $257.9 million secured by residential real estate, or 56.38% of total loans.

Commercial Loans. We make commercial loans to qualified businesses in our market area. Our commercial lending consists primarily of commercial and industrial loans to finance accounts receivable, inventory, property, plant and equipment. Commercial business loans generally have a higher degree of risk than residential mortgage loans, but have commensurately higher yields. Residential mortgage loans are generally made on the basis of the borrower s ability to make repayment from employment and other income and are secured by real estate whose value tends to be easily ascertainable. In contrast, commercial business loans typically are made on the basis of the borrower s ability to make repayment from cash flow from its business and are secured by business assets, such as commercial real estate, accounts receivable, equipment and inventory. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself.

Further, the collateral for commercial business loans may depreciate over time and cannot be appraised with as much precision as residential real estate. To manage these risks, our underwriting guidelines require us to secure commercial loans with both the assets of the borrowing business and other additional collateral and guarantees that may be available. In addition, we actively monitor certain measures of the borrower, including advance rate, cash flow, collateral value and other appropriate credit factors.

Residential Mortgage Loans. Our residential mortgage loans consist of residential first and second mortgage loans, residential construction loans, home equity lines of credit and term loans secured by first and second mortgages on the residences of borrowers for home improvements, education and other personal expenditures. We make mortgage loans with a variety of terms, including fixed and floating or variable rates and a variety of maturities.

Under our underwriting guidelines, residential mortgage loans are generally made on the basis of the borrower s ability to make repayment from employment and other income and are secured by real estate whose value tends to be easily ascertainable. These loans are made consistent with our appraisal policies and real estate lending policies, which detail maximum loan-to-value ratios and maturities. New requirements arising out of the response to the recent financial crisis for extending residential mortgage loans may impact our ability to make these types of loans in the same volume as in the past.

Construction Loans. Construction lending entails significant additional risks, compared to residential mortgage lending. Construction loans often involve larger loan balances concentrated with single borrowers or groups of related borrowers. Construction loans also involve additional risks attributable to the fact that loan funds are advanced upon the security of property under construction, which is of uncertain value prior to the completion of construction. Thus, it is more difficult to evaluate the total loan funds required to complete a project and related loan-to-value ratios accurately. To minimize the risks associated with construction lending, loan-to-value limitations for residential, multi-family and non-residential construction loans are in place. These are in addition to the usual credit analysis of borrowers. Management feels that the loan-to-value ratios help to minimize the risk of loss and to compensate for normal fluctuations in the real estate market. Maturities for construction loans generally range from 4 to 12 months for residential property and from 6 to 18 months for non-residential and multi-family properties.

Consumer Loans. Our consumer loans consist primarily of installment loans to individuals for personal, family and household purposes. The specific types of consumer loans that we make include home improvement loans, debt consolidation loans and general consumer lending. Consumer loans entail greater risk than residential mortgage loans do, particularly in the case of consumer loans that are unsecured, such as lines of credit, or secured by rapidly depreciating assets such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections are dependent on the borrower s continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. A borrower may also be able to assert against the Bank as an assignee any claims and defenses that it has against the seller of the underlying collateral.

Our underwriting policy for consumer loans seeks to limit risk and minimize losses, primarily through a careful analysis of the borrower. In evaluating consumer loans, we require our lending officers to review the borrower s level and stability of income, past credit history and the impact of these factors on the ability of the borrower to repay the loan in a timely manner. In addition, we maintain an appropriate margin between the loan amount and collateral value.

Deposits. We offer a variety of deposit products for both individual and business customers. These include demand deposit, interest-bearing demand deposit, savings deposit, and money market deposit accounts. In addition, we offer certificates of deposit with terms ranging from 7 days to 60 months and individual retirement accounts with terms ranging from 12 months to 60 months.

Investment Services. We offer a variety of investment services for both individual and business customers. These services include fixed income products, variable annuities, mutual funds, indexed certificates of deposit, individual retirement accounts, long term care insurance, employee group benefit plans, college savings plans, financial planning, managed money accounts, and estate planning. We offer these services through our broker-dealer relationship with LPL Financial Services, Inc.

Other Bank Services. Other bank services include safe deposit boxes, cashier s checks, certain cash management services, direct deposit of payroll and social security checks and automatic drafts for various accounts. We offer ATM card services that can be used by our customers throughout Virginia and other regions. We also offer MasterCard and VISA credit card services through an intermediary. Electronic banking services include debit cards, internet banking, telephone banking and wire transfers.

We do not presently anticipate obtaining trust powers, but we are able to provide similar services through our affiliation with LPL Financial Services, Inc.

Competition

The banking business is highly competitive. We compete as a financial intermediary with other commercial banks, savings and loan associations, credit unions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market mutual funds and other financial institutions operating in the southwestern Virginia, southern West Virginia, and eastern Tennessee market area and elsewhere. Our market area is a highly competitive, highly branched banking market.

Competition in the market area for loans to small businesses and professionals, the Bank s target market, is intense, and pricing is important. Many of our larger competitors have substantially greater resources and lending limits than we have. They offer certain services, such as extensive and established branch networks and trust services that we do not expect to provide or will not provide in the near future. Moreover, larger institutions operating in the market area have access to borrowed funds at lower costs than are available to us. Deposit competition among institutions in the market area also is strong. As a result, it is possible that we may have to pay above-market rates to attract deposits.

While pricing is important, our principal method of competition is service. As a community banking organization, we strive to serve the banking needs of our customers while developing personal, hometown relationships with them. As a result, we provide a significant amount of service and a range of products without the fees that customers can expect from larger banking institutions.

According to a market share report prepared by the Federal Deposit Insurance Corporation (the FDIC), as of June 30, 2014, the most recent date for which market share information is available, the Bank s deposits as a percentage of total deposits in its major market areas were as follows: Russell County, VA 25.08%, Scott County, VA 35.37%, Dickenson County, VA 27.79%, Tazewell County, VA 8.02%, Smyth County, VA 2.40%, Buchanan County, VA 9.45%, Wise County, VA 8.72%, Washington County, VA 2.55%, and the City of Bristol, VA 2.15%, Mercer County, WV 8.34%, and City of Kingsport, TN 1.30%.

Table of Contents

Employees

As of December 31, 2014, we had 243 total employees, of which 233 were full-time employees. None of our employees are covered by a collective bargaining agreement, and we consider relations with employees to be excellent.

Supervision and Regulation

General. As a bank holding company, we are subject to regulation under the Bank Holding Company Act of 1956, as amended (BHCA), and the examination and reporting requirements of the Board of Governors of the Federal Reserve System (the Federal Reserve). We are also subject to Chapter 13 of the Virginia Banking Act, as amended (Virginia Act). As a state-chartered commercial bank, the Bank is subject to regulation, supervision and examination by the Virginia State Corporation Commission s Bureau of Financial Institutions (BFI). As a member of the Federal Reserve system, the Bank is also subject to regulation, supervision and examination by the Federal Reserve. Other federal and state laws, including various consumer protection and compliance laws, govern the activities of the Bank, such as the investments that it makes and the aggregate amount of loans that it may grant to one borrower.

The following description summarizes the most significant federal and state laws applicable to New Peoples and its subsidiaries. To the extent that statutory or regulatory provisions are described, the description is qualified in its entirety by reference to that particular statutory or regulatory provision.

The Bank Holding Company Act. Under the BHCA, the Federal Reserve examines New Peoples periodically. New Peoples is also required to file periodic reports and provide any additional information that the Federal Reserve may require. Activities at the bank holding company level are generally limited to:

- banking, managing or controlling banks;
- furnishing services to or performing services for its subsidiaries; and
- engaging in other activities that the Federal Reserve has determined by regulation or order to be so closely related to banking as to be a proper incident to these activities.

Thus, the activities we can engage in are restricted as a matter of law.

With some limited exceptions, the BHCA requires every bank holding company to obtain the prior approval of the Federal Reserve before:

- acquiring substantially all the assets of any bank;
- acquiring direct or indirect ownership or control of any voting shares of any bank if after such acquisition it would own or control more than 5% of the voting shares of such bank (unless it already owns or controls the majority of such shares); or

merging or consolidating with another bank holding company.
As a result, our ability to engage in certain strategic activities is conditioned on regulatory approval.

In addition, and subject to some exceptions, the BHCA and the Change in Bank Control Act require Federal Reserve approval prior to any person or company acquiring control of a bank holding company as defined in the statutes and regulations. These requirements make it more difficult for control of our company to change or for us to acquire substantial investments.

The Virginia Act. As a bank holding company registered with the BFI, we must provide the BFI with information concerning our financial condition, operations and management, among other reports required by the BFI. New Peoples is also examined by the BFI in addition to its Federal Reserve examinations. Similar to the BHCA, the Virginia Act requires that the BFI approve the acquisition of direct or indirect ownership or control of more than 5% of the voting shares of any Virginia bank or bank holding company like us.

Table of Contents

Payment of Dividends. New Peoples is a separate legal entity that derives the majority of its revenues from dividends paid to it by its subsidiaries. The Bank is subject to laws and regulations that limit the amount of dividends it can pay. In addition, both New Peoples and the Bank are subject to various regulatory restrictions relating to the payment of dividends, including requirements to maintain capital at or above regulatory minimums. Banking regulators have indicated that banking organizations should generally pay dividends only if the organization s net income available to common shareholders over the past year has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears consistent with the organization s capital needs, asset quality and overall financial condition. The FDIC has the general authority to limit the dividends paid by FDIC insured banks if the FDIC deems the payment to be an unsafe and unsound practice. The FDIC has indicated that paying dividends that deplete a bank s capital base to an inadequate level would be an unsound and unsafe banking practice. In October 2009, the Federal Reserve Bank of Richmond (Richmond FRB) restricted the Company from paying dividends without prior approval. It is therefore highly unlikely that the Company will pay any dividends at least until the Richmond FRB s restriction is removed and this can impact the company s ability to attract capital investment and its share price.

As the past recession continues to impact asset quality and earnings at financial institutions as the above discussion states, the regulatory authorities have broad discretion to, and may, further restrict the payment of dividends by affected financial institutions and this could impact us.

Capital Requirements. The Federal Reserve has issued risk-based and leverage capital guidelines applicable to banking organizations that it supervises. Under the risk-based capital requirements, the Bank and the Company are each generally required to maintain a minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) of 8%. At least half of the total capital must be composed of Tier 1 Capital , which is defined as common equity, retained earnings and qualifying perpetual preferred stock, less certain intangibles. The remainder may consist of Tier 2 Capital , which is defined as specific subordinated debt, some hybrid capital instruments and other qualifying preferred stock and a limited amount of the loan loss allowance. These risk-based capital standards attempt to measure capital adequacy relative to the institution s risk profiles. In addition, each of the federal banking regulatory agencies has established minimum leverage capital requirements for banking organizations. Under these requirements, banking organizations must maintain a minimum ratio of Tier 1 capital to adjusted average quarterly assets of between 3% and 5%, subject to federal bank regulatory evaluation of an organization s overall safety and soundness. The principal objective of the leverage ratio is to constrain the degree to which an institution may leverage its equity capital base. In sum, the capital measures used by the federal banking regulators are:

- the Total Capital ratio, which is the total of Tier 1 Capital and Tier 2 Capital;
- the Tier 1 Capital ratio; and
- the leverage ratio.

Under these regulations, a bank will be:

- well capitalized if it has a Total Capital ratio of 10% or greater, a Tier 1 Capital ratio of 6% or greater, a leverage ratio of 5% or greater, and is not subject to any written agreement, order, capital directive, or prompt corrective action directive by a federal bank regulatory agency to meet and maintain a specific capital level for any capital measure;

adequately capitalized if it has a Total Capital ratio of 8% or greater, a Tier 1 Capital ratio of 4% or greater, and a leverage ratio of 4% or greater or 3% in certain circumstances and is not well capitalized;

undercapitalized if it has a Total Capital ratio of less than 8%, a Tier 1 Capital ratio of less than 4% - or 3% in certain circumstances;

significantly undercapitalized if it has a Total Capital ratio of less than 6%, a Tier 1 Capital ratio of less than 3%, or a leverage ratio of less than 3%; or

critically undercapitalized if its tangible equity is equal to or less than 2% of average quarterly tangible assets,

The risk-based capital standards of the Federal Reserve explicitly identify concentrations of credit risk and the risk arising from non-traditional activities, as well as an institution s ability to manage these risks, as important factors to be taken into account by the agency in assessing an institution s overall capital adequacy. The capital guidelines also provide that an institution s exposure to a decline in the economic value of its capital due to changes in interest rates be considered as a factor in evaluating a banking organization s capital adequacy. Thus, the capital level of a bank can be of regulatory concern even if it is well-capitalized under the regulatory formula and a well-capitalized bank can be required to maintain even higher capital levels based on its asset quality or other regulatory concerns.

Table of Contents

The regulators may take various corrective actions with respect to a financial institution considered to be capital deficient. These powers include, but are not limited to, requiring the institution to be recapitalized, prohibiting asset growth, restricting interest rates paid or dividends, requiring prior approval of capital distributions by any bank holding company that controls the institution, requiring divestiture by the institution of its subsidiaries or by the holding company of the institution itself, requiring new election of directors, and requiring the dismissal of directors and officers. As discussed above, in October 2009 the Richmond FRB imposed a prohibition on the Bank paying dividends to preserve capital. Bank holding companies can be called upon to boost their subsidiary bank s capital and to partially guarantee the institution s performance under its capital restoration plan. If this occurs, capital which otherwise would be available for holding company purposes, including possible distributions to shareholders, would be required to be downstreamed to the subsidiary bank. In this respect, the Richmond FRB also notified New Peoples that it was required to defer dividends on our trust preferred issuances, which we did as of October 2009. 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 of December 31, 2014, the Bank was well capitalized, with a Total Capital ratio of 15.73%; a Tier 1 Capital ratio of 14.46%; and a leverage ratio of 8.19%.

In addition, under the terms of the Written Agreement (See, Management s Discussion and Analysis of Financial Condition and Results of Operations), both the Company and the Bank have agreed to submit capital plans to maintain sufficient capital at the Company, on a consolidated basis, and the Bank, on a stand-alone basis, and to refrain from declaring or paying dividends without prior regulatory approval. The Company has agreed that it will not take any other form of payment representing a reduction in the Bank s capital or make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without prior regulatory approval. The Company may not incur, increase or guarantee any debt without prior regulatory approval and has agreed not to purchase or redeem any shares of its stock without prior regulatory approval.

New Capital Requirements. On July 2, 2013, the Federal Reserve voted to adopt final Basel III capital rules for U.S. banking organizations. Effective January 1, 2015, the final rules require the Company and the Bank to comply with the following new minimum capital ratios: (i) a new common equity Tier 1 capital ratio of 4.5% of risk-weighted assets; (ii) a Tier 1 capital ratio of 6.0% of risk-weighted assets (increased from the current requirement of 4.0%); (iii) a total capital ratio of 8.0% of risk-weighted assets (unchanged from current requirement); and (iv) a leverage ratio of 4.0% of total assets. These are the initial capital requirements and the remainder will be phased in over a five-year period. When fully phased in on January 1, 2019, the rules will require the Company and the Bank to maintain (i) a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the 4.5% common equity Tier 1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 7.0% upon full implementation), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation), and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average assets.

The capital conservation buffer requirement will be phased in beginning January 1, 2016, at 0.625% of risk-weighted assets, increasing each year until fully implemented at 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of common equity Tier 1 to risk-weighted assets above the minimum but below the conservation buffer will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall.

With respect to the Bank, the rules also revised the prompt corrective action regulations pursuant to Section 38 of the FDIA by (i) introducing a common equity Tier 1 capital ratio requirement at each level (other than critically undercapitalized), with the required ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum ratio for well-capitalized status being 8.0% (as compared to the current 6.0%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3.0% Tier 1 leverage ratio and still be well-capitalized.

The new capital requirements also include changes in the risk weights of assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and nonresidential mortgage loans that are 90 days past due or otherwise on nonaccrual status, a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable, a 250% risk weight (up from 100%) for mortgage servicing rights and deferred tax assets that are not deducted from capital, and increased risk-weights (from 0% to up to 600%) for equity exposures. We are in the process of evaluating the impact of the Basel III final rule on the Company s regulatory capital ratios.

Table of Contents

Other Safety and Soundness Regulations. There are a number of obligations and restrictions imposed on bank holding companies and their bank subsidiaries by federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the FDIC insurance funds in the event that the depository institution is insolvent or is in danger of becoming insolvent. For example, the Federal Reserve requires a bank holding company to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so otherwise. These requirements can restrict the ability of bank holding companies to deploy their capital as they otherwise might.

Interstate Banking and Branching. Banks in Virginia may branch without geographic restriction. Current federal law authorizes interstate acquisitions of banks and bank holding companies without geographic limitation. Bank holding companies may acquire banks in any state without regard to state law except for state laws requiring a minimum time a bank must be in existence to be acquired. The Virginia Act generally permits out of state bank holding companies or banks to acquire Virginia banks or bank holding companies subject to regulatory approval. These laws have the effect of increasing competition in banking markets.

Monetary Policy. The commercial banking business is affected not only by general economic conditions but also by the monetary policies of the Federal Reserve. The Federal Reserve s monetary policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. In view of unsettled conditions in the national and international economy and money markets, as well as governmental fiscal and monetary policies their impact on interest rates, deposit levels, loan demand or the business and earnings of the Bank is unpredictable.

Federal Reserve System. Depository institutions that maintain transaction accounts or nonpersonal time deposits are subject to reserve requirements. These reserve requirements are subject to adjustment by the Federal Reserve. Because required reserves must be maintained in the form of vault cash or in a non-interest-bearing account at, or on behalf of, a Federal Reserve Bank, the effect of the reserve requirement is to reduce the amount of the institution s interest-earning assets.

Transactions with Affiliates. Transactions between banks and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act. These provisions restrict the amount and provide conditions with respect to loans, investments, transfers of assets and other transactions between New Peoples and the Bank.

Loans to Insiders. The Bank is subject to rules on the amount, terms and risks associated with loans to executive officers, directors, principal shareholders and their related interests.

Community Reinvestment Act. Under the Community Reinvestment Act, depository institutions have an affirmative obligation to assist in meeting the credit needs of their market areas, including low and moderate-income areas, consistent with safe and sound banking practice. The Community Reinvestment Act emphasizes the delivery of bank products and services through branch locations in its market areas and requires banks to keep data reflecting their efforts to assist in its community s credit needs. Depository institutions are periodically examined for compliance with the Community Reinvestment Act and are periodically assigned ratings in this regard. Banking regulators consider a depository institution s Community Reinvestment Act rating when reviewing applications to establish new branches, undertake new lines of business, and/or acquire part or all of another depository institution. An unsatisfactory rating can significantly delay or even prohibit regulatory approval of a proposed transaction by a bank holding company or its depository institution subsidiaries. A bank holding company will not be permitted to become a financial holding company and no new activities authorized under the GLBA (see below) may be commenced by a holding company or by a bank financial subsidiary if any of its bank subsidiaries received less than a satisfactory rating in its latest Community Reinvestment Act examination. The Bank received a rating of Satisfactory at its last Community

Reinvestment Act performance evaluation, as of August 12, 2013.

Other Laws. Banks and other depository institutions also are subject to numerous consumer-oriented laws and regulations. These laws, which include the Truth in Lending Act, the Truth in Savings Act, the Real Estate Settlement Procedures Act, the Electronic Funds Transfer Act, the Equal Credit Opportunity Act, the Fair and Accurate Credit Transactions Act of 2003 and the Fair Housing Act, require compliance by depository institutions with various disclosure and consumer information handling requirements. These and other similar laws result in significant costs to financial institutions and create potential liability for financial institutions, including the imposition of regulatory penalties for inadequate compliance.

Gramm-Leach-Bliley Act of 1999. The Gramm-Leach-Bliley Act of 1999 (GLBA) covers a broad range of issues, including a repeal of most of the restrictions on affiliations among depository institutions, securities firms and insurance companies.

For example, the GLBA permits unrestricted affiliations between banks and securities firms. It also permits bank holding companies to elect to become financial holding companies, which can engage in a broad range of financial services, including securities activities such as underwriting, dealing, investment, merchant banking, insurance underwriting, sales and brokerage activities. In order to become a financial holding company, a bank holding company and all of its affiliated depository institutions must be well-capitalized, well-managed and have at least a satisfactory Community Reinvestment Act rating. We converted to bank holding company status on January 1, 2009 from financial holding company. We believe we adequately provide the products and services our customers currently need or want as a bank holding company.

Essentially GLBA removed many of the limitations on affiliations between commercial banks and their holding companies and other financially related business that had been in place since the Depression. Recently, this effect of GLBA has been the subject of controversy and cited as one of the causes of the financial services crisis. As a result, The Dodd-Frank Act (as discussed later) addressed some of the criticized aspects of GLBA, but not in a way that would materially affect us.

The GLBA also provides that the states continue to have the authority to regulate insurance activities, but prohibits the states in most instances from preventing or significantly interfering with the ability of a bank, directly or through an affiliate, to engage in insurance sales, solicitations or cross-marketing activities.

USA Patriot Act. The USA Patriot Act provides for the facilitation of information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering. Regulatory authorities must consider the effectiveness of a financial institution s anti-money laundering activities, for example, its procedures for effective customer identification, when reviewing bank mergers and acquisitions. Various other laws and regulations require the Bank to cooperate with governmental authorities in respect to counter-terrorism activities. Although it does create a reporting obligation and cost of compliance for the Bank, the USA Patriot Act has not materially affected New Peoples products, services or other business activities.

Privacy and Fair Credit Reporting. Financial institutions, such as the Bank, are required to disclose their privacy policies to customers and consumers and require that such customers or consumers be given a choice (through an opt-out notice) to forbid the sharing of nonpublic personal information about them with nonaffiliated third persons. The Bank also requires business partners with whom it shares such information to assure the Bank that they have adequate security safeguards and to abide by the redisclosure and reuse provisions of applicable law. In addition to adopting federal requirements regarding privacy, individual states are authorized to enact more stringent laws relating to the use of customer information. To date, Virginia has not done so. These privacy laws create compliance obligations and potential liability for the Bank.

Sarbanes-Oxley Act. The Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) is intended to increase corporate responsibility, provide enhanced penalties for accounting and auditing improprieties by publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities law. The changes required by the Sarbanes-Oxley Act and its implementing regulations are intended to allow shareholders to monitor the performance of companies and their directors more easily and effectively.

The Sarbanes-Oxley Act generally applies to all domestic companies, such as New Peoples, that file periodic reports with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, as amended. The Sarbanes-Oxley Act includes significant additional disclosure requirements and expanded corporate governance rules and the SEC has adopted extensive additional disclosures, corporate governance provisions and other related rules pursuant to it. New Peoples has expended, and will continue to expend, considerable time and money in complying with the Sarbanes-Oxley Act.

Emergency Economic Stabilization Act of 2008. EESA was enacted in response to the financial crises affecting the banking system and financial markets.

Pursuant to EESA, the Department of the Treasury implemented the Troubled Asset Relief Program Capital Purchase Program (the TARP Capital Purchase Program) under which the Treasury agreed to make $250 billion of capital available to U.S. financial institutions in the form of preferred stock. We did not elect to apply to participate in TARP.

Federal Deposit Insurance Corporation. The Bank s deposits are insured by the Deposit insurance Fund, as administered by the FDIC, to the maximum amount permitted by law, now $250,000 per depositor. Due to the increased number of bank failures resulting from the credit crisis and severe recession, FDIC premiums have materially increased and may increase further. This is a significant expense for us and is likely to continue to be.

Table of Contents

Dodd-Frank Wall Street Reform and Consumer Protection Act. The Dodd-Frank Act was signed into law on July 21, 2010. Its wide ranging provisions affect all federal financial regulatory agencies and nearly every aspect of the American financial services industry. Among the provisions of the Dodd-Frank Act that directly impact the Company is the creation of an independent Consumer Financial Protection Bureau (CFPB), which has the ability to write rules for consumer protections governing all financial institutions. All consumer protection responsibility formerly handled by other banking regulators is consolidated in the CFPB. It also oversees the enforcement of all federal laws intended to ensure fair access to credit. For smaller financial institutions such as the Company and the Bank, the CFPB will coordinate its examination activities through their primary regulators.

The Dodd-Frank Act contains provisions designed to reform mortgage lending, which includes the requirement of additional disclosures for consumer mortgages. The CFPB has implemented mortgage lending regulations to carry out its mandate. In addition, the Federal Reserve has issued new rules, effective October 1, 2011, which had the effect of limiting the fees charged to merchants by credit card companies for debit card transactions. The result of these rules will be to limit the amount of interchange fee income available explicitly to larger banks and indirectly to us. The Dodd-Frank Act also contains provisions that affect corporate governance and executive compensation.

Although the Dodd-Frank Act provisions themselves are extensive, the ultimate impact on the Company of this massive legislation is unknown. The Act provides that several federal agencies, including the Federal Reserve, the CFPB and the Securities and Exchange Commission, shall issue regulations implementing major portions of the legislation, and this process is ongoing.

Future Regulatory Uncertainty. Because federal and state regulation of financial institutions changes regularly and is the subject of constant legislative debate, New Peoples cannot forecast how regulation of financial institutions may change in the future and impact its operations. New Peoples fully expects that the financial institution industry will remain heavily regulated and that additional laws or regulations may be adopted further regulating specific banking practices.

Subsequent Events

We have considered subsequent events through the date of the financial statements in this Form 10-K.

Item 1A. Risk Factors

Not applicable.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

At December 31, 2014, the Company s net investment in premises and equipment in service was $28.8 million. Our main office and operations center is located in Honaker, Virginia. This location contains a full service branch, and our administration and operations center.

The Bank owns all of its 19 full service branches, including its headquarter office. The location of these branches are described in Item 1.

The Bank owns a location in Dungannon, Virginia that half of the location was used for a branch location until its closure during 2010. This half and the other half of the location is currently being leased. The Bank owns additional property in Princeton, West Virginia that is being developed for a future full service branch location, and currently serves as a loan administration office. The Princeton location is anticipated to operate as a full service branch in the distant future. During 2012, the Bank closed offices in Bristol, Pennington Gap, and Richlands, Virginia and Jonesborough, Tennessee. The Bristol office was leased to the Bank s subsidiary NPB Insurance Services, Inc. in 2013 and 2014 and this lease will continue in 2015. The Pennington Gap property was sold in January 2013. During 2014, the Bank closed offices in Bland, Jonesville, and Norton, Virginia and Bluewell, West Virginia. The Norton office now serves as an administrative office. The other five offices are vacant and may be used for future banking offices again when the economy recovers.

We believe that all of our properties are maintained in good operating condition and are suitable and adequate for our operational needs.

Table of Contents

Item 3. Legal Proceedings

In the course of operations, we may become a party to legal proceedings. A lawsuit against the Bank was filed in April 2010. This case involved a claim against the Bank by a joint venture between Bank customers, some of whom are former members of senior management, and three investors. The allegation was that the joint venture, VFI, should have priority over the Bank s deed of trust in order for VFI s unrecorded and unrecordable ground lease to be enforceable for its full ten year term. There are also additional claims for damages resulting from allegations that the Bank s representatives imputed liability to the Bank based upon breach of fiduciary duty, fraud, and collaboration. In March 2014 the Judge ruled in the Bank s favor regarding VFI s claim of unjust enrichment. In December 2014 the Bank agreed to a settlement with VFI on all remaining claims and in January 2015 an order was entered that dismissed this matter.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Market Information

Computershare Investor Services is the stock transfer agent for New Peoples Bankshares, Inc. The common stock of New Peoples is quoted on the Over The Counter Bulletin Board (OTCBB) under the symbol NWPP . The volume of trading of shares of common stock is very limited. Trades in our common stock occur sporadically on a local basis and typically small volumes of stock are traded.

The high and low prices at which our common stock has traded known to us for each quarter in the past two years are set forth in the table below. These prices are obtained through our listing on the OTCBB. Other transactions may have occurred at prices about which we are not aware.

	2014		2013	
	High	Low	High	Low
1st quarter	$ 1.34	$ 1.00	$ 1.75	$ 1.25
2nd quarter	1.34	1.10	1.56	1.30
3rd quarter	1.66	1.05	2.20	1.30
4th quarter	1.26	1.10	1.70	1.00

The most recent sales price of which management is aware was $1.30 per share on March 6, 2015.

(b) Holders

On March 23, 2015, there were approximately 4,443 shareholders of record.

(c) Dividends

In order to preserve capital to support our growth in the past we have not paid cash dividends. The declaration of dividends in the future will depend on our earnings and capital requirements and compliance with regulatory mandates. We are subject to certain restrictions imposed by the reserve and capital requirements of federal and Virginia banking statutes and regulations. Moreover, the regulatory Written Agreement (discussed later) prohibits the Company from paying any cash dividends and the Bank s ability to pay dividends to the Company. So long as these restrictions remain in place the Company will not pay any cash dividends. Thereafter, the Company may or may not pay cash dividends depending on various factors including capital needs, earnings, and other factors our Board of Directors deems relevant. As a result, we do not anticipate paying a dividend on our common stock in 2015. See Note 3, Note 16 and Note 22 of the Notes to the Consolidated Financial Statements for further discussion of dividend limitations and capital requirements.

Item 6. Selected Financial Data

Not applicable.

Table of Contents

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations
Caution About Forward Looking Statements

We make forward looking statements in this annual 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, growth strategy, and financial and other goals. The words believes, expects, may, will, sh projects, contemplates, anticipates, forecasts, intends, or other similar words or terms are intended to identify for looking statements. The forward-looking information is based on various factors and was derived using numerous assumptions. Important factors that may cause actual results to differ from projections include:

- the success or failure of our efforts to implement our business plan;
- achieving and maintaining compliance with the Written Agreement between us and the banking regulators;
- any required increase in our regulatory capital ratios;
- satisfying other regulatory requirements that may arise from examinations, changes in the law and other similar factors;
- any substantial increase in nonperforming loans;
- our ability to attract additional talent that we may need;
- any required increase to our loan loss reserve;
- the difficult market conditions in our industry;
- the unprecedented levels of market volatility;
- the effects of soundness of other financial institutions;
- the uncertain outcome of recently enacted legislation to stabilize the U.S. financial system;
- the potential impact on us of recently enacted legislation;

the lack of a market for our common stock;

the ability to successfully manage our growth or implement our growth strategies if we are unable to identify attractive markets, locations or opportunities to expand in the future;

success in increasing and preserving capital to support our financial condition resulting from the recession;

in the near future, achieving the cost savings we project without customer rejection as we close less profitable branches, and, in the longer term maintaining cost controls and asset qualities as we open or acquire new branches;

the successful management of interest rate risk;

changes in interest rates and interest rate policies;

reliance on our management team, including our ability to attract and retain key personnel;

changes in general economic and business conditions in our market area;

risks inherent in making loans such as repayment risks and fluctuating collateral values;

competition with other banks and financial institutions, and companies outside of the banking industry, including those companies that have substantially greater access to capital and other resources;

demand, development and acceptance of new products and services;

problems with technology utilized by us;

changing trends in customer profiles and behavior;

changes in governmental regulations, tax rates and similar matters; and

other risks which may be described in our future filings with the SEC.

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. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Table of Contents

General

The following commentary discusses major components of our business and presents an overview of our consolidated financial position at December 31, 2014 and 2013 as well as results of operations for the years ended December 31, 2014 and 2013. This discussion should be reviewed in conjunction with the consolidated financial statements and accompanying notes and other statistical information presented elsewhere in this Form 10-K.

New Peoples generates a significant amount of its income from the net interest income earned by the Bank. Net interest income is the difference between interest income and interest expense. Interest income depends on the volume of interest-earning assets outstanding during the period and the interest rates earned thereon. The Bank s interest expense is a function of the average amount of deposits and borrowed money outstanding during the period and the interest rates paid thereon. The quality of the assets further influences the amount of interest income lost on nonaccrual loans and the amount of additions to the allowance for loan losses. The Bank also generates noninterest income from service charges on deposit accounts and commissions on insurance and investment products sold.

Written Agreement

The Company and the Bank entered into a written agreement (the Written Agreement) with the Federal Reserve Bank of Richmond and the Virginia Bureau of Financial Institutions. Under the Written Agreement, the Bank has agreed to develop and submit for approval within specified time periods written plans to: (a) strengthen board oversight of management and the Bank s operation; (b) if appropriate after review, to strengthen the Bank s management and board governance; (c) strengthen credit risk management policies; (d) enhance lending and credit administration; (e) enhance the Bank s management of commercial real estate concentrations; (f) conduct ongoing review and grading of the Bank s loan portfolio; (g) improve the Bank s position with respect to loans, relationships, or other assets in excess of $1 million which are now or in the future become past due more than 90 days, which are on the Bank s problem loan list, or which are adversely classified in any report of examination of the Bank; (h) review and revise, as appropriate, current policy and maintain sound processes for maintaining an adequate allowance for loan and lease losses; (i) enhance management of the Bank s liquidity position and funds management practices; (j) revise its contingency funding plan; (k) revise its strategic plan; and (l) enhance the Bank s anti-money laundering and related activities.

In addition, the Bank has agreed that it will: (a) not extend, renew, or restructure any credit that has been criticized by the Reserve Bank or the Bureau absent prior board of directors approval in accordance with the restrictions in the Agreement; (b) eliminate all assets or portions of assets classified as loss and thereafter charge off all assets classified as loss in a federal or state report of examination, which has been done.

The Company and the Bank have agreed to submit capital plans to maintain sufficient capital at the Company, on a consolidated basis, and the Bank, on a stand-alone basis, and to refrain from declaring or paying dividends without prior regulatory approval. The Company has agreed that it will not take any other form of payment representing a reduction in the Bank s capital or make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without prior regulatory approval. The Company may not incur, increase or guarantee any debt without prior regulatory approval and has agreed not to purchase or redeem any shares of its stock without prior regulatory approval.

Under the terms of the Written Agreement, the Company and the Bank have appointed a committee to monitor compliance. The directors of the Company and the Bank have recognized and unanimously agree with the common goal of financial soundness represented by the Written Agreement and have confirmed the intent of the directors and executive management to diligently seek to comply with all requirements of the Written Agreement.

Written Agreement Progress Report

At December 31, 2014, we believe we have made significant progress toward achieving full compliance with the Written Agreement. We are aggressively working to comply with the Written Agreement and have timely submitted each required plan by its respective deadline. We have hired an independent consultant to assist us in these efforts and the following actions have taken place:

1. With regard to corporate governance, we have established a weekly Director s Loan Committee to oversee all loan approvals and all loan renewals, extensions and approvals for loans risk rated Special Mention or worse, as well as, exposures exceeding the Chief Credit Officer s lending authority. This has enabled the Board to increase its oversight of the Bank s largest credit exposures and problem credits, and enhanced the monitoring and compliance with all loan policies and procedures. Secondly, we have enhanced our reporting of credit quality to the board. Furthermore, we have adopted formal charters for our Nominating, Compliance, Compensation, and Loan Committees. A corporate governance policy was adopted by the Board of Directors on April 23, 2012.

2. The requirement to assess the Board and management has been completed by an independent party. A report has been issued to the Board and recommendations are being followed. In September 2010, President and CEO Jonathan Mullins was added as a member of the Board and in November 2010, Eugene Hearl was added as a member of the Board. Mr. Hearl has over 40 years banking experience as President and CEO for two community banks and Regional President of a large regional financial institution.

In December 2014, President and CEO Mullins resigned from his position and from the Board of Directors. His successor, C. Todd Asbury, was promoted from Executive Vice President, Chief Financial Officer, Secretary and Treasurer to President and CEO of the Company and the Bank. Frank Sexton, Jr. was appointed as Interim Chief Financial Officer, Secretary and Treasurer.

In addition, training is a key initiative of both the Board of Directors and employees. Further training of the Board and employees has been implemented and will be ongoing.

A formal management succession plan has been developed and approved by the Board of Directors.

3. In the month of September 2010, a newly revised strategic plan and a capital plan were completed and submitted to our regulators. The 2011 Budget was submitted to our regulators in the fourth quarter of 2010. The 2012 Budget was submitted to our regulators also in the fourth quarter of 2011. The 2013 Budget was submitted to our regulators in January 2013. A revised 2013 Budget was submitted to our regulators in the third quarter of 2013. The 2014 Budget was submitted to our regulators in December 2013. A revised 2014 Budget was provided to our regulators in the third quarter of 2014. The 2015 Budget was submitted to our regulators in December 2014.

A revised strategic plan for the years 2013 through 2015 was completed and submitted to the regulators in January 2013.

A new strategic plan for the years 2014 through 2016 was submitted to our regulators in the fourth quarter of 2013. A new strategic plan for the years 2015 through 2017 was submitted to our regulators in the fourth quarter of 2014 and the capital plan for the 2015-2017 period is currently being prepared.

In September 2012, we converted notes payable to two of our directors totaling $5.5 million plus accrued interest of $272 thousand to common stock. As a result of the conversion, New Peoples returned to well capitalized status at September 30, 2012.

In accordance with our current capital plan, we began a common stock offering in July 2012 to existing shareholders followed by an offering to the public during the third and fourth quarters of 2012. The offering was closed on December 20, 2012 and proceeds of $12,061,257 were received on December 28, 2012. Upon receipt of the proceeds we injected $7.0 million of capital into the Bank. The remaining net proceeds were held at the Company for payment of operating expenses and, when permitted by regulatory authorities, the payment of deferred trust preferred interest and for future capital injections into the Bank, if needed; thus, providing a source of strength at the holding company level for the Bank. In addition, the conversion of the director notes to common stock and the common stock warrants included in the offering potentially provide additional capital if, and when, they are exercised.

On September 29, 2014 $500 thousand of capital was injected into the Bank from the Company. On October 9, 2014 an additional $1.25 million of capital was injected into the Bank from the Company to bring the total capital injected into the Bank during 2014 to $1.75 million. This increased the capital position and capital ratios of the Bank.

During the month of October 2014, members of the board of directors and management of the Company exercised 1,006,261 common stock warrants which had been issued as part of the stock offering at a price of $1.75 per share. As a result an additional $1.76 million of capital was raised at the Company. These funds helped to offset the $1.75 million of funds used for the capital injections mentioned above. As a result the Company still has adequate liquidity to pay its operating expenses and was able, with regulatory approval, to make trust preferred interest payments.

A total of 1,357,781 common stock warrants were outstanding as of December 31, 2014 with an exercise price of $1.75. If all of these warrants were to be exercised before expiration, then an additional $2.4 million in capital would be provided by their exercise.

4. Loan policies have been revised; an online approval and underwriting system for loans has been implemented; underwriting, monitoring and management of credits and collections have been enhanced; frequency of external loan reviews increased; and the focus on problem loans intensified at all levels in the organization. As a result, we are more timely in identifying problem loans. In the future, continuing these procedures should strengthen asset quality substantially. Further training of lending personnel is ongoing regarding proper risk grading of credits and identification of problem credits. Due to the minimal number of rating changes in more recent external loan reviews, indicating better risk identification for the loan portfolio, we are reducing the frequency of external loan reviews in 2015 from a semiannual basis to an annual basis.

5. Enhanced loan concentration identification and new procedures for monitoring and managing concentrations have been implemented. Loan concentration targets were established and efforts were made to reduce higher risk concentrations. In particular, construction and development loans and commercial real estate loans have been reduced to acceptable levels as determined by the new policies.

6. To strengthen management of credit quality and loan production, we added a new Chief Credit Officer, Stephen Trescot, in the first quarter of 2011 who has brought vast credit administration experience to our management team. Sharon Borich, our former Chief Credit Officer, assumed the role of Senior Lending Officer with oversight of loan production and business development which is her area of expertise. On February 28, 2014, Stephen Trescot retired as Executive Vice President and Chief Credit Officer of the Bank. Karen Wimmer was appointed as Executive Vice President and Chief Credit Officer of the Bank effective March 1, 2014. Ms. Wimmer previously served as Senior Vice President and Senior Credit Officer of the Bank since the fourth quarter of 2012 in which she reported directly to Mr. Trescot. Ms. Wimmer has a total of 26 years of banking experience.

In addition to new lending policies and procedures, the management of all real estate development projects and draws has been centralized. We have segregated the duties of lenders for greater specialization of commercial and retail lending responsibilities. As a result we have formed a Commercial Loan division that is supervised by the Senior Vice President and Senior Lending Officer. The retail loans are primarily the responsibility of branch personnel who report to branch managers and respective area managers.

The credit analysis function has been restructured and is a part of credit administration. The credit analysis function is led by a Vice President/Senior Analyst, who supervises two analysts, of which, one analyst is a CPA. The function reports directly to the Executive Vice President and Chief Credit Officer and is responsible for analyzing new and renewed loan relationships of $250 thousand or more prior to approval and conducting annual financial reviews of loan relationships of $500 thousand or more.

The appraisal review function, consisting of two Vice Presidents, one of which is an experienced licensed appraiser, and one administrative assistant, also reports directly to the Chief Credit Officer. The appraisal review function reviews the quality of appraisals on behalf of the Bank by reviewing the methods, assumptions, and value conclusions of internal and external appraisals. In addition, this data is used to determine whether an external appraiser should be utilized for future work.

7. We have retained an independent third party to perform loan reviews on a quarterly basis in 2010 and 2011 and engaged them to perform this function in June 2012 and December 2012. We engaged them to perform

this function in June 2013, December 2013, June 2014 and December 2014. For 2015, we have engaged them to perform this function in June 2015. The third party loan review company has also conducted two loan portfolio stress tests for the Bank to obtain a better understanding of potential loan losses over a two year period. In 2013, we began conducting our own loan portfolio stress test.

8. To support the focus on problem credit management the Bank further developed, in March, 2011, a Special Assets department which reports to the Chief Credit Officer. Presently, the department has one workout specialist/Vice President, one collector managing other real estate owned properties, a collections supervisor/Vice President, and two support personnel, exclusive of legal department staff. Substantially all the credits in the Bank which are risk rated Substandard or worse are assigned to this department once all efforts to return the credit to a satisfactory rating have been exhausted. This department is organizationally structured to manage workout situations, collections, other real estate owned, nonperforming assets, and relevant watch list credits. Also as a functioning part of this department is the Bank s legal department which is co-managed by the Chief Credit Officer and the Chief Executive Officer depending upon the legal issue being addressed. New reporting and monitoring is conducted monthly by this division. Material changes to Special Asset credits are reported to the Board at the time of occurrence and, quarterly, the Board receives written action plans and status updates on all problem credits in excess of $1.0 million. A quarterly management watch list committee has been established to actively manage and monitor these credits. During 2014 an experienced real estate broker was employed under an independent contract basis to facilitate the Bank s need to substantially reduce its OREO portfolio. The consultant/broker individually reviewed each OREO property for possible pricing reductions or potential marketing opportunities to allow for an accelerated sale process.

Table of Contents

9. A new allowance for loan loss model was implemented and reviewed independently during 2010. The Board has approved a new allowance for loan loss policy. The primary responsibility of the maintenance of the allowance for loan loss model and credit reporting resides with a designated employee. The allowance for loan loss and the methodology supporting the results are approved quarterly by the Audit Committee of the Board of Directors, and ratified by the Board.

10. We have significantly increased our asset based liquidity sources throughout 2010, 2011, 2012, 2013 and 2014 to meet financial obligations. A new liquidity risk management policy has been adopted and a revised contingency funding plan has been created. We have lost all of our federal funds lines of credit, but we have added an internet certificate of deposit funding source to increase contingent funding sources. We believe that we have adequate liquidity in normal and stressed situations. We are further developing an investment portfolio, as well. The investment portfolio has grown to $100.1 million at December 31, 2014 from $4.7 million at December 31, 2010.

11. In the fourth quarter of 2009, we ceased the declaration of dividends from the Bank to the Company. We also deferred interest payments on our trust preferred securities issuances pursuant to the Written Agreement. The Written Agreement prohibits the payment of interest on the trust preferred securities without prior regulatory approval. As a result, interest on trust preferred securities issued by the Company had been deferred until such restriction was removed. 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 were no interest payments in arrears on the trust preferred securities as of December 31, 2014.

On January 7, 2015, the 60 month deferral of the interest on the trust preferred securities issued by the Company expired. At this time the Company is not deferring the payment of the interest on the trust preferred securities; however, as discussed above, regulatory approval is needed to pay the interest. 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. Future payments still require regulatory approval and failure to obtain this approval could cause a default in the trust preferred securities by the Company; however, the Company has the option to re-enter another 60 month deferral of the interest on the trust preferred securities to prevent an event of default unless the regulators prohibit the deferral.

12. Anti-money laundering and bank secrecy act programs and training have been enhanced.

Table of Contents

Overview

At December 31, 2014, total assets were $651.1 million, total loans were $457.5 million, and total deposits were $585.2 million. The Company reports a total net income after tax of $240 thousand, or $0.01 per basic share and per diluted share for the year ended December 31, 2014 as compared to a net income of $1.5 million, or $0.07 per basic and per diluted share for the year ended December 31, 2013. The annualized return on average assets for the fiscal year 2014 was 0.04% as compared to 0.21% for the same period in 2013. The annualized return on average equity was 0.59% for the fiscal year 2014 and 3.71% for the same period in 2013.

During the years 2014 and 2013, we strategically decreased total assets, total loans and higher cost deposits to improve our capital position and manage our net interest margin by reducing higher cost funding. Total assets decreased $33.6 million in 2014, or 4.91%, from $684.7 million at December 31, 2013. We currently expect total assets will continue to decrease somewhat in the near future as we look to continue our reduction of nonperforming assets and also in time deposits as time deposits mature in the future at much lower interest rates.

In order to further improve our capital levels, on September 29, 2014 $500 thousand was injected into the Bank s capital from the Company and on October 9, 2014, an additional $1.25 million was injected into the Bank s capital from the Company. The total $1.75 million in capital injections was to increase the capital position and capital ratios of the Bank. During the month of October 2014 in order to replenish the $1.75 million in funds injected into the Bank s capital, members of the board of directors and management of the Company exercised 1,006,261 common stock warrants at a price of $1.75 per share. As a result an additional $1.76 million of capital was raised at the Company.

As a result of the asset shrinkage and the $1.75 million in capital injections from the Company, the Bank improved its capital position and maintained a well-capitalized status throughout 2014. The Bank also maintained a well-capitalized status throughout 2013. The following Bank ratios existed at December 31, 2014 as compared to December 31, 2013, respectively: Tier 1 leverage ratio of 8.19% versus 7.49%; Tier 1 risk based capital ratio of 14.46% versus 12.69%; and total risk based capital ratio of 15.73% versus 13.96%.

The enhancement to capital at both the Company and the Bank helped obtain regulatory approval in the fourth quarter of 2014 to pay the 60 months of deferred interest on the Company s two trust preferred issuances whereby default was avoided. In addition, the funds added at the Company level provide a greater source of strength to make continued quarterly interest payments on the trust preferred instruments in the near future. Each quarterly payment hereafter, as long as we are under the Written Agreement, requires pre-approval from our regulators. If we are unable to obtain approval we may enter another 60 month deferral period to prevent default unless the regulators prohibit the deferral. It is not our current intention to seek a deferral as we believe the necessary pre-approval should be obtained but there can be no assurance of this depending on the future earnings and capital position of the Company and other factors deemed relevant by the regulators.

For the year ending December 31, 2014, net income decreased to $240 thousand as compared to net income of $1.5 million for the same period in 2013, a decline of $1.3 million, or 83.83%. This decrease in earnings was primarily related to decreased interest income from lower loan volume and lower loan interest yields. We had a net interest margin of 3.71% in 2014 as compared to 4.03% in 2013. The decreased volume of earning assets in 2014 and high levels of nonperforming assets decreased net interest income to $22.6 million in 2014 from $25.3 million in 2013, a decrease of $2.7 million, or 10.84%.

In 2014, as asset quality improved and the loan portfolio shrank, we made no provision to the allowance for loan losses compared to a provision of $550 thousand in 2013, a decrease of $550 thousand, or 100.00%. This combined with increases in noninterest income of $710 thousand and a reduction of noninterest expenses of $307 thousand, helped to reduce the impact to net income due to the $2.7 million decrease in net interest income. Expenses related to other real estate owned properties were $2.3 million in 2014 and 2013, respectively. During 2014 we had to record writedowns on other real estate owned properties in the amount of $1.1 million compared to $562 thousand in 2013. This increase in writedowns was offset by a reduction in the amount of losses on the sale of other real estate owned. During 2014 we had a loss on the sale of other real estate owned of $173 thousand compared to a loss of $570 thousand in 2013.

Total loans decreased $35.5 million in 2014, or 7.20%, to $457.5 million at December 31, 2014 as compared to $493.0 million at December 31, 2013. Loans rated substandard decreased $17.4 million, or 38.76%, to $27.5 million at December 31, 2014 from $44.9 million at December 31, 2013. This is the result of sustained periods of low loan demand, charge offs of $4.6 million in 2014, aggressive resolution of problem loans through collection efforts and selling nonperforming loans, and tighter underwriting guidelines. We anticipate some further decreases in the loan portfolio in the near future as we continue our efforts to decrease nonperforming loans. We expect to replace some of these nonperforming loans with high quality loans and to maintain good lending relationships. We have hired two

Table of Contents

seasoned commercial lenders in 2014 to help us manage and maintain existing relationships and to develop new business as well. We believe the focus on developing new and existing lending relationships should continue to slow the pace of the reduction of total loans, subject, of course, to the impact of the underperforming economy and heightened competition in the banking industry.

Regarding asset quality, we continue to make significant progress in reducing the levels of non-performing assets. However, as asset quality is improving, the level of nonperforming assets remains high as a result of the prolonged deterioration of the residential and commercial real estate markets, as well as the recent recessionary period. The ratio of nonperforming assets to total assets lowered to 5.67% at December 31, 2014 as compared to 6.45% at December 31, 2013. Nonperforming assets, which include nonaccrual loans, other real estate owned and past due loans greater than 90 days still accruing interest, decreased to $36.9 million at December 31, 2014 from $44.2 million at December 31, 2013, a reduction of $7.3 million, or 16.42%. The majority of these assets are loans secured by commercial real estate, residential mortgages, and farmland and other real estate owned properties. We are undertaking extensive and more aggressive efforts to work out these credits and liquidate foreclosed properties which we believe will 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 as is reflected in earnings for 2014. In 2014, net charge offs were $3.2 million as compared to $4.3 million in the same period of 2013. Net charge offs in 2014 were related to real estate residential, construction, commercial and farmland loans with collateral values that are dependent upon current market and economic conditions when these are ascertainable and the sale of nonperforming loans sometimes at a steeper discount than normal, with the loss charged off. Delinquencies also showed improvement in 2014 as total past dues decreased to $19.5 million at December 31, 2014 from $30.7 million at December 31, 2013, an improvement of $11.2 million, or 36.58% decrease. Overall, the quality of the loan portfolio is improving.

In 2014, three nonperforming loans totaling $5.5 million were sold to further reduce the high level of nonaccrual loans. Charge offs of $1.0 million were realized and fully absorbed by the allowance for loan losses with no additional provisions needed. We will continue to evaluate certain loans to determine if additional loans may be sold at minimal impact to earnings and to capital levels in the near future as we aggressively work to reduce the level of nonperforming loans.

We have continued our progress in identifying the risks in our loan portfolio and strengthening asset quality. In addition, we have continued to improve our lending policies and train our lending staff on these policies and procedures. Each of these steps is critical to minimize future losses and to strengthen asset quality of the Bank. Our allowance for loan losses at December 31, 2014 was $9.9 million, or 2.17% of total loans as compared to $13.1 million, or 2.65% of total loans at December 31, 2013. No provision for loan losses was recorded during 2014 as compared to $550 thousand in the same period for 2013. 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. Impaired loans decreased $18.4 million, or 44.68%, to $22.8 million with an estimated allowance of $2.3 million for potential losses at December 31, 2014 as compared to $41.2 million in impaired loans with an estimated allowance of $4.2 million at the end of 2013.

In October 2014, to enhance future earnings we closed four offices and merged them into existing nearby offices as a cost savings measure. This decision was made in June 2014 after we conducted an in-depth internal analysis of our branch network based on profitability, market growth potential, and proximity to other offices. The branch locations closed were located in Bland, Norton and Jonesville, Virginia and Bluewell, West Virginia. The customers of these locations continue to receive service at our other nearby branches.

Total deposits decreased $33.8 million, or 5.46%, from $619.0 million at December 31, 2013 to $585.2 million at December 31, 2014. We have experienced a $13.2 million, or 4.86%, increase in noninterest bearing core deposits, interest bearing demand deposits and savings deposits; however, this increase is offset by a larger volume of time deposits decreasing by $47.0 million, or 13.55%, from $347.0 million at December 31, 2013 to $300.0 million at December 31, 2014. The continued decrease in time deposits due to the interest rate environment is helping us lower our cost of funds. Despite the decrease in deposits our liquidity levels remain sufficient.

Critical Accounting Policies

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 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. For further discussion of the estimates used in determining the allowance for loan losses, we refer you to the section on Provision for Loan Losses in this discussion.

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, 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 in this discussion.

For further discussion of our other critical accounting policies, see Note 2, Summary of Significant Accounting Policies, to our Consolidated Financial Statements, found in Item 8 to this annual report on Form 10-K.

Net Interest Income and Net Interest Margin

The Company s primary source of income, net interest income, decreased $2.7 million, or 10.84% from 2013 to 2014. The decrease in net interest income is due primarily to a reduction in loans during 2014, decreased interest income from new and renewed loans recorded at lower interest rates, and the level of nonearning assets, i.e. nonaccrual loans and other real estate owned properties.

Loan interest income decreased $3.9 million, or 13.70%, from $28.8 million in 2013 to $24.9 million in 2014. This is as a result of the decrease in loan volume and loans priced at lower interest rates due to market conditions. With new commercial and agricultural lenders added during 2014, we believe new increased volume will help offset the monthly loan paydowns and maturities. Our goal is to maintain current loan levels of the performing loan portfolio for the near future and then grow the portfolio in the longer term.

Nonaccrual loans were $21.9 million at December 31, 2014 compared to $28.3 million at December 31, 2013. Although the nonaccrual loans are trending downward, the continued high volume of nonaccrual loans negatively affects interest income as these loans are nonearning assets. With regard to recognition of interest income on impaired loans, interest income and cash receipts on impaired loans are handled differently depending on whether or not the loan is on nonaccrual status. If the impaired loan is not on nonaccrual status, then the interest income on the loan is computed using the effective interest method. If there is serious doubt about the collectability of an impaired loan, it is the Bank s policy to stop accruing interest on a loan and classify that loan as nonaccrual under the following circumstances: (a) whenever we are advised by the borrower that scheduled payment or interest payments cannot be met, (b) when our best judgment indicates that payment in full of principal and interest can no longer be expected, or (c) when any such loan or obligation becomes delinquent for 90 days unless it is both well secured and in the process of collection. All interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and prospects for future contractual payments are reasonably assured. In addition, funds generated from a shrinking loan portfolio are reinvested at lower interest rates in both overnight deposits for liquidity purposes and in investment securities. If nonaccruing loans increase, it may reduce our net interest margin further.

We continue to manage our yields on assets and our costs of funds to attempt to improve the net interest margin. As mentioned earlier, our loan portfolio has decreased and as a result the interest income generated by these higher earning assets has been redeployed into investment securities, a lower yielding asset. Investment interest income has increased $548 thousand, or 58.67%, from $934 thousand for the year ended 2013 to $1.5 million in 2014. We anticipate investment interest income to continue to increase in the future as the investment portfolio continues to grow. Although this area of interest income increases, it is at a much lower yield than loan interest income and will not offset the lost loan interest income resulting from a shrinking loan portfolio and high levels of nonaccrual loans.

Interest expense decreased $687 thousand, or 14.48%, from $4.7 million for the year ending 2013 to $4.1 million in 2014 as a result of deposits re-pricing at lower interest rates at maturity, and a shift in the deposit mix whereby our higher cost time deposits were replaced with lower cost deposit products.

As a result our net interest margin decreased to 3.71% for the year ending December 31, 2014 compared to 4.03% for the same period in 2013. We are trying to preserve the net interest margin, but we may experience some decrease in the net interest margin as new and renewed loans are sometimes priced at lower market interest rates,

Table of Contents

the loan portfolio decreases, funds are invested in lower yielding securities, and opportunities decrease to lower our cost of funds since repricing of deposits will be close to existing interest rates in the future. Management is addressing this potential negative impact to interest income as deemed appropriate.

Although our cost of funds has decreased due to deposits repricing at lower interest rates, the rate of this decrease in interest costs is not consistent with the rate of decrease in interest income; consequently, this is causing net interest income to decrease overall During the fourth quarter of 2013, we changed an interest bearing demand deposit product totaling $40.5 million to become a non-interest bearing demand deposit. This modification resulted in a lower average balance in 2014 for interest bearing demand deposits and related interest expense and this change had little or no effect on total deposits as a whole in 2014. The following table shows the rates paid on earning assets and deposit liabilities for the periods indicated.

Net Interest Margin Analysis

Average Balances, Income and Expense, and Yields and Rates

(Dollars in thousands)

	For the Year Ended December 31, 2014			For the Year Ended December 31, 2013			For the Year Ended December 31, 2012		
	Average Balance	Income/ Expense	Yields/ Rates	Average Balance	Income/ Expense	Yields/ Rates	Average Balance	Income/ Expense	Yields/ Rates
ASSETS									
Loans (1), (2), (3)	$ 473,610	$ 24,875	5.25%	$ 506,697	$ 28,824	5.69%	$ 556,504	$ 32,592	5.86%
Federal funds sold	1,408	3	0.21%	960	2	0.21%	1,216	3	0.25%
Interest bearing deposits	43,652	155	0.36%	58,515	188	0.32%	58,677	173	0.29%
Other investments (3)	90,878	1,611	1.77%	62,804	1,062	1.69%	44,307	965	2.18%
Total Earning Assets	609,548	26,644	4.37%	628,976	30,076	4.78%	660,704	33,733	5.11%
Less: Allowance for loans losses	(11,587)			(14,905)			(18,475)		
Non-earning assets	81,824			85,910			92,494		
Total Assets	$ 679,785			$ 699,981			$ 734,723		
LIABILITIES AND STOCKHOLDERS EQUITY									
Deposits									
Demand Interest bearing	$ 29,854	$ 37	0.12%	$ 65,227	$ 82	0.13%	$ 61,842	$ 110	0.18%
Savings	111,744	180	0.16%	103,086	205	0.20%	96,764	242	0.25%
Time deposits	327,328	3,099	0.95%	359,402	3,743	1.04%	406,669	5,018	1.23%
Other Borrowings	4,767	195	4.09%	5,968	242	4.05%	15,487	600	3.87%
	16,496	545	3.30%	16,496	471	2.86%	16,496	490	2.97%

Trust Preferred Securities									
Total interest bearing liabilities	490,189	4,056	0.83%	550,179	4,743	0.86%	597,258	6,460	1.08%
Non-interest bearing deposits	143,916			105,614			106,780		
Other liabilities	4,889			4,202			3,913		
Total Liabilities	638,994			659,995			707,951		
Stockholders Equity	40,791			39,986			26,772		
Total Liabilities and Stockholders Equity	$ 679,785			$ 699,981			$ 734,723		
Net Interest Income		$ 22,588			$ 25,333			$ 27,273	
Net Interest Margin			3.71%			4.03%			4.13%
Net Interest Spread			3.54%			3.92%			4.03%

(1) Non-accrual loans have been included in the average balance of loans outstanding.
(2) Loan fees have been included in interest income on loans.
(3) Tax exempt income is not significant and has been treated as fully taxable.

Table of Contents

Net interest income is affected by changes in both average interest rates and average volumes of interest-earning assets and interest-bearing liabilities. The following table sets forth the amounts of the total changes in interest income and expense which can be attributed to rate (change in rate multiplied by old volume) and volume (change in volume multiplied by old rate) for the periods indicated.

Volume and Rate Analysis
(Dollars in thousands)

	2014 Compared to 2013 Increase (Decrease)			2013 Compared to 2012 Increase (Decrease)		
	Volume Effect	Rate Effect	Change in Interest Income/ Expense	Volume Effect	Rate Effect	Change in Interest Income/ Expense
Interest Income:						
Loans	$ (1,882)	$ (2,067)	$ (3,949)	$ (2,917)	$ (851)	$ (3,768)
Federal funds sold	1		1	(1)		(1)
Interest bearing deposits	(48)	15	(33)		15	15
Other investments	475	74	549	403	(306)	97
Total Earning Assets	(1,454)	(1,978)	(3,432)	(2,515)	(1,142)	(3,657)
Interest Bearing Liabilities:						
Demand	(44)	(1)	(45)	6	(34)	(28)
Savings	17	(42)	(25)	16	(53)	(37)
All other time deposits	(334)	(310)	(644)	(583)	(692)	(1,275)
Other borrowings	(49)	2	(47)	(369)	11	(358)
Trust Preferred Securities		74	74		(19)	(19)
Total Interest Bearing Liabilities	(410)	(277)	(687)	(930)	(787)	(1,717)
Change in Net Interest Income	$ (1,044)	$ (1,701)	$ (2,745)	$ (1,585)	$ (355)	$ (1,940)

Loans

Our primary source of income comes from interest earned on loans. Total loans decreased in 2014 by $35.5 million, or 7.20%, from $493.0 million at year end 2013 primarily as the result of decreased loan demand, charge offs of $4.6 million in 2014, foreclosures, nonperforming loan sales and tighter underwriting guidelines. We anticipate the loan portfolio to continue to decrease as we work out problem loans. However, we plan to maintain and, if possible, grow the level of the remaining portion of the loan portfolio with our lending staff. We have hired a seasoned commercial lender to help us manage and grow commercial loans. In addition, we have transferred a special assets officer to agricultural lending and hired another agricultural lender in 2014 to help us grow this market. We remain committed to serving our customers. Our lending personnel continue to receive training to meet the needs of our customers and to develop new business with qualified borrowers that will ensure a stronger loan portfolio in the future. Total loans decreased $29.4 million in 2013 from 2012. A schedule of loans by type is set forth immediately below. Approximately 83.37% of the loan portfolio is secured by real estate at the end of 2014.

Loans receivable outstanding are summarized as follows:

Loan Portfolio

	December 31,				
(Dollars in thousands)	2014	2013	2012	2011	2010
Commercial, financial and agricultural	$ 50,273	$ 57,704	$ 65,888	$ 85,798	$ 109,418
Real estate construction	15,439	22,421	24,327	32,389	52,307
Real estate mortgage	366,009	386,843	402,703	441,107	489,314
Installment loans to individuals	25,828	26,055	29,445	38,522	56,755
Total	$ 457,549	$ 493,023	$ 522,363	$ 597,816	$ 707,794

Table of Contents

Our loan maturities as of December 31, 2014 are shown in the following table:

	Maturities of Loans			
(Dollars in thousands)	Less than One Year	One to Five Years	After Five Years	Total
Commercial, financial and agricultural	$ 14,775	$ 29,447	$ 6,051	$ 50,273
Real estate construction	3,756	4,853	6,830	15,439
Real estate mortgage	49,164	172,658	144,187	366,009
Installment loans to individuals	4,858	18,824	2,146	25,828
Total	$ 72,553	$ 225,782	$ 159,214	$ 457,549
Loans with fixed rates	$ 32,837	$ 107,117	$ 155,057	$ 295,011
Loans with variable rates	39,716	118,665	4,157	162,538
Total	$ 72,553	$ 225,782	$ 159,214	$ 457,549

The above table reflects the earlier of the maturity or re-pricing dates for loans at December 31, 2014. In preparing this table, no assumptions are made with respect to loan prepayments. Loan principal payments are included in the earliest period in which the loan matures or can be re-priced. Principal payments on installment loans scheduled prior to maturity are included in the period of maturity or re-pricing.

Provision for Loan Losses

The calculation of the allowance for loan losses is considered a critical accounting policy. The adequacy of the allowance for loan losses is based upon management s judgment and analysis. The following factors are included in our evaluation of determining the adequacy of the allowance: risk characteristics of the loan portfolio, current and historical loss experience, concentrations and internal and external factors such as general economic conditions.

The allowance for loan losses decreased to $9.9 million at December 31, 2014 as compared to $13.1 million at December 31, 2013. The allowance for loan losses at the end of 2014 was approximately 2.17% of total loans as compared to 2.65% at the end of 2013. Net loans charged off decreased in 2014 as they were $3.2 million, or 0.67% of average loans, compared to $4.3 million, or 0.84% of average loans, in 2013. During 2014 we recorded no provision for loan losses as compared with $550 thousand for 2013, a reduction of $550 thousand, or 100.00%.

We have experienced a decrease in loan delinquencies and nonaccrual loans in 2014. Loans delinquent greater than 90 days still accruing interest and loans in non-accrual status present higher risks of default and loan losses. At December 31, 2014, there were 165 loans in non-accrual status totaling $21.9 million, or 4.78% of total loans. At December 31, 2013, there were 129 loans in non-accrual status totaling $28.3 million, or 5.74% of total loans. The amounts of interest that would have been recognized on these loans were $386 thousand and $969 thousand in the years 2014 and 2013, respectively. There were no loans past due 90 days or greater and still accruing interest at December 31, 2014, down from 5 loans past due 90 days or greater and still accruing interest totaling $1 thousand at

December 31, 2013, which consisted entirely of overdrawn demand deposit accounts. There were $10.0 million in loans classified as troubled debt restructurings as of December 31, 2014, also an improvement, as compared to $12.3 million in loans classified as troubled debt restructurings as of December 31, 2013. Of the loans classified as troubled debt restructurings at December 31, 2014, $5.7 million were in non-accrual status, compared to $6.8 million at December 31, 2013. We do not have any commitments to lend additional funds to non-performing debtors.

Certain risks exist in the Bank s loan portfolio. A majority of our loans are collateralized by real estate located in our market area. It is our policy to sufficiently collateralize loans to help minimize loss exposures in case of default. With the exception of real estate development type properties which have experienced more deterioration in market values, the local residential and commercial real estate market values have shown some deterioration but remain relatively stable. It is uncertain as to when or if local real estate values will be more significantly impacted. We do not believe that there will be a severely negative effect in our market area, but because of the uncertainty we deem it prudent to assign more of the allowance to these types of loans. Our market area is somewhat diverse, but certain areas are more reliant upon agriculture, coal mining and natural gas. As a result, increased risk of loan impairments is possible as the coal mining and natural gas industry have been negatively affected in the past couple of years due to the increase in natural gas supplies from fracking , layoffs and environmental legislation. We do not foresee a major impact upon the Bank unless an additional severe downturn occurs which we believe is not highly likely. We are monitoring these industries. We consider these factors to be the primary higher risk characteristics of the loan portfolio.

Commercial loans are initially risk rated by the originating loan officer. If deteriorations in the financial condition of the borrower and the capacity to repay the debt occur, along with other factors, the loan may be downgraded. This is to be determined by the loan officer. Guidance for the evaluation is established by the regulatory authorities who periodically review the Bank s loan portfolio for compliance. Classifications used by the Bank are exceptional, very good, standard, acceptable, transitory risk, other assets especially mentioned, substandard, doubtful and loss. For the year 2013, we engaged a third party loan review firm to conduct semiannual loan reviews and engaged them to perform this function in 2014 on a semiannual basis. Our most recent loan review was conducted in December 2014. Upon their review, loans risk ratings may change from the rating assigned by the respective lender. We have experienced minimal rating changes in more recent reviews indicating better risk identification for the loan portfolio in light of the experience from the severe recession.

In regard to our consumer loans and consumer real estate loan portfolio, the Company uses the guidance found in the Uniform Retail Credit Classification and Account Management Policy and as a result affects our estimate of the allowance for loan losses. Under this approach when a consumer loan or consumer real estate loan is originated, it must possess qualities of a credit risk grade of Pass for approval and will remain with the initial risk rating through maturity unless there is a deterioration in the credit quality of the loan. Subsequently, if the loan becomes contractually 90 days past due or the borrower files for bankruptcy protection, it is downgraded to Substandard and placed in nonaccrual status. If the loan is unsecured, upon being deemed Substandard, the entire loan amount is charged off.

At 90 days past due, or earlier if the customer has filed bankruptcy, for non 1-4 family residential secured loans, the collateral value less estimated liquidation costs is compared to the loan balance to calculate any potential deficiency. If there is sufficient collateral, no charge-off is necessary. If there is a deficiency, then upon the loan becoming contractually 120 days past due, the deficiency is charged-off against the allowance for loan loss. In the case of 1-4 family residential or home equity loans, upon the loan becoming 120 days past due, a current value is obtained and after application of an estimated liquidation discount, a comparison is made to the loan balance to calculate any deficiency. Subsequently, any noted deficiency is then charged-off against the allowance for loan loss when the loan becomes contractually 180 days past due. If the customer has filed bankruptcy, then within 60 days of the bankruptcy notice, any calculated deficiency is charged-off against the allowance for loan loss. Collection efforts continue by means of repossessions or foreclosures, and upon bank ownership, liquidation ensues.

All loans classified as substandard, doubtful and loss are individually reviewed for impairment. In determining impairment, collateral for loans classified as substandard, doubtful and loss is reviewed to determine if the collateral is sufficient for each of these credits, generally through the review of the appraisal. If the appraisal is current, less than twelve months old, and has been reviewed, and if no negative information regarding the appraised value is obtained, the value is accepted, and impairment, if required is made. If the appraisal is not current, we perform a useful life review of the appraisal to determine if it is reasonable. If this review determines that the appraisal is not reasonable, then a new appraisal is ordered, in most cases. Impaired loans decreased to $22.8 million with $8.7 million requiring a valuation allowance of $2.3 million at December 31, 2014 as compared to $41.2 million with $25.2 million requiring a valuation allowance of $4.2 million at December 31, 2013. Of the $22.8 million recorded as impaired loans, $13.7 million were nonperforming loans, which includes nonaccrual loans and past due 90 days or more. Management is aggressively working to reduce the impaired credits at minimal loss.

In 2014, three nonperforming loans totaling $5.5 million were sold to further reduce the high level of nonaccrual loans. Charge offs of $1.0 million were realized which was fully absorbed by the unallocated portion of the allowance for loan losses with no additional provisions needed. We will continue to evaluate certain loans to determine if additional loans may be sold at minimal impact to earnings and to capital levels in the near future as we aggressively work to reduce the level of nonperforming loans. There were no nonperforming loans sold during 2013.

In determining the component of our allowance in accordance with the Contingencies topic of the Accounting Standards Codification (ASC 450), we do not directly consider the potential for outdated appraisals since that portion of our allowance is based on the analysis of the performance of loans with similar characteristics, external and internal risk factors. We consider the overall quality of our underwriting process in our internal risk factors, but the need to update appraisals is associated with loans identified as impaired under the Receivables topic of the Accounting Standards Codification (ASC 310). If an appraisal is older than one year, a new external certified appraisal may be obtained and used to determine impairment. If an exposure exists, a specific allowance is directly made for the amount of the potential loss in addition to estimated liquidation and disposal costs. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Table of Contents

Following is a summary of non-accrual, past due loans greater than 90 days still accruing interest, and restructured loans:

Non-Accrual, Past Due, and Restructured Loans

(Dollars in thousands)

	December 31,				
	2014	2013	2012	2011	2010
Non-accruing loans					
Commercial, financial and agricultural	$ 6,554	$ 6,307	$ 10,962	$ 10,633	$ 5,970
Real estate construction	332	775	2,412	5,583	15,460
Real estate mortgage	14,929	21,121	20,153	26,099	22,986
Installment loans to individuals	46	104	9	1	1,365
Total Non-accruing loans	21,861	28,307	33,536	42,316	45,781
Loans past due 90 days or more and still accruing		1	551	1,504	1,693
Troubled debt restructurings (accruing)	4,249	5,563	14,567	20,959	5,647
Total	$ 26,110	$ 33,871	$ 48,654	$ 64,779	$ 53,121
Percent of total loans	5.71%	6.87%	9.31%	10.84%	7.51%

The above table includes $5.7 million and $6.8 million in nonaccrual loans as of December 31, 2014 and 2013, respectively, that have been classified as troubled debt restructurings. No troubled debt restructurings were past due 90 days or more and still accruing as of December 31, 2014 and 2013. There were $10.0 million in loans classified as troubled debt restructurings as of December 31, 2014, as compared to $12.3 million in loans classified as troubled debt restructurings as of December 31, 2013.

In addition to impaired loans, the remaining loan portfolio is evaluated based on past due history, economic conditions, and internal processes. For past due history, we use an average of our past 12 quarters historical net charge off history in the years 2014, 2013, and 2012. Prior to this methodology, in earlier periods we based the loss factor on the greater of Virginia peers or our own historical loss rates since previously we did not have historical losses in some categories of loans. Loss trends have now developed and provide better support than previous data. Economic data currently used includes national and local regional unemployment information, local housing price changes, gross domestic product growth, and interest rates are external factors. Lastly, we also evaluate our internal processes of underwriting and consider the inherent risks present in the portfolio due to past and present lending practices. In the past, these factors were not directly allocated to a particular loan category and were considered unallocated in the breakdown data in the table below. During 2011, however, we further analyzed our loan portfolio and the various unallocated internal and external factors. From our analysis, we determined that certain unallocated factors were relevant to certain sectors of the loan portfolio and allocated accordingly. As economic conditions, performance of our loans and internal processes change, it is possible that future increases or possible decreases may be needed to the allowance for loan losses. The following table provides a summary of the activity in the allowance for loan losses.

Analysis of the Allowance for Loan Losses

(Dollars in thousands)

	For the Years Ended December 31,				
Activity	2014	2013	2012	2011	2010
Beginning Balance	$ 13,080	$ 16,810	$ 18,380	$ 25,014	$ 18,588
Provision charged to expense		550	4,800	7,959	22,328
Advances made on loans with off balance sheet provision				153	
Loan Losses:					
Commercial, financial and agricultural	(894)	(1,625)	(1,523)	(4,022)	(1,911)
Real estate - construction	(292)	(312)	(357)	(7,245)	(10,002)
Real estate mortgage	(3,294)	(3,954)	(4,535)	(5,446)	(3,867)
Installment loans to individuals	(79)	(153)	(336)	(694)	(728)
Total loan losses	(4,559)	(6,044)	(6,751)	(17,407)	(16,508)
Recoveries:					
Commercial, financial and agricultural	550	169	97	224	530
Real estate construction	236	452	73	1,296	
Real estate - mortgage	575	1,015	148	1,018	6
Installment loans to individuals	40	128	63	123	70
Total recoveries	1,401	1,764	381	2,661	606
Net charge offs	(3,158)	(4,280)	(6,370)	(14,746)	(15,902)
Balance at End of Period	$ 9,922	$ 13,080	$ 16,810	$ 18,380	$ 25,014
Net charge offs as a % of average loans	0.67%	0.84%	1.14%	2.24%	2.14%

Table of Contents

We have allocated the allowance according to the amount deemed to be reasonably necessary to provide for the possibility of losses being incurred within each of the categories of loans. The allocation of the allowance as shown in the following table should not be interpreted as an indication that loan losses in future years will occur in the same proportions or that the allocation indicates future loan loss trends. Furthermore, the portion allocated to each loan category is not the total amount available for future losses that might occur within such categories since the total allowance is a general allowance applicable to the entire portfolio.

The allocation of the allowance for loan losses is based on our judgment of the relative risk associated with each type of loan. We have allocated 72% of the allowance to real estate mortgage loans, which constituted 79.99% of our loan portfolio at December 31, 2014. Real estate mortgages consist of both residential and commercial real estate loans. Mortgage loans are secured by real estate whose value tends to be easily ascertainable. These loans are made consistent with appraisal policies and real estate lending policies, which detail maximum loan-to-value ratios and maturities. This allocation increased when compared to the 66% in 2013 despite the fact real estate mortgage loans decreased $20.8 million from 2013 to 2014 due to the $2.7 million in net charge offs during 2014 that impacts our historical loss rate.

We have allocated 2% of the allowance to real estate construction loans, which constituted 3.37% of our loan portfolio at December 31, 2014. Construction loans are secured by real estate with values that are dependent upon market and economic conditions. Values may not always be easily ascertainable as evidenced by the current market conditions. These loans are made consistent with appraisal policies and real estate lending policies which detail maximum loan-to-value ratios and maturities. Our allocation decreased as a percentage of the allowance for loan losses due to the $7.0 million decrease in construction real estate loans during 2014.

We have allocated 15% of the allowance to commercial loans, which constituted 10.99% of our loan portfolio at December 31, 2014. Our allocation decreased as a percentage of the allowance for loan losses due to the $7.4 million decrease in commercial loans during 2014.

We have allocated 2% of the allowance to consumer installment loans, which constituted 5.65% of our loan portfolio at December 31, 2014, which was comparable to the 1% allocation we had in 2013.

The following table shows the balance and percentage of our allowance for loan losses (or ALLL) allocated to each major category of loans.

Allocation of the Allowance for Loan Losses

December 31, 2010 through December 31, 2014

(Dollars in thousands)

	December 31, 2014			December 31, 2013			December 31, 2012		
	Amount	% of ALLL	%of Loans	Amount	% of ALLL	%of Loans	Amount	% of ALLL	% of Loans
Commercial	$ 1,496	15%	10.99%	$ 2,710	21%	11.70%	$ 3,383	20%	12.61%
R/E const.	199	2%	3.37%	1,184	9%	4.55%	2,166	13%	4.66%
R/E-mortg.	7,144	72%	79.99%	8,652	66%	78.46%	10,322	62%	77.09%
Installment	171	2%	5.65%	153	1%	5.29%	388	2%	5.64%

Unallocated	912	9%		381	3%		551	3%	
Total	$ 9,922	100%	100.00%	$ 13,080	100%	100.00%	$ 16,810	100%	100.00%

	December 31, 2011			December 31, 2010		
	Amount	% of ALLL	% of Loans	Amount	% of ALLL	% of Loans
Commercial	$ 3,322	18%	14.35%	$ 5,323	21%	15.48%
R/E- const.	3,848	21%	5.42%	4,913	20%	7.39%
R/E mortg.	9,578	52%	73.79%	6,882	27%	69.13%
Installment	781	4%	6.44%	1,733	7%	8.00%
Unallocated	851	5%		6,163	25%	
Total	$ 18,380	100%	100.00%	$ 25,014	100%	100.00%

Other Real Estate Owned

Other real estate owned decreased $804 thousand, or 5.07%, to $15.0 million at December 31, 2014 from $15.9 million at December 31, 2013. All properties are available for sale by commercial and residential realtors under the direction of our Special Assets division. We want to reduce the level of OREO faster to reduce the level of nonperforming assets at the Bank, but keeping in mind the impact to earnings and capital. During 2014, we retained the services of a real estate broker to assist us in marketing our OREO properties. The properties were systematically reviewed and management was advised on pricing adjustments that could be taken to help make the properties more marketable, which in some cases reduced the price below the fair value of the property (which is based on an appraisal less estimated disposition costs). As a result of this consultation, we wrote down various properties by $1.1 million as compared to $562 thousand for the same period of 2013 which was due to the receipt of updated valuations on the other real estate owned properties, which showed a lower fair value than our carrying amount of the properties, and accordingly we recorded a writedown on the properties. In some instances, real estate values increased from prior period writedowns and are netted against current year devaluations in other properties. Newly added properties are being reviewed as they are booked into OREO. This is an ongoing process and as they continue to be monitored, additional writedowns are possible. During 2014 we acquired $4.3 million in other real estate owned properties as a result of settlement of foreclosed loans, which was offset by sales of $3.8 million of our properties with losses totaling $173 thousand. During 2013 we acquired $9.0 million in other real estate owned properties as a result of settlement of foreclosed loans, which was offset by sales of $5.9 million of our properties with losses totaling $570 thousand. 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. However, as we are taking a more aggressive approach toward liquidating properties to reduce our level of foreclosed properties, we anticipate the levels to decrease. During 2014, we have begun short-term leasing of certain other real estate owned properties which are generating rental income at market rates. We are doing this to make the properties profitable and more marketable for sale.

Investment Securities

Total investment securities increased to $100.1 million at December 31, 2014 from $79.1 million at December 31, 2013. All securities are classified as available-for-sale for liquidity purposes. Investment securities with a carrying value of $17.5 million and $17.0 million at December 31, 2014 and 2013, were pledged to secure public deposits, overnight payment processing and for other purposes required by law.

As our loan balances has decreased, we have continued to build our investment portfolio. We anticipate slightly increasing the size of the portfolio during 2015. The portfolio is comprised of short to mid-term investments. The carrying values of investment securities and the different types of investments are shown in the following table:

Investment Securities Portfolio

(Dollars in thousands)

December 31,	2014		2013	
Available for Sale	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Government Agencies	$ 43,985	$ 44,070	$ 39,296	$ 38,601
Taxable municipals	293	288		
Mortgage backed securities	55,896	55,711	41,284	40,525
Total Securities AFS	$ 100,174	$ 100,069	$ 80,580	$ 79,126

At December 31, 2014, we had an unrealized loss in our investment portfolio totaling $105 thousand as compared to a $1.5 million unrealized loss at December 31, 2013. The $1.4 million increase in fair value is due to changes in long term interest rates during 2014. We believe this unrealized loss may increase when interest rates increase; therefore, our strategy is to reduce the overall portfolio interest rate risk as interest rates may rise in the future. We foresee purchasing additional securities in the near future as opportunities arise, and selling securities if it improves the portfolio mix in a rising interest rate environment. We have, however, reviewed our investment portfolio and no investment security is deemed to have a permanent impairment. We monitor our portfolio regularly and are actively managing it to maintain liquidity, reduce interest rate risk and enhance earnings.

The amortized cost, fair value and weighted average yield of investment securities at December 31, 2014 are shown by contractual maturity and do not reflect principal paydowns for amortizing securities, in the following schedule. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Maturities of Securities

(Dollars are in thousands) Securities Available for Sale	Amortized Cost	Fair Value	Weighted Average Yield
Due in one year or less	$ 190	$ 191	1.60%
Due after one year through five years	2,760	2,776	1.43%
Due after five years through ten years	12,758	12,788	1.51%
Due after ten years	84,466	84,314	1.90%
Total	$ 100,174	$ 100,069	1.83%

Deposits

Total deposits were $585.2 million at December 31, 2014, a decrease of $33.8 million, or 5.46%, from $619.0 million at December 31, 2013. Most of the decrease has been in time deposits which are our highest cost deposit funding source. During 2014, we experienced a decrease in time deposits of $47.0 million. The decrease in time deposits, our highest cost deposit funding source, is attributed to our plan to decrease higher cost deposits in order to improve earnings and increase capital ratios. This is the result of decreased interest rates offered in this very low interest rate environment. During 2014, interest rate sensitive deposits have generally been withdrawn to seek other investment opportunities.

Core deposits, which are mainly transaction accounts, commercial relationships and savings products, increased as noninterest bearing deposits grew 4.50%, or $6.3 million, from $137.7 million at December 31, 2013 to $144.0 million at December 31, 2014. Overall, we continue to maintain core deposits through attractive consumer and commercial deposit products and strong ties with our customer base and communities. We experienced a small decrease of $571 thousand in interest bearing demand deposits during 2014. We continue our efforts to increase core deposit levels.

Savings deposits increased $7.6 million, or 7.28%, to $111.7 million at December 31, 2014 as compared to $104.1 million at December 31, 2013.

We may experience an overall decrease in total deposits over the next year as we closed four offices and combined them with nearby offices on October 31, 2014. This decision was made in June 2014 after we conducted an in-depth internal analysis of our branch network based on profitability, market growth potential, and proximity to other offices.

We are working, however, to increase demand and savings deposits in other branches as we further optimize our branch network and develop our customer relationships. We believe there are opportunities for this segment of deposit growth in various markets that we serve. We also expect to continue to lose higher cost deposits in the near future as some longer term time deposits mature and will likely reprice at much lower interest rates. We believe despite the deposit decrease, we have adequate liquidity.

Time deposits of $100,000 or more equaled approximately 18.62% of deposits at the end of 2014 and 21.08% of deposits at the end of 2013.

We have brokered deposits totaling $2.7 million with a term of 10 years. These deposits were used to fund a particular 10 year balloon mortgage product. Internet accounts are limited to customers located in the surrounding geographical area. The average balance of and the average rate paid on deposits is shown in the net interest margin analysis above. Total CDARs time deposits decreased to $6.3 million in 2014 as compared to $7.6 million in 2013.

Maturities of time deposits of $100,000 or more outstanding are summarized as follows:

Maturities of Time Deposits of $100 Thousand and More

(Dollars in thousands)

December 31, 2014

Three months or less	$ 21,550
Over three months through six months	25,491
Over six months through twelve months	30,088
Over one year	31,823
Total	$ 108,952

Noninterest Income

In order to offset the trending decrease in net interest income, we have been working to increase noninterest income. For 2014, noninterest income increased to $6.2 million from $5.5 million for the same period in 2013. The majority of the increase comes from increased interchange fee income from the increased issuance of debit cards and also from a stricter policy of waiving fees. We also recognized a $386 thousand gain on the sales of property and equipment during 2014. The ratio of noninterest income as a percentage of average assets increased to 0.92% in 2014 as compared to 0.79% in 2013. We anticipate this percentage to slightly increase during 2014 as we continue to seek opportunities to improve noninterest income. Additionally, efforts to increase noninterest income in the future is expected to come from the financial services division of the Bank and the Bank s subsidiary, NPB Insurance Services, Inc., a full-service insurance agency, which began operations in the first quarter of 2013, and deals in personal and group life, property and casualty, health, and disability products.

Table of Contents

Noninterest Expense

Noninterest expenses decreased $307 thousand, or 1.06%, to $28.6 million in 2014 from $28.9 million in 2013. The following are explanations of the decrease in non-interest expenses during 2014.

Salaries and employee benefits decreased from $13.4 million in 2013 to $12.7 million in 2014 due to the branch changes described above. This was a decrease of $705 thousand, or 5.25%. Total full time equivalent employees have decreased to 243 at December 31, 2014 from 264 at December 31, 2013, a reduction of 21, or 7.95%.

Occupancy and equipment expenses decreased $115 thousand from $4.0 million in 2013 to $3.9 million in 2014. The main contributor to this decrease is a reduction of $122 thousand in depreciation expense. Advertising expense increased $52 thousand from 2014 to 2013 due to loan promotions conducted during 2014. Data processing and telecommunication expenses increased $288 thousand from 2014 to 2013 due to outsourced statement processing.

In 2014, FDIC assessment expense decreased $87 thousand, or 5.75%, from $1.5 million in 2013 to $1.4 million in 2014. This is due to the reduction of average assets, which is caused by the reduction of total deposits during 2014.

Expenses related to other real estate owned and repossessed assets were $2.3 million in 2014 and 2013, respectively. During 2014 we had to record writedowns on other real estate owned properties in the amount of $1.1 million compared to $562 thousand in 2013. This increase in writedowns was offset by a reduction in the amount of losses on the sale of other real estate owned. During 2014 we had a loss on the sale of other real estate owned of $173 thousand compared to a loss of $570 thousand in 2013. OREO decreased in 2014 to $15.0 million at December 31, 2014 from $15.9 million at December 31, 2013. We anticipate the levels to continue to decrease; however, we cannot guarantee that this will happen as we continue to resolve problem loans that may end up in foreclosed properties in the future.

In order to further reduce noninterest expenses, we closed four offices and combined them with existing nearby locations on October 31, 2014. We estimate this will generate approximately $1.0 million in cost savings annually most likely beginning in 2015. We will continue to evaluate expenses and strive to improve the overall efficiency of the organization.

Our efficiency ratio, which is defined as noninterest expense divided by the sum of net interest income plus noninterest income, was 99.18% in 2014 as compared to 93.64% in 2013. 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. We anticipate the efficiency ratio to improve in the future.

Life Insurance

We have life insurance policies on the life of one key officer and three former key officers. The Bank is the beneficiary under each policy. In addition, we own a policy in which the Bank is the beneficiary which was collateral for a defaulted loan. The aggregate total cash surrender value of the policies was $12.3 million and $12.1 million at December 31, 2014 and December 31, 2013, respectively. Total income for the policies during 2014 was $85 thousand as compared to $89 thousand for the year ending 2013. The policies owned on current and former officers are separate account life insurance policies and the income is based on a short term investment portfolio managed by the insurance provider which should increase in earnings when and if interest rates increase in the future. The other policy is a general account policy with a minimum earning rate.

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 December 31, 2014 as compared to a net deferred tax asset of $5.4 million at December 31, 2013. At December 31, 2014 and 2013 we had a valuation allowance of $6.4 million. During 2014 we recorded $38 thousand in deferred tax asset valuation allowance as compared to a reversal of $428 thousand of our deferred tax valuation allowance in 2013. Management reviewed the deferred tax calculation to determine the need for a valuation allowance. Based on the trend of reduced levels of earning assets and net interest income, we modified the projections of taxable income over the next three years and determined that only $38 thousand of deferred tax asset valuation allowance was required during 2014. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. In management s opinion, based on a three year taxable income projection, tax strategies which would result in potential securities gains and the effects of off-setting deferred tax liabilities, it is more likely than not that all the deferred tax assets, net of the $6.4 million allowance, would be realizable. As of December 31, 2014, the Company had $17.6 million of net operating loss carryforwards which will expire in 2031 thru 2034. 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.

The Company s tax filings for years ended 2010 through 2014 were at year end 2014 open to audit under statutes of limitations by the Internal Revenue Service (IRS) and state taxing authorities. Our tax filings for the years ended 2010, 2011, and 2012 had been under examination by the IRS. In March 2015 we received notification from the IRS that as a result of the examination no changes were made to our reported tax.

After the common stock offering was concluded in December 2012, the Company evaluated whether a change of control as defined in Internal Revenue Code (IRC) section 382 had occurred. A change of control for purposes of IRC section 382 would have occurred if 50% or more of the ownership of the Company had changed as a result of the offering and stock transactions occurring in the preceding 3 years. In that case IRC section 382 would impose certain limitations which would restrict the ability of the Company to utilize the current amount of tax loss carryforwards among other future tax deductions. We concluded that a change of control did not occur under the IRC section 382. We must, however, continue to monitor any increase in the ownership of any 5% owner in the Company, of any new investors participating in the common stock offering that were not investors before the offering, and of any new 5% owner acquiring common stock from existing shareholders excluding the two aforementioned groups. If the combined additional ownership of these three groups ever causes their total ownership to exceed 50% in the three year period ending December 2015, the limitations of Internal Revenue Code 382 would apply. The Company is considering implementing a tax preservation plan in the near future to protect the ability to realize the future tax loss carryforwards that would help protect current investors from any such change of control under IRC section 382, if one should occur.

Capital Resources

Our total capital at the end of 2014 was $42.9 million compared to $40.0 million in 2013. The increase was $2.9 million, or 7.23%. The Bank and the Company were both well capitalized as of December 31, 2014, as defined by the regulatory capital guidelines. New Peoples equity as a percentage of total assets was 6.58% at December 31, 2014 compared to 5.84% at December 31, 2013. The annualized return on average assets for the fiscal year 2014 was 0.04% as compared to 0.21% for the same period in 2013. The annualized return on average equity was 0.59% for the fiscal year 2014 and 3.71% for the same period in 2013. The book value per common share was $1.87 at December 31, 2014 compared to $1.83 at December 31, 2013.

Total assets decreased in 2014 and we anticipate asset levels to decrease in the future due to the reduction of nonperforming assets and the continued reduction of high cost time deposits. Our primary source of capital comes from retained earnings. We developed a new strategic plan in 2014. Under current economic conditions, we believe it is prudent to continue to increase capital to absorb potential losses that may occur if asset quality deteriorates further. We are aware that capital needs and requirements are affected by the level of problem assets, growth, earnings and other factors. Based upon projections, we believe retained earnings will be sufficient to provide for this economic cycle to increase capital levels. As part of our initiative to improve regulatory capital ratios, we are working to further reduce our nonperforming assets, and focused on replacing this reduction with high quality interest earning assets. Deposit growth is primarily focused on growing core deposits, which are mainly transaction accounts, commercial relationships and savings products. We are focused on improving earnings by maintaining a strong net interest margin and decreasing overhead expenses. We are fully implementing this strategy to increase capital. However, these efforts alone may not provide us adequate capital if further losses are realized related to OREO or loans.

No cash dividends have been paid historically and none are anticipated in the foreseeable future. Earnings will continue to be retained to build capital.

Liquidity

We closely monitor our liquidity and our liquid assets in the form of cash, due from banks, federal funds sold, and unpledged available for sale investments. Collectively, those balances were $118.1 million at December 31, 2014, up from $116.8 million at December 31, 2013. We plan to maintain surplus short-term assets at levels adequate to meet potential liquidity needs during 2015.

At December 31, 2014, all of our investments are classified as available-for-sale, providing an additional source of liquidity in the amount of $82.6 million, which is net of those securities pledged as collateral. This will primarily serve as a source of liquidity while yielding a higher return than other short term investment options, such as federal funds sold and overnight deposits with the Federal Reserve Bank. We have increased our investment portfolio from $79.1 million at December 31, 2013 to $100.1 million at December 31, 2014. Our strategy is to manage the portfolio with future purchases that reduce price risk in a rising interest rate environment and shorten the duration of these securities to be able to invest in higher yielding loans and investments when interest rates do rise again. A $1.4 million increase in fair market value resulted in a net unrealized loss of $105 thousand at December 31, 2014 compared to the net unrealized loss at December 31, 2013, which was $1.5 million. This unrealized loss of $105 thousand could negatively impact earnings if the investment portfolio had to be quickly liquidated.

Our loan to deposit ratio was 78.19% at December 31, 2014 and 79.65% at year end 2013. We anticipate this ratio to remain at or below 80% in the future. We can further lower the ratio as management deems appropriate by managing the rate of growth in our loan portfolio and by offering special promotions to entice new deposits. This can be done by changing interest rates charged or limiting the amount of new loans approved.

Available third party sources of liquidity remain intact at December 31, 2014 which includes the following: our line of credit with the Federal Home Loan Bank of Atlanta, the brokered certificates of deposit markets, internet certificates of deposit, and the discount window at the Federal Reserve Bank of Richmond.

At December 31, 2014, we had borrowings from the Federal Home Loan Bank totaling $4.2 million as compared to $5.4 million at December 31, 2013. None are overnight and subject to daily interest rate changes. The borrowings have a maturity date in the year 2018, but reduce in principal amounts monthly or quarterly. The decrease of $1.2 million was due to regularly scheduled principal payments. We also used our line of credit with the Federal Home Loan Bank to issue a letter of credit for $3.0 million in 2010 and $7.0 million in 2013 to the Treasury Board of Virginia for collateral on public funds. An additional $99.9 million was available on December 31, 2014 on the $114.0 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.

We are a member of an internet certificate of deposit network whereby we may obtain 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.

With the increased asset liquidity and other external sources of funding, we believe at the Bank level 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, some of which are beyond our control.

Concerning the Company s liquidity, we have $1.1 million in cash as of December 31, 2014. These funds will be used to pay operating expenses, trust preferred interest payments (upon regulatory approval), and provide additional capital injections to the Bank, if needed.

On September 29, 2014 $500 thousand was injected into the Bank s capital from the Company and on October 9, 2014 an additional $1.25 million was injected into the Bank s capital from the Company. The total $1.75 million in capital injections was to increase the capital position and capital ratios of the Bank.

During the month of October 2014, members of the board of directors and management of the Company exercised 1,006,261 common stock warrants at a price of $1.75 per share. As a result an additional $1.76 million of capital was raised at the Company. These funds helped to offset the $1.75 million of funds used for the capital injections mentioned above. As a result the Company still has adequate liquidity to pay its operating expenses and trust preferred interest payments (upon regulatory approval).

Table of Contents

The Written Agreement prohibits the payment of interest on the trust preferred securities without prior regulatory approval. As a result, interest on trust preferred securities issued by the Company had been deferred until such restriction was removed. 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 were no interest payments in arrears on the trust preferred securities as of December 31, 2014.

On January 7, 2015, the 60 month deferral of the interest on the trust preferred securities issued by the Company expired. At this time the Company is not deferring the payment of the interest on the trust preferred securities; however, as discussed above, regulatory approval is needed to pay the interest. 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. Future payments still require regulatory approval and failure to obtain this approval could cause a default in the trust preferred securities by the Company; however, the Company has the option to re-enter another 60 month deferral of the interest on the trust preferred securities to prevent an event of default unless the regulators prohibit the deferral.

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. During 2013, 6,758 warrants were exercised, and in 2014 1,006,361 warrants were exercised which reduced the number of warrants outstanding at December 31, 2014 to 1,357,781. When, and if, these warrants are exercised, additional funds may be received by the Company, which provides potentially up to $2.4 million in additional liquidity and capital at the Company level. Additional contingent funding sources will be explored as available.

Financial Instruments with Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the contract amount of the Bank s exposure to off-balance-sheet risk as of December 31, 2014 and 2013 is as follows:

(Dollars in thousands)	2014	2013
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 26,082	$ 29,039
Standby letters of credit	2,638	2,907

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management s credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Unfunded commitments under lines of credit are commitments for possible future extensions of credit to existing customers. Those lines of credit may not actually be drawn upon to the total extent to which the Bank is committed.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds certificates of deposit, deposit accounts, and real estate as collateral supporting those commitments for which collateral is deemed necessary.

Table of Contents

Interest Sensitivity

At December 31, 2014 we had a negative cumulative gap rate sensitivity ratio of 41.67% for the one year re-pricing period, compared to 31.88% at December 31, 2013. A negative cumulative gap generally indicates that net interest income would improve in a declining interest rate environment as liabilities re-price more quickly than assets. Conversely, net interest income would probably decrease in periods during which interest rates are increasing. We are closely monitoring our position and implementing adjustments periodically to strategically position ourselves to enhance earnings in current and anticipated interest rate environments. The below table is based on contractual maturities and does not take into consideration prepayment speeds of investment securities and loans nor does it factor decay rates for non maturity deposits. Based on these behavioral factors, we are in a position to increase interest income in a rising interest rate environment. Management reviews our interest rate risk profile quarterly and believes that the current position presents acceptable risk.

Interest Sensitivity Analysis

December 31, 2014

(Dollars in thousands)

	1- 90 Days	91-365 Days	1-3 Years	4-5 Years	6-15 Years	Over 15 Years	Total
Uses of funds:							
Loans	$ 28,205	$ 43,937	$ 109,333	$ 116,861	$ 111,732	$ 47,481	$ 457,549
Federal funds sold	5						5
Deposits with banks	20,933						20,933
Investments	18,034	2,733	14,761	812	26,770	36,959	100,069
Bank owned life insurance	12,268						12,268
Total earning assets	$ 79,445	46,670	$ 124,094	$ 117,673	$ 138,502	$ 84,440	$ 590,824
Sources of funds:							
Interest Bearing DDA	$ 29,567	$	$	$	$	$	29,567
Savings & MMDA	111,701						111,701
Time Deposits	66,383	148,168	62,963	19,730	2,730		299,974
Trust preferred securities	16,496						16,496
Other borrowings				4,158			4,158

Total interest bearing liabilities	$ 224,147	$ 148,168	$ 62,963	$ 23,888	$ 2,730	$	$ 461,896
Discrete Gap	$ (144,702)	$ (101,498)	$ 61,131	$ 93,785	$ 135,772	$ 84,440	$ 128,928
Cumulative Gap	$ (144,702)	$ (246,200)	$ (185,069)	$ (91,284)	$ 44,488	$ 128,928	
Cumulative Gap as % of Total Earning Assets	(24.49%)	(41.67%)	(31.32%)	(15.45%)	7.53%	21.82%	

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

34

Table of Contents

Item 8. Financial Statements and Supplementary Data

FINANCIAL STATEMENTS

CONTENTS

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

New Peoples Bankshares, Inc. and Subsidiaries

Honaker, Virginia

We have audited the accompanying consolidated balance sheets of New Peoples Bankshares, Inc. and its subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New Peoples Bankshares, Inc. and its subsidiaries as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Elliott Davis Decosimo, LLC

Richmond, Virginia

March 26, 2015

Elliott Davis Decosimo LLC | www.elliottdavis.com

Table of Contents

NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2014 AND 2013

(IN THOUSANDS EXCEPT SHARE DATA)

	2014	2013
ASSETS		
Cash and due from banks	$ 14,622	$ 18,770
Interest-bearing deposits with banks	20,933	35,908
Federal funds sold	5	2
Total Cash and Cash Equivalents	35,560	54,680
Investment securities available-for-sale	100,069	79,126
Loans receivable	457,549	493,023
Allowance for loan losses	(9,922)	(13,080)
Net Loans	447,627	479,943
Bank premises and equipment, net	28,766	29,976
Equity securities (restricted)	2,369	2,704
Other real estate owned	15,049	15,853
Accrued interest receivable	1,975	2,286
Life insurance investments	12,268	12,118
Intangible assets		8
Deferred taxes, net	4,988	5,446
Other assets	2,413	2,571
Total Assets	$ 651,084	$ 684,711
LIABILITIES		
Deposits		
Demand deposits		
Noninterest bearing	$ 143,950	$ 137,745
Interest-bearing	29,567	30,138
Savings deposits	111,701	104,123
Time deposits	299,974	346,991
Total Deposits	585,192	618,997
FHLB advances	4,158	5,358
Accrued interest payable	266	2,287
Accrued expenses and other liabilities	2,121	1,613
Trust preferred securities	16,496	16,496
Total Liabilities	608,233	644,751

STOCKHOLDERS EQUITY

Common stock - $2.00 par value; 50,000,000 shares authorized; 22,878,654 and 21,872,293 shares issued and outstanding at December 31, 2014 and 2013, respectively	45,757	43,745
Common stock warrants	1,176	2,050
Additional paid-in capital	13,672	13,050
Retained deficit	(17,685)	(17,925)
Accumulated other comprehensive income (loss)	(69)	(960)
Total Stockholders Equity	42,851	39,960
Total Liabilities and Stockholders Equity	$ 651,084	$ 684,711

The accompanying notes are an integral part of this statement.

37

Table of Contents

NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

	2014	2013
INTEREST AND DIVIDEND INCOME		
Loans including fees	$ 24,875	$ 28,824
Federal funds sold	3	2
Interest-earning deposits with banks	155	188
Investments	1,482	934
Dividends on equity securities (restricted)	129	128
Total Interest and Dividend Income	26,644	30,076
INTEREST EXPENSE		
Deposits		
Demand	37	82
Savings	180	205
Time deposits below $100,000	1,829	2,196
Time deposits above $100,000	1,270	1,547
FHLB advances	195	242
Trust Preferred Securities	545	471
Total Interest Expense	4,056	4,743
NET INTEREST INCOME	22,588	25,333
PROVISION FOR LOAN LOSSES		550
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	22,588	24,783
NONINTEREST INCOME		
Service charges	2,191	2,258
Fees, commission and other income	3,572	2,763
Insurance and investment fees	391	322
Net realized gains on sale of investment securities	2	99
Life insurance investment income	85	89
Total Noninterest Income	6,241	5,531
NONINTEREST EXPENSES		
Salaries and employee benefits	12,725	13,430
Occupancy and equipment expenses	3,886	4,001

Advertising and public relations		463		411
Data processing and telecommunications		2,244		1,956
FDIC insurance premiums		1,427		1,514
Other real estate owned and repossessed assets, net		2,286		2,290
Other operating expenses		5,563		5,299
Total Noninterest Expenses		28,594		28,901
INCOME BEFORE INCOME TAXES		235		1,413
INCOME TAX BENEFIT		(5)		(71)
NET INCOME	$	240	$	1,484
Income Per Share				
Basic and Fully Diluted	$	0.01	$	0.07
Average Weighted Shares of Common Stock				
Basic and Fully Diluted		22,099,926		21,870,758

The accompanying notes are an integral part of this statement.

38

Table of Contents

NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(IN THOUSANDS)

	2014	2013
NET INCOME	$ 240	$ 1,484
Other comprehensive income (loss):		
Investment securities activity:		
Unrealized gains (losses) arising during the year	1,351	(1,971)
Tax related to unrealized gains (losses)	(459)	670
Reclassification of realized gains during the year	(2)	(99)
Tax related to realized gains	1	33
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	891	(1,367)
TOTAL COMPREHENSIVE INCOME	$ 1,131	$ 117

The accompanying notes are an integral part of this statement.

39

Table of Contents

NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(IN THOUANDS INCLUDING SHARE DATA)

	Shares of Common Stock	Common Stock	Common Stock Warrants	Additional Paid in Capital	Retained Deficit	Accumu-lated Other Compre-hensive Income (Loss)	Total Stockholders Equity
Balance, December 31, 2012	21,866	$ 43,731	$ 2,056	$ 13,081	$ (19,409)	$ 407	$ 39,866
Net income					1,484		1,484
Exercise of common stock warrants	6	14	(6)	6			14
Stock offering costs				(37)			(37)
Other comprehensive loss, net of tax						(1,367)	(1,367)
Balance, December 31, 2013	21,872	43,745	2,050	13,050	(17,925)	(960)	39,960
Net income					240		240
Exercise of common stock warrants	1,006	2,012	(874)	622			1,760
Other comprehensive income, net of tax						891	891
Balance, December 31, 2014	22,878	$ 45,757	$ 1,176	$ 13,672	$ (17,685)	$ (69)	$ 42,851

The accompanying notes are an integral part of this statement.

40

Table of Contents

NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(IN THOUSANDS)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 240	$ 1,484
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,216	2,338
Provision of loan losses		550
Income (less expenses) on life insurance	(150)	(154)
Gain on sale of securities available-for-sale	(2)	(99)
(Gain) Loss on sale of premises and equipment	(386)	23
Loss on sale of foreclosed real estate	173	570
Adjustment of carrying value of foreclosed real estate	1,099	562
Accretion of bond premiums/discounts	1,038	922
Deferred tax expense (benefit)		(57)
Amortization of core deposit intangible	8	45
Net change in:		
Interest receivable	311	88
Other assets	158	228
Accrued interest payable	(2,021)	407
Accrued expenses and other liabilities	508	248
Net Cash Provided by Operating Activities	3,192	7,155
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease in loans	24,611	16,847
Proceeds from sale of loans	4,655	
Purchase of securities available-for-sale	(54,859)	(48,280)
Proceeds from sale and maturities of securities available-for-sale	34,229	15,876
Sale of Federal Home Loan Bank stock	350	309
Purchase of Federal Reserve Bank stock	(15)	(210)
Payments for the purchase of premises and equipment	(1,753)	(1,552)
Proceeds from sale of premises and equipment	1,133	405
Proceeds from sales of other real estate owned	2,582	5,097
Net Cash Provided by (Used in) Investing Activities	10,933	(11,508)
CASH FLOWS FROM FINANCING ACTIVIES		
Stock offering costs		(37)
Exercise of common stock warrants	1,760	14

Repayments to Federal Home Loan Bank	(1,200)	(1,200)
Net change in:		
Demand deposits	5,634	786
Savings deposits	7,578	(9,157)
Time deposits	(47,017)	(25,482)
Net Cash Used in Financing Activities	(33,245)	(35,076)
Net decrease in cash and cash equivalents	(19,120)	(39,429)
Cash and Cash Equivalents, Beginning of the Year	54,680	94,109
Cash and Cash Equivalents, End of the Year	$ 35,560	$ 54,680
Supplemental Disclosure of Cash Paid During the Year for:		
Interest	$ 6,077	$ 4,336
Taxes	$	$
Supplemental Disclosure of Non Cash Transactions:		
Other real estate acquired in settlement of foreclosed loans	$ 4,306	$ 9,001
Loans made to finance sale of foreclosed real estate	$ 1,256	$ 787

The accompanying notes are an integral part of this statement.

Table of Contents

NEW PEOPLES BANKSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 NATURE OF OPERATIONS:

Nature of Operations New Peoples Bankshares, Inc. (The Company) is a bank holding company whose principal activity is the ownership and management of a community bank. New Peoples Bank, Inc. (The 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. The name of NPB Financial Services, Inc. was changed in June 2012 to NPB Insurance Services, Inc. which operates solely as an insurance agency.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Consolidation Policy The consolidated financial statements include the Company, the Bank, NPB Insurance Services, Inc., and NPB Web Services, Inc. (Hereinafter, collectively referred to as The Company.) All significant intercompany balances and transactions have been eliminated. In accordance with ASC 942, NPB Capital Trust I and 2 are not included in the consolidated financial statements.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions.

Cash and Cash Equivalents Cash and cash equivalents as used in the cash flow statements include cash and due from banks, interest-bearing deposits with banks, and federal funds sold.

Investment Securities Management determines the appropriate classification of securities at the time of purchase. If management has the intent and the Company has the ability at the time of purchase to hold securities until maturity, they are classified as held to maturity and carried at amortized historical cost. Securities not intended to be held to maturity are classified as available for sale and carried at fair value. Securities available for sale are intended to be used as part of the Company s asset and liability management strategy and may be sold in response to changes in interest rates, prepayment risk or other similar factors.

The amortization of premiums and accretion of discounts are recognized in interest income using the effective interest method over the period to maturity. Realized gains and losses on dispositions are based on the net proceeds and the adjusted book value of the securities sold, using the specific identification method. Realized gains (losses) on securities available-for-sale are included in noninterest income and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. Unrealized gains and losses on investment securities available for sale are based on the difference between book value and fair value of each security. These gains and losses are credited or charged to other comprehensive income, net of tax, whereas realized gains and losses flow through the statement of operations.

Loans Loans are carried on the balance sheet at unpaid principal balance, net of any unearned interest and the allowance for loan losses. Interest income on loans is computed using the effective interest method, except where serious doubt exists as to the collectibility of the loan, in which case accrual of the income is discontinued.

It is the Company s policy to stop accruing interest on a loan, and classify that loan as non-accrual under the following circumstances: (a) whenever we are advised by the borrower that scheduled payment or interest payments cannot be met, (b) when our best judgment indicates that payment in full of principal and interest can no longer be expected, or (c) when any such loan or obligation becomes delinquent for 90 days unless it is both well secured and in the process of collection. All interest accrued but not collected for loans that are place on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and prospects for future contractual payments are reasonably assured.

Table of Contents

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Significant Group Concentrations of Credit Risk The Company identifies a concentration as any obligation, direct or indirect, of the same or affiliated interests which represent 25% or more of the Company s capital structure, or $10.7 million as of December 31, 2014. Most of the Company s activities are with customers located within the southwest Virginia, southern West Virginia, and northeastern Tennessee region. Certain concentrations may pose credit risk. The Company does not have any significant concentrations to any one industry or customer.

Allowance for Loan Losses The allowance for loan losses is maintained at a level that, in management s judgment, is adequate to absorb credit losses inherent in the loan portfolio. The loan portfolio is analyzed periodically and loans are assigned a risk rating. Allowances for impaired loans are generally determined based on collateral values or the present value of expected cash flows. A general allowance is made for all other loans not considered impaired as deemed appropriate by management. In determining the adequacy of the allowance, management considers the following factors: the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, the estimated value of any underlying collateral, prevailing environmental factors and economic conditions, and other inherent risks. While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in collateral values and changes in estimates of cash flows on impaired loans. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Loans are charged against the allowance for loan losses when management believes that collectability of all or part of the principal is unlikely. Past due status is determined based on contractual terms.

In regards to its consumer loans and consumer real estate loan portfolio, the Company uses the guidance found in the Uniform Retail Credit Classification and Account Management Policy and as a result affects our estimate of the allowance for loan losses. Under this approach when a consumer loan or consumer real estate loan is originated, it must possess qualities of a credit risk grade of Pass for approval and will remain with the initial risk rating through maturity unless there is a deterioration in the credit quality of the loan. Subsequently, if the loan becomes contractually 90 days past due or the borrower files for bankruptcy protection, it is downgraded to Substandard and placed in nonaccrual status. If the loan is unsecured, upon being deemed Substandard, the entire loan amount is charged off.

At 90 days past due, or earlier if the customer has filed bankruptcy, for non 1-4 family residential secured loans, the collateral value less estimated liquidation costs is compared to the loan balance to calculate any potential deficiency. If there is sufficient collateral, no charge-off is necessary. If there is a deficiency, then prior to the loan becoming contractually 120 days past due, the deficiency is charged-off against the allowance for loan loss. In the case of 1-4 family residential or a home equity loans, upon the loan becoming 120 days past due, a current value is obtained and after application of an estimated liquidation discount, a comparison is made to the loan balance to calculate any deficiency. Subsequently, any noted deficiency is then charged-off against the allowance for loan loss when the loan becomes contractually 180 days past due. If the customer has filed bankruptcy, then within 60 days of the bankruptcy notice, any calculated deficiency is charged-off against the allowance for loan loss. Collection efforts continue by means of repossessions or foreclosures, and upon bank ownership, liquidation ensues.

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

Table of Contents

Bank Premises and Equipment Land, buildings and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the following estimated useful lives:

Type	Estimated useful life
Buildings	39 years
Paving and landscaping	15 years
Computer equipment and software	3 to 5 years
Vehicles	5 years
Furniture and other equipment	5 to 7 years

Stock Options - The Company records compensation related to stock options pursuant to ASC 718 which requires the estimated fair market value of the expense to be reflected over the period the award is earned which is presumed to be the vesting period. For additional discussion concerning stock options see Note 15, Stock Option Plan.

Common Stock Warrants The company issued common stock warrants as a result of its conversion of Director notes and the completion of its common stock offering in 2012. For additional discussion concerning these transactions including the terms and value of the warrants, see Note 22, Capital.

Income Taxes 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, a valuation allowance is established to reduce the net deferred tax asset to the amount that is more likely than not to be realized.

In the event the Company has unrecognized tax expense in future accounting periods, the Company will recognize interest in interest expense and penalties in operating expenses. There were no interest or penalties related to an unrecognized tax position for the years ended December 31, 2014 and 2013. Because of the impact of deferred tax accounting, other than interest and penalties, the reversal of the Company s treatment by taxing authorities would not affect the annual effective tax rate but would defer or accelerate the payment of cash to the taxing authority. The Company s tax filings for years ended 2010 through 2014 are currently open to audit under statutes of limitations by the Internal Revenue Service (IRS) and state taxing authorities.

Financial Instruments Off-balance-sheet instruments In the ordinary course of business, the Company has entered into commitments to extend credit. Such financial instruments are recorded in the financial statements when they are funded.

Earnings Per Share Basic earnings per share computations are based on the weighted average number of shares outstanding during each year. Dilutive earnings per share reflects 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 and are determined by the Treasury Method. For the years ending December 31, 2014 and 2013, potential common shares of 1,555,964 and 2,648,871, 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 years ended December 31, 2014	2013
Net income	$ 240	$ 1,484
Weighted average shares outstanding	22,099,926	21,870,758
Weighted average dilutive shares outstanding	22,099,926	21,870,758
Basic and diluted income per share	$ 0.01	$ 0.07

Comprehensive Income (Loss) Generally accepted accounting principles require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. The change in unrealized gains and losses on available-for-sale securities is our only component of other comprehensive income.

Table of Contents

Advertising Cost Advertising costs are expensed in the period incurred.

Business Combinations For purchase acquisitions accounted for as a business combination, the Company is required to record the assets acquired, including identified intangible assets and liabilities assumed at their fair value, which in many instances involves estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques. The determination of the useful lives of intangible assets is subjective, as is the appropriate amortization method for such intangible assets. In addition, purchase acquisitions may result in goodwill, which is subject to ongoing periodic impairment testing based on the fair value of net assets acquired compared to the carrying value of goodwill. Changes in acquisition multiples, the overall interest rate environment, or the continuing operations of the assets acquired could have a significant impact on the periodic impairment testing. For additional discussion concerning our valuation of intangible assets, see Note 13, Intangible Assets.

Reclassification Certain reclassifications have been made to the prior years financial statements to place them on a comparable basis with the current year. Net income and stockholders equity previously reported were not affected by these reclassifications.

Subsequent Events The Company has evaluated subsequent events for potential recognition and/or disclosure through the date these consolidated financial statements were issued.

NOTE 3 FORMAL WRITTEN AGREEMENT:

Effective July 29, 2010, the Company and the Bank entered into a written agreement with the Federal Reserve Bank of Richmond (Reserve Bank) and the Virginia State Corporation Commission Bureau of Financial Institutions (the Bureau) called (the Written Agreement). At December 31, 2014, we believe we have not yet achieved full compliance with the Written Agreement but we have made progress in our compliance efforts under the Written Agreement and all of the written plans required to date, as discussed in the following paragraphs, have been submitted on a timely basis.

Under the terms of the Written Agreement, the Bank has agreed to develop and submit for approval within specified time periods written plans to: (a) strengthen board oversight of management and the Bank s operation; (b) if appropriate after review, to strengthen the Bank s management and board governance; (c) strengthen credit risk management policies; (d) enhance lending and credit administration; (e) enhance the Bank s management of commercial real estate concentrations; (f) conduct ongoing review and grading of the Bank s loan portfolio; (g) improve the Bank s position with respect to loans, relationships, or other assets in excess of $1 million which are now or in the future become past due more than 90 days, which are on the Bank s problem loan list, or which are adversely classified in any report of examination of the Bank; (h) review and revise, as appropriate, current policy and maintain sound processes for maintaining an adequate allowance for loan and lease losses; (i) enhance management of the Bank s liquidity position and funds management practices; (j) revise its contingency funding plan; (k) revise its strategic plan; and (l) enhance the Bank s anti-money laundering and related activities.

In addition, the Bank has agreed that it will: (a) not extend, renew, or restructure any credit that has been criticized by the Reserve Bank or the Bureau absent prior board of directors approval in accordance with the restrictions in the Written Agreement; (b) eliminate all assets or portions of assets classified as loss and thereafter charge off all assets classified as loss in a federal or state report of examination, unless otherwise approved by the Reserve Bank.

Under the terms of the Written Agreement, both the Company and the Bank have agreed to submit capital plans to maintain sufficient capital at the Company, on a consolidated basis, and the Bank, on a stand-alone basis, and to refrain from declaring or paying dividends without prior regulatory approval. The Company has agreed that it will not take any other form of payment representing a reduction in the Bank s capital or make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without prior regulatory approval. The Company may not incur, increase or guarantee any debt without prior regulatory approval and has agreed not to purchase or redeem any shares of its stock without prior regulatory approval.

Under the terms of the Written Agreement, the Company and the Bank have appointed a committee to monitor compliance with the Written Agreement. The directors of the Company and the Bank have recognized and unanimously agree with the common goal of financial soundness represented by the Written Agreement and have confirmed the intent of the directors and executive management to diligently seek to comply with all requirements of the Written Agreement.

Table of Contents

NOTE 4 DEPOSITS IN AND FEDERAL FUNDS SOLD TO BANKS:

The Bank had federal funds sold and cash on deposit with other commercial banks amounting to $20.9 million and $35.9 million at December 31, 2014 and 2013, respectively. Deposit amounts at other commercial banks may, at times, exceed federally insured limits.

The Bank is required to maintain average reserve balances, computed by applying prescribed percentages to its various types of deposits, either at the Bank or on deposit with the Federal Reserve Bank. At December 31, 2014 and 2013, all required reserves were met by the Bank s vault cash.

NOTE 5 INVESTMENT SECURITIES:

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

(Dollars are in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
December 31, 2014				
U.S. Government Agencies	$ 43,985	$ 332	$ 247	$ 44,070
Taxable municipals	293		5	288
Mortgage backed securities	55,896	144	329	55,711
Total Securities AFS	$ 100,174	$ 476	$ 581	$ 100,069
December 31, 2013				
U.S. Government Agencies	$ 39,296	$ 246	$ 941	$ 38,601
Mortgage backed securities	41,284	60	819	40,525
Total Securities AFS	$ 80,580	$ 306	$ 1,760	$ 79,126

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 December 31, 2014 and December 31, 2013.

	Less than 12 Months		12 Months or More		Total	
(Dollars are in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2014						
U.S. Government Agencies	$ 7,408	$ 38	$ 12,965	$ 209	$ 20,373	$ 247
Taxable municipals	288	5			288	5
Mtg. backed securities	21,083	179	11,622	150	32,705	329
Total Securities AFS	$ 28,779	$ 222	$ 24,587	$ 359	$ 53,366	$ 581

December 31, 2013						
U.S. Government Agencies	$ 26,090	$ 936	$ 570	$ 5	$ 26,660	$ 941
Mtg. backed securities	27,461	693	5,046	126	32,507	819
Total Securities AFS	$ 53,551	$ 1,629	$ 5,616	$ 131	$ 59,167	$ 1,760

At December 31, 2014, the available-for-sale portfolio included eighty four investments for which the fair market value was less than amortized cost. At December 31, 2013, the available-for-sale portfolio included eighty investments for which the fair market value was less than amortized cost. Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial conditions and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. No securities were deemed to have an other than temporary impairment.

Table of Contents

The amortized cost and fair value of investment securities at December 31, 2014, 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	$ 190	$ 191	1.60%
Due after one year through five years	2,760	2,776	1.43%
Due after five years through ten years	12,758	12,788	1.51%
Due after ten years	84,466	84,314	1.90%
Total	$ 100,174	$ 100,069	1.83%

Investment securities with a carrying value of $17.5 million and $17.0 million at December 31, 2014 and 2013, were pledged to secure public deposits, overnight payment processing and for other purposes required by law.

The Bank, as a member of the Federal Reserve Bank and the Federal Home Loan Bank, is required to hold stock in each. These equity securities are restricted from trading and are recorded at a cost of $2.4 million and $2.7 million as of December 31, 2014 and 2013, respectively.

NOTE 6 LOANS:

Loans receivable outstanding at December 31, are summarized as follows:

(Dollars are in thousands)	2014	2013
Real estate secured:		
Commercial	$ 108,062	$ 126,174
Construction and land development	15,439	22,421
Residential 1-4 family	243,538	249,187
Multifamily	14,409	11,482
Farmland	25,252	28,892
Total real estate loans	406,700	438,156
Commercial	21,807	24,955
Agriculture	3,117	3,718
Consumer installment loans	25,828	26,055
All other loans	97	139
Total loans	$ 457,549	$ 493,023

Loans receivable on nonaccrual status at December 31, are summarized as follows:

(Dollars are in thousands)	2014	2013
Real estate secured:		
Commercial	$ 6,222	$ 16,098
Construction and land development	332	775
Residential 1-4 family	8,589	4,852
Multifamily	118	171
Farmland	5,982	5,315
Total real estate loans	21,243	27,211
Commercial	554	947
Agriculture	18	45
Consumer installment loans	46	104
All other loans		
Total loans receivable on nonaccrual status	$ 21,861	$ 28,307

Total interest income not recognized on nonaccrual loans for 2014 and 2013 was $386 thousand and $969 thousand, respectively. In 2014, three nonperforming loans totaling $5.5 million were sold to further reduce the high level of nonaccrual loans. Charge offs of $1.0 million were realized and fully absorbed by the allowance for loan losses with no additional provisions needed. We will continue to evaluate certain loans to determine if additional loans may be sold at minimal impact to earnings and to capital levels in the near future as we aggressively work to reduce the level of nonperforming loans. There were no nonperforming loans sold during 2013.

Table of Contents

The following table presents information concerning the Company s investment in loans considered impaired as of December 31, 2014 and December 31, 2013:

As of December 31, 2014 (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	$ 9,628	$ 128	$ 3,986	$ 5,166	$
Construction and land development	248	1	15	15	
Residential 1-4 family	2,959	177	3,245	3,471	
Multifamily	370	26	438	479	
Farmland	5,383	114	5,767	6,801	
Commercial	421		548	674	
Agriculture	62	4	52	52	
Consumer installment loans	12	1	15	15	
All other loans					
With an allowance recorded:					
Real estate secured:					
Commercial	6,338	132	4,517	4,905	1,482
Construction and land development	505	14	303	355	88
Residential 1-4 family	4,248	126	2,573	2,852	347
Multifamily	268	7	113	113	15
Farmland	2,573	59	1,104	1,116	343
Commercial	407	4	74	74	26
Agriculture	39	2	30	30	30
Consumer installment loans	10				
All other loans					
Total	$ 33,471	$ 795	$ 22,780	$ 26,118	$ 2,331

As of December 31, 2013 (Dollars are in thousands)	Average Recorded Investment	Interest Income Recognized	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:					
Real estate secured:					
Commercial	$ 16,270	$ 300	$ 9,807	$ 10,276	$
Construction and land development	2,246	26	336	345	
Residential 1-4 family	4,276	126	2,557	2,727	
Multifamily	652	16	326	326	
Farmland	4,260	166	2,533	2,670	
Commercial	717	7	315	423	
Agriculture	71	6	60	60	
Consumer installment loans	51	2	12	12	
All other loans					

With an allowance recorded:					
Real estate secured:					
Commercial	12,080	441	12,092	13,924	1,942
Construction and land development	492	9	554	640	138
Residential 1-4 family	3,980	260	5,458	5,824	1,180
Multifamily	561	17	268	268	39
Farmland	4,116	114	6,109	6,797	653
Commercial	1,012	3	672	740	208
Agriculture	138	4	55	71	43
Consumer installment loans	22	2	22	22	3
All other loans					
Total	$ 50,944	$ 1,499	$ 41,176	$ 45,125	$ 4,206

Table of Contents

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

As of December 31, 2014 (Dollars are in thousands)	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Real estate secured:							
Commercial	$ 2,683	$ 74	$ 2,411	$ 5,168	$ 102,894	$ 108,062	$
Construction and land development	94	335	12	441	14,998	15,439	
Residential 1-4 family	7,885	1,728	2,346	11,959	231,579	243,538	
Multifamily	320			320	14,089	14,409	
Farmland	661	453		1,114	24,138	25,252	
Total real estate loans	11,643	2,590	4,769	19,002	387,698	406,700	
Commercial	64	15	162	241	21,566	21,807	
Agriculture		4		4	3,113	3,117	
Consumer installment Loans	153	19	21	193	25,635	25,828	
All other loans	22	6		28	69	97	
Total loans	$ 11,882	$ 2,634	$ 4,952	$ 19,468	$ 438,081	$ 457,549	$

As of December 31, 2013 (Dollars are in thousands)	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Real estate secured:							
Commercial	$ 7,192	$ 1,713	$ 4,174	$ 13,079	$ 113,095	$ 126,174	$
Construction and land development	505	183	347	1,035	21,386	22,421	
Residential 1-4 family	6,391	1,067	1,271	8,729	240,458	249,187	
Multifamily		436		436	11,046	11,482	
Farmland	1,869	137	3,986	5,992	22,900	28,892	
Total real estate loans	15,957	3,536	9,778	29,271	408,885	438,156	
Commercial	135	14	902	1,051	23,904	24,955	
Agriculture	26	20	13	59	3,659	3,718	
Consumer installment Loans	241	48	8	297	25,758	26,055	
All other loans	11	7	1	19	120	139	1

Total loans	$ 16,370	$ 3,625	$ 10,702	$ 30,697	$ 462,326	$ 493,023	$ 1

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

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

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

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

Table of Contents

Doubtful Loans classified Doubtful have all the weaknesses inherent in loans classified Substandard, plus the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable and improbable.

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

As of December 31, 2014

(Dollars are in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real estate secured:					
Commercial	$ 92,515	$ 7,925	$ 7,622	$	$ 108,062
Construction and land development	12,974	2,041	424		15,439
Residential 1-4 family	230,184	1,965	11,389		243,538
Multifamily	13,953	146	310		14,409
Farmland	18,159	270	6,823		25,252
Total real estate loans	367,785	12,347	26,568		406,700
Commercial	18,495	2,548	764		21,807
Agriculture	3,069		48		3,117
Consumer installment loans	25,719		109		25,828
All other loans	97				97
Total	$ 415,165	$ 14,895	$ 27,489	$	$ 457,549

As of December 31, 2013

(Dollars are in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Real estate secured:					
Commercial	$ 100,403	$ 4,586	$ 21,185	$	$ 126,174
Construction and land development	19,138	2,107	1,176		22,421
Residential 1-4 family	234,857	1,916	12,213	201	249,187
Multifamily	10,777	266	439		11,482
Farmland	19,935	411	8,546		28,892
Total real estate loans	385,110	9,286	43,559	201	438,156
Commercial	23,258	634	1,034	29	24,955
Agriculture	3,583	11	124		3,718
Consumer installment loans	25,879		176		26,055
All other loans	139				139
Total	$ 437,969	$ 9,931	$ 44,893	$ 230	$ 493,023

Table of Contents

NOTE 7 ALLOWANCE FOR LOAN LOSSES:

The following table details activity in the allowance for loan losses by portfolio segment for the period ended December 31, 2014. 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, 2014

(Dollars are in thousands)	Beginning Balance	Charge Offs	Recoveries	Advances	Provisions	Ending Balance
Real estate secured:						
Commercial	$ 5,203	$ (2,190)	$ 427	$	$ 978	$ 4,418
Construction and land development	1,184	(292)	236		(929)	199
Residential 1-4 family	3,316	(1,063)	148		171	2,572
Multifamily	133	(41)			62	154
Farmland	1,224	(830)	520		(1)	913
Total real estate loans	11,060	(4,416)	1,331		281	8,256
Commercial	1,147	(47)	29		(672)	457
Agriculture	337	(17)	1		(196)	125
Consumer installment loans	153	(79)	40		57	171
All other loans	2				(1)	1
Unallocated	381				531	912
Total	$ 13,080	$ (4,559)	$ 1,401	$	$	$ 9,922

As of December 31, 2014 (Dollars are in thousands)	Allowance for Loan Losses Individually Evaluated for Impairment	Allowance for Loan Losses Collectively Evaluated for Impairment	Allowance for Loan Losses Total	Recorded Investment in Loans Individually Evaluated for Impairment	Recorded Investment in Loans Collectively Evaluated for Impairment	Recorded Investment in Loans Total
Real estate secured:						
Commercial	$ 1,482	$ 2,936	$ 4,418	$ 8,503	$ 99,559	$ 108,062
Construction and land development	88	111	199	318	15,121	15,439
Residential 1-4 family	347	2,225	2,572	5,818	237,720	243,538
Multifamily	15	139	154	551	13,858	14,409
Farmland	343	570	913	6,871	18,381	25,252
Total real estate loans	2,275	5,981	8,256	22,061	384,639	406,700
Commercial	26	431	457	622	21,185	21,807
Agriculture	30	95	125	82	3,035	3,117
Consumer installment loans		171	171	15	25,813	25,828
All other loans		1	1		97	97
Unallocated		912	912			

Total	$ 2,331	$ 7,591	$ 9,922	$ 22,780	$ 434,769	$ 457,549

Table of Contents

The following table details activity in the allowance for loan losses by portfolio segment for the period ended December 31, 2013. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

As of December 31, 2013

(Dollars are in thousands)	Beginning Balance	Charge Offs	Recoveries	Advances	Provisions	Ending Balance
Real estate secured:						
Commercial	$ 6,720	$ (2,811)	$ 439	$	$ 855	$ 5,203
Construction and land development	2,166	(312)	452		(1,122)	1,184
Residential 1-4 family	3,050	(1,143)	576		833	3,316
Multifamily	552				(419)	133
Farmland	1,074	(749)	68		831	1,224
Total real estate loans	13,562	(5,015)	1,535		978	11,060
Commercial	1,772	(513)	50		(162)	1,147
Agriculture	533	(363)	51		116	337
Consumer installment loans	388	(153)	128		(210)	153
All other loans	4				(2)	2
Unallocated	551				(170)	381
Total	$ 16,810	$ (6,044)	$ 1,764	$	$ 550	$ 13,080

As of December 31, 2013	Allowance for Loan Losses			Recorded Investment in Loans		
(Dollars are in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Real estate secured:						
Commercial	$ 1,942	$ 3,261	$ 5,203	$ 21,899	$ 104,275	$ 126,174
Construction and land development	138	1,046	1,184	890	21,531	22,421
Residential 1-4 family	1,180	2,136	3,316	8,015	241,172	249,187
Multifamily	39	94	133	594	10,888	11,482
Farmland	653	571	1,224	8,642	20,250	28,892
Total real estate loans	3,952	7,108	11,060	40,040	398,116	438,156
Commercial	208	939	1,147	987	23,968	24,955
Agriculture	43	294	337	115	3,603	3,718
Consumer installment loans	3	150	153	34	26,021	26,055
All other loans		2	2		139	139
Unallocated		381	381			
Total	$ 4,206	$ 8,874	$ 13,080	$ 41,176	$ 451,847	$ 493,023

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.

Table of Contents

NOTE 8 TROUBLED DEBT RESTRUCTURINGS:

At December 31, 2014 there were $10.0 million in loans that are classified as troubled debt restructurings compared to $12.3 million at December 31, 2013. The following table presents information related to loans modified as troubled debt restructurings during the years ended December 31, 2014 and 2013.

Troubled Debt Restructurings (Dollars are in thousands)	December 31, 2014 # of Loans	Pre-Mod. Recorded Investment	Post-Mod. Recorded Investment	December 31, 2013 # of Loans	Pre-Mod. Recorded Investment	Post-Mod. Recorded Investment
Real estate secured:						
Commercial		$	$	1	$ 136	$ 134
Construction and land Development						
Residential 1-4 family	2	596	589			
Multifamily						
Farmland	2	3,340	2,596			
Total real estate loans	4	3,936	3,185	1	136	134
Commercial				1	51	7
Agriculture						
Consumer installment loans				1	14	13
All other loans						
Total	4	$ 3,936	$ 3,185	3	$ 201	$ 154

During the year ended 2014, the Company modified four loans that were considered to be troubled debt restructurings. We modified the terms for one of these loans. On three loans we modified the terms and lowered the interest rate. During the year ended 2013, the Company modified three loans that were considered to be troubled debt restructurings. We modified the terms for one of these loans and the interest rate was lowered on one loan. On one loan we modified the terms and lowered the interest rate.

The following table presents information related to loans modified as a troubled debt restructurings that subsequently defaulted during the years ended December 31, 2014 and 2013, and within twelve months of their modification date. A troubled debt restructuring is considered to be in default once it becomes 90 days or more past due following a modification.

Troubled Debt Restructurings That Subsequently Defaulted During the Period (Dollars are in thousands)	December 31, 2014 # of Loans	Recorded Investment	December 31, 2013 # of Loans	Recorded Investment
Real estate secured:				
Commercial		$		$

Construction and land development		
Residential 1-4 family		
Multifamily		
Farmland		
Total real estate loans		
Commercial		
Agriculture		
Consumer installment loans		
All other loans		
Total	$	$

When determining the level 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.

Table of Contents

NOTE 9 BANK PREMISES AND EQUIPMENT:

Bank premises and equipment at December 31, are summarized as follows:

(Dollars are in thousands)	2014	2013
Land	$ 9,672	$ 10,199
Buildings and improvements	22,897	23,149
Furniture and equipment	17,719	16,407
Vehicles	516	499
Construction in progress	18	232
	50,822	50,486
Less accumulated depreciation	(22,056)	(20,510)
Bank Premises and Equipment	$ 28,766	$ 29,976

Depreciation expense for 2014 and 2013 was $2.2 million and $2.3 million, respectively.

NOTE 10 OTHER TIME DEPOSITS:

The aggregate amount of time deposits that meet or exceed the FDIC Insurance limit of $250,000 was $15.7 million and $21.3 million at December 31, 2014 and 2013, respectively. We have brokered deposits totaling $2.7 million at December 31, 2014 and 2013, respectively. At December 31, 2014, the scheduled maturities of time deposits are as follows (dollars are in thousands):

2015	$ 214,303
2016	45,565
2017	17,305
2018	12,495
2019	10,206
After five years	100
Total	$ 299,974

Table of Contents

NOTE 11 INCOME TAX EXPENSE (BENEFIT):

The components of income tax expense (benefit) for the years ended December 31, are as follows:

(Dollars are in thousands)	2014	2013
Current benefit	$ (5)	$ (14)
Deferred tax expense (benefit)		(57)
Net income tax expense (benefit)	$ (5)	$ (71)

The net deferred tax assets and liabilities resulting from temporary differences as of December 31 are summarized as follows:

(Dollars are in thousands)	2014	2013
Deferred Tax Assets		
Allowance for loan losses	$ 3,373	$ 4,447
Deferred compensation	150	138
Accrued employee benefits	89	49
Bank owned life insurance	50	42
Nonaccrual loan interest	752	535
Other real estate owned	1,386	1,217
Repossessions		34
Amortization of core deposits	138	153
Amortization of goodwill	701	794
Capitalized interest and repair expense	44	46
Net operating loss carryforward	5,986	5,480
AMT carryforward	252	252
Unrealized loss on securities available for sale	36	494
Total Assets, gross	12,957	13,681
Valuation allowance	(6,390)	(6,352)
Total Assets, net	6,567	7,329
Deferred Tax Liabilities		
Accelerated depreciation	1,070	1,409
Prepaid expenses	217	209
Deferred loan costs	292	265
Unrealized gain on securities available for sale		
Total Liabilities, gross	1,579	1,883
Net Deferred Tax Asset	$ 4,988	$ 5,446

The following table summarizes the differences between the actual income tax expense and the amounts computed using the federal statutory tax rate of 34%:

(Dollars are in thousands)	2014	2013
Income tax expense (benefit) at the applicable federal rate	$ 80	$ 480
Permanent differences resulting from:		
Nondeductible expenses	8	8
Tax exempt interest income	(42)	(49)
State income taxes less federal tax effect	3	10
Bank owned life insurance	(37)	(44)
Deferred tax valuation allowance change, net	38	(428)
Other adjustments	(55)	(48)
Income tax expense (benefit)	$ (5)	$ (71)

Management reviewed the December 31, 2014 deferred tax calculation to determine the need for a valuation allowance. Based on the trend of reduced levels of earning assets and net interest income, we modified the projections of taxable income over the next three years and determined that only $38 thousand of additional deferred tax asset valuation allowance was required during 2014. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. In management s opinion, based on a three year taxable income projection, tax strategies which would result in potential securities gains and the effects of off-setting deferred tax liabilities, it is more likely than not that all the deferred tax assets, net of the $6.4 million allowance, would be realizable. Management is required to consider all evidence, both positive and negative in making this determination. As of December 31, 2014, the Company had $17.6 million of net operating loss carryforwards which will expire in 2031 thru 2034.

The Company s tax filings for years ended 2010 through 2014 were at year end 2014 open to audit under statutes of limitations by the Internal Revenue Service (IRS) and state taxing authorities. Our tax filings for the years ended 2010, 2011, and 2012 had been under examination by the IRS. In March 2015 we received notification from the IRS that as a result of the examination no changes were made to our reported tax.

NOTE 12 RELATED PARTY TRANSACTIONS:

During the year, officers and directors (and companies controlled by them) were customers of and had loan transactions with the Bank in the normal course of business which amounted to $4.0 million at December 31, 2014 and $4.0 million at December 31, 2013. During the year ended December 31, 2014, total principal additions were $3.2 million and principal payments were $3.1 million, including renewals and advances on revolving lines of credit. During the year ended December 31, 2013, total principal additions were $3.1 million and principal payments were $3.0 million, including renewals and advances on revolving lines of credit. These transactions were made on substantially the same terms as those prevailing for other customers and did not involve any abnormal risk. Total related party deposits held at the Bank were $5.6 million and $6.3 million at the end of years 2014 and 2013, respectively.

During 2010, the branch location in Grundy, Virginia which was part of a condominium in which the Bank and Director Michael McGlothlin owned the only units condemned by the Virginia Department of Transportation. The value of the Bank s interest in its condemned condominium units was $892 thousand and the value of Director McGlothlin s interest in his condemned condominium unit was $455 thousand as appraised by the Virginia Department of Transportation. Subsequently, a new building was constructed on an adjacent property with the condemnation proceeds. The Bank s branch in the new building was opened on January 31, 2011 and a portion of the building comparable to his condemned unit was occupied by Director McGlothlin at this time as well. Throughout 2011 additional work was conducted by the contractor. Minor projects remained at the end of 2011 and were completed during 2012. The new building is subject to a newly formed condominium agreement, the terms of which are substantially similar to the terms of the previous condominium arrangement. Final settlement of the transaction, including the recording of the condominium agreement, occurred in June 2013 on terms the Bank believes are consistent with an arm s length market transaction.

NOTE 13 INTANGIBLE ASSETS:

In 2007, the Bank completed the acquisition of two branches in which certain intangible assets were identified related to the value of core deposits. The estimated fair value of the core deposits was determined based on the present value of future cash flow related to those deposits considering the industry standard financial instrument type present value methodology. All-in costs and runoff balances by year were discounted by term specific Federal Home Loan Bank advance rates used as a measure of the best available approximate alternative costs of funds. The estimated economic advantage embedded in the acquired deposits as compared to alternative values is the core deposit intangible. Amortization expense related to these intangibles was based upon the average economic life of the core deposits.

(Dollars are in thousands)

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
December 31, 2014			
Amortizable core deposit intangibles	$ 810	$ 810	$
December 31, 2013			
Amortizable core deposit intangibles	$ 810	$ 802	$ 8

Table of Contents

NOTE 14 RETIREMENT PLANS:

The Company has established a qualified defined contribution plan that covers all full time employees. Effective January 1, 2012 the qualified defined contribution plan was modified where the Company matched employee contributions up to a maximum of 3% of their salary. The Company contributed $240 thousand and $258 thousand to the defined contribution plan for 2014 and 2013, respectively.

In addition, in 2002, the Bank established a salary continuation plan for key executives, which is funded by single premium life insurance policies. Expenses related to the plan were $45 thousand and $45 thousand for 2014 and 2013, respectively.

NOTE 15 STOCK OPTION PLAN:

New Peoples Stock Option Plan (the Plan) was adopted on September 27, 2001. The purpose of the Plan is to reward employees and directors for services rendered and investment risks undertaken to date and to promote the success of the Company by providing incentives to employees and directors that will promote the identification of their personal interest with the long-term financial success of the Company and with growth in shareholder value. The Plan provides that options for up to 1,287,000 shares of the Company s common stock may be issued to employees and directors. The exercise price may not be less than 100% of the fair market value of the shares on the award date. Each award becomes exercisable in the event of a change in control of the Company. All options are subject to exercise or forfeiture if the Company s capital falls below minimum requirements, as determined by its primary state or federal regulator. The Plan expired on May 31, 2011. All options granted and outstanding are fully vested. The Company did not grant any options in 2014 and 2013. No stock options were exercised in 2014 and 2013.

Information about stock options outstanding at December 31, 2014 follows:

Exercise Price	Number Outstanding And Exerciseable	Weighted Average Remaining Contractrual Life	Weighted Average Exercise Price
$ 11.54	198,183	0.97 years	$ 11.54
Totals	198,183	0.97 years	

A summary of the status of the Company s stock option plan is presented below:

	2014		2013		2012	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding and exercisable, Beginning of year	284,729	$ 11.02	371,866	$ 10.43	461,773	$ 10.08

Exercised						
Forfeited	(20,930)	11.04	(39,682)	10.30	(46,116)	10.18
Expired	(65,616)	9.44	(47,455)	6.99	(43,791)	6.99
Outstanding and exercisable, End of year	198,183	$ 11.54	284,729	$ 11.02	371,866	$ 10.43

NOTE 16 DIVIDEND LIMITATIONS ON SUBSIDIARY BANK:

The principal source of funds of the Company is dividends paid by the Bank. The Federal Reserve Act restricts the amount of dividends the Bank may pay. Approval by the Board of Governors of the Federal Reserve System is required if the dividends declared by a state member bank, in any year, exceed the sum of (1) net income of the current year and (2) income net of dividends for the preceding two years. In October 2009, a restriction prohibiting the payment of dividends from the Bank to the Company was imposed by the Federal Reserve Bank of Richmond. Therefore, no dividends will be available to the Company from the Bank until such restriction is removed.

Table of Contents

NOTE 17 LEASING ACTIVITIES:

The Company s leasing activities consist of the leasing of land and buildings under agreements in which the Bank is lessee. These leases have been classified as operating leases. During 2013 the Bank had one operating lease that was canceled when the Bank purchased the land it was leasing. As of December 31, 2014, the Bank had no significant operating leases.

Rental commitments of less than one year are not included. There were no rentals charged to operations under operating leases in 2014 and $4 thousand charged for the year ended 2013.

NOTE 18 AVAILABLE LINES OF CREDIT AND FEDERAL HOME LOAN BANK ADVANCES:

The Bank has the ability to borrow up to an additional $99.9 million from the Federal Home Loan Bank under a line of credit which is secured by a blanket lien on residential real estate loans. The Bank had no overnight borrowings subject to daily rate changes from the Federal Home Loan Bank at December 31, 2014 or 2013. All other borrowings are at fixed rates.

The Bank had $4.2 million in term borrowings with the Federal Home Loan Bank at December 31, 2014 and $5.4 million at December 31, 2013. These borrowings were obtained in 2008 to fund various real estate loans. These borrowings have fixed rates with an average weighted interest rate of 4.07%, with monthly principal and interest through 2018.

A letter of credit for $7.0 million was issued in 2013 and a letter of credit for $3.0 million was issued in 2010 to the Treasury Board of Virginia for collateral on public funds. No draws on the letters of credit have been issued. The letters of credit are considered draws on our Federal Home Loan Bank line of credit which is secured by a blanket lien on residential real estate loans.

NOTE 19 LEGAL CONTINGENCIES:

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company s consolidated financial statements.

A lawsuit against the Bank was filed in April 2010. This case involves a claim against the Bank by a joint venture between Bank customers, some of whom are former members of senior management, and three investors. The allegation is that the joint venture, VFI, should have priority over the Bank s deed of trust in order for VFI s unrecorded and unrecordable ground lease to be enforceable for its full ten year term. There are also additional claims for damages resulting from allegations that the Bank s representatives imputed liability to the Bank based upon breach of fiduciary duty, fraud, and collaboration. In March 2014 the Judge ruled in the Bank s favor regarding VFI s claim of unjust enrichment. In December 2014 the Bank agreed to a settlement with VFI on all remaining claims and in January 2015 an order was entered that dismissed this matter.

NOTE 20 FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK:

In the normal course of business, the Bank has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying consolidated financial statements. The Bank s exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making such commitments as it does for instruments that are included in the balance sheet.

Financial instruments whose contract amount represents credit risk were as follows:

(Dollars are in thousands)	2014	2013
Commitments to extend credit	$ 26,082	$ 29,039
Standby letters of credit	2,638	2,907

Commitments to extend credit are agreements to lend to a customer at either a fixed or variable interest rate as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management s credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank s policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

NOTE 21 TRUST PREFERRED SECURITIES AND DEFERRAL OF INTEREST PAYMENTS:

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 December 31, 2013 of 2.00%.

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 December 31, 2014 of 2.83%.

Under the terms of the subordinated debt transactions, the securities mature in 30 years 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 prohibits the payment of interest on the trust preferred securities without prior regulatory approval. As a result, interest on trust preferred securities issued by the Company had been deferred until such restriction was removed. 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. Interest in arrears on the trust preferred securities were $2.0 million as of December 31, 2013 and is included in accrued interest payable on the balance sheet for 2013.

On January 7, 2015 the 60 month deferral of the interest on the trust preferred securities issued by the Company expired. At this time the Company is not deferring the payment of the interest on the trust preferred securities, however, as discussed above, regulatory approval is needed to pay the interest. 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. Future payments still require regulatory approval and failure to obtain this approval could cause a default in the trust preferred securities by the Company, however, the Company has the option to re-enter another 60 month deferral of the interest on the trust preferred securities to prevent an event of default unless the regulators prohibit the deferral.

Table of Contents

NOTE 22 CAPITAL:

Capital Requirements and Ratios

The Company and the Bank are subject to various capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and, possibly, additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company s and the Bank s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes that, as of December 31, 2014, the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2014 the Bank was well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Company s and Bank s category.

The Company s and the Bank s actual capital amounts and ratios are presented in the table as of December 31, 2014 and 2013, respectively.

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars are in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014:						
Total Capital to Risk Weighted Assets						
The Company	$ 59,816	15.98%	$ 29,948	8%	$ N/A	N/A
The Bank	58,869	15.73%	29,938	8%	37,422	10%
Tier 1 Capital Risk Weighted Assets:						
The Company	53,379	14.26%	14,974	4%	N/A	N/A
The Bank	54,127	14.46%	14,969	4%	22,453	6%
Tier 1 Capital to Average Assets:						
The Company	53,379	8.07%	26,453	4%	N/A	N/A
The Bank	54,127	8.19%	26,447	4%	33,058	5%
December 31, 2013:						
Total Capital to Risk Weighted Assets						
The Company	$ 58,305	14.39%	$ 32,417	8%	$ N/A	N/A
The Bank	56,602	13.96%	32,430	8%	40,538	10%

Tier 1 Capital Risk Weighted Assets:						
The Company	50,776	12.53%	16,208	4%	N/A	N/A
The Bank	51,436	12.69%	16,215	4%	24,323	6%
Tier 1 Capital to Average Assets:						
The Company	50,776	7.40%	27,445	4%	N/A	N/A
The Bank	51,436	7.49%	27,460	4%	34,326	5%

Table of Contents

Capital Injections

On September 29, 2014 $500 thousand was injected into the Bank s capital from the Company. On October 9, 2014 $1.25 million was injected into the Bank s capital from the Company. The total $1.75 million in capital injections was to increase the capital position and capital ratios of the Bank.

Board of Directors and Management Exercise of Common Stock Warrants

During the month of October 2014, members of the board of directors and management of the Company exercised 1,006,261 common stock warrants at a price of $1.75 per share. As a result an additional $1.76 million of capital was raised at the Company. These funds helped to offset the $1.75 million of funds used for the capital injections mentioned above. As a result the Company still has adequate liquidity to pay its operating expenses and trust preferred interest payments (upon regulatory approval).

Common Stock Warrants

As of December 31, 2014, 1,357,781 common stock warrants were outstanding as compared to 2,364,142 common stock warrants as of December 31, 2013. During 2014, 1,006,361 of the common stock warrants were exercised at a price of $1.75. During 2013, 6,758 of common stock warrants were exercised at a price of $1.75. A summary of common stock warrants outstanding at December 31, 2014 follows:

Expiration Date	Exercise Price	Number Outstanding And Exerciseable	Weighted Average Remaining Contractrual Life
December 20, 2017	$ 1.75	1,357,781	2.97 years
	Totals	1,357,781	2.97 years

Table of Contents

NOTE 23 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 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 $100.1 million and $79.1 million at December 31, 2014 and 2013, 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. From time to time a loan is considered impaired and an allowance for loan losses is established. Loans which are deemed to be impaired and require a reserve are primarily valued on a non-recurring basis at the fair values of the underlying real estate collateral. Such fair values are obtained using independent appraisals, which management evaluates and determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, or an appraised value does not include estimated costs of disposition and management must make an estimate, the Company records the impaired loan as nonrecurring Level 3. The aggregate carrying amount of impaired loans carried at fair value were $20.4 million and $37.0 million at December 31, 2014 and 2013, respectively.

Foreclosed Assets Foreclosed assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Foreclosed assets are carried at the lower of the carrying value or fair value. Fair value is based upon independent observable market prices or appraised values of the collateral with a third party estimate of disposition costs, which the Company considers to be level 2 inputs. When the appraised value is not available, management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, or an appraised value does not include estimated costs of disposition and management must make an estimate, the Company records the foreclosed asset as nonrecurring Level 3. The aggregate carrying amounts of foreclosed assets were $15.0 million and $15.9 million at December 31, 2014 and 2013, respectively.

Table of Contents

Assets and liabilities measured at fair value are as follows as of December 31, 2014 (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	$	$ 44,070	$
Taxable municipals		288	
Mortgage backed securities		55,711	
(On a non-recurring basis)			
Other real estate owned			15,049
Impaired loans:			
Real estate secured:			
Commercial			7,021
Construction and land development			230
Residential 1-4 family			5,471
Multifamily			536
Farmland			6,528
Commercial			596
Agriculture			52
Consumer installment loans			15
All other loans			
Total	$	$ 100,069	$ 35,498

Assets and liabilities measured at fair value are as follows as of December 31, 2013 (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	$	$ 38,601	$
Taxable municipals			

Tax-exempt municipals			
Mortgage backed securities		40,525	
(On a non-recurring basis)			
Other real estate owned			15,853
Impaired loans:			
Real estate secured:			
Commercial			19,957
Construction and land development			752
Residential 1-4 family			6,835
Multifamily			555
Farmland			7,989
Commercial			779
Agriculture			72
Consumer installment loans			31
All other loans			
Total	$	$ 79,126	$ 52,823

63

Table of Contents

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

(Dollars in thousands)	Fair Value at December 31, 2014	Valuation Technique	Significant Unobservable Inputs	General Range of Significant Unobservable Input Values
Impaired Loans	$ 20,449	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	$ 15,049	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 December 31, 2014 and 2013. 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 during the months of December 2014 and 2013.

			Fair Value Measurements		
(Dollars are in thousands)	Carrying Amount	Fair Value	Quoted market price	Significant other	Significant unobservable

				in active markets (Level 1)	observable inputs (Level 2)	inputs (Level 3)
December 31, 2014						
Financial Instruments	Assets					
Net Loans		$ 447,627	$ 451,225	$	$ 430,776	$ 20,449
Financial Instruments	Liabilities					
Time Deposits		299,974	301,309		301,309	
FHLB Advances		4,158	4,158		4,158	
December 31, 2013						
Financial Instruments	Assets					
Net Loans		$ 479,943	$ 482,285	$	$ 445,315	$ 36,970
Financial Instruments	Liabilities					
Time Deposits		346,991	348,944		348,944	
FHLB Advances		5,358	5,358		5,358	

NOTE 24 RECENT ACCOUNTING DEVELOPMENTS:

The following is a summary of recent authoritative announcements:

In January 2014, the Financial Accounting Standards Board (FASB) amended the Receivables topic of the Accounting Standards Codification (ASC). The amendments are intended to resolve diversity in practice with respect to when a creditor should reclassify a collateralized consumer mortgage loan to other real estate owned (OREO). In addition, the amendments require a creditor reclassify a collateralized consumer mortgage loan to OREO upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. The amendments will be effective for the Company for annual periods, and interim periods within those annual periods beginning after December 15, 2014, with early implementation of the guidance permitted. In implementing this guidance, assets that are reclassified from real estate to loans are measured at the carrying value of the real estate at the date of adoption. Assets reclassified from loans to real estate are measured at the lower of the net amount of the loan receivable or the fair value of the real estate less costs to sell at the date of adoption. The Company will apply the amendments prospectively. The Company does not expect these amendments to have a material effect on its financial statements.

In May 2014, the 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, 2016. 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 August 2014, the FASB issued guidance that is intended to define management s responsibility to evaluate whether there is substantial doubt about an organization s ability to continue as a going concern and to provide related footnote disclosures. In connection with preparing financial statements, management will need to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the organization s ability to continue as a going concern within one year after the date that the financial statements are issued. The amendments will be effective for the Company for annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2015, the FASB issued guidance that eliminated the concept of extraordinary items from U.S. GAAP. Existing U.S. GAAP required that an entity separately classify, present, and disclose extraordinary events and transactions. The amendments will eliminate the requirements for reporting entities to consider whether an underlying event or transaction is extraordinary, however, the presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The amendments may be applied either prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. 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.

65

Table of Contents

NOTE 25 PARENT CORPORATION ONLY FINANCIAL STATEMENTS:

CONDENSED BALANCE SHEETS

AS OF DECEMBER 31, 2014 AND 2013

(Dollars in Thousands)

	2014	2013
ASSETS		
Due from banks	$ 1,091	$ 4,415
Investment in subsidiaries	57,635	53,938
Other assets	687	644
Total Assets	$ 59,413	$ 58,997
LIABILITIES		
Accrued interest payable	$	$ 1,954
Accrued expenses and other liabilities	66	587
Trust preferred securities	16,496	16,496
Total Liabilities	16,562	19,037
STOCKHOLDERS EQUITY		
Common stock - $2.00 par value, 50,000,000 shares authorized; 22,878,654 and 21,872,293 shares issued and outstanding at December 31, 2014 and 2013, respectively	45,757	43,745
Common stock warrants	1,176	2,050
Additional paid capital	13,672	13,050
Retained deficit	(17,685)	(17,925)
Accumulated other comprehensive income (loss)	(69)	(960)
Total Stockholders Equity	42,851	39,960
Total Liabilities and Stockholders Equity	$ 59,413	$ 58,997

CONDENSED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Dollars in Thousands)	2014	2013
Income		
Miscellaneous income	$ 15	$ 14
Undistributed income of subsidiaries	1,056	2,138

Total income	1,071	2,152
Expenses		
Trust preferred securities interest expense	545	471
Legal fees	126	23
Accounting fees	112	150
Other operating expenses	48	75
Total Expenses	831	719
Income before Income Taxes	240	1,433
Income Tax Benefit		(51)
Net Income	$ 240	$ 1,484

Table of Contents

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Dollars in Thousands)	2014	2013
Cash Flows From Operating Activities		
Net income	$ 240	$ 1,484
Adjustments to reconcile net income to net cash used in operating activities:		
Income of subsidiaries	(1,056)	(2,138)
Net change in:		
Other assets	(43)	23
Other liabilities	(2,475)	480
Net Cash Used in Operating Activities	(3,334)	(151)
Cash Flows From Investing Activities		
Investment in subsidiary	(1,750)	
Net Cash Used in Investing Activities	(1,750)	
Cash Flows From Financing Activities		
Stock offering costs		(37)
Exercise of common stock warrants	1,760	14
Net Cash Provided by (Used in) Financing Activities	1,760	(23)
Net decrease in Cash and Cash Equivalents	(3,324)	(174)
Cash and Cash Equivalents, Beginning of year	4,415	4,589
Cash and Cash Equivalents, End of Year	$ 1,091	$ 4,415
Supplemental Disclosure of Cash Paid During the Year for:		
Interest	$ 2,508	$
Taxes	$	$

Table of Contents

NOTE 26 SELECTED QUARTERLY INFORMATION (UNAUDITED)

	2014 QUARTERS			
(Dollars in thousands except per share data)	Fourth	Third	Second	First
Income statement				
Net interest income	$ 5,554	$ 5,644	$ 5,647	$ 5,743
Noninterest income	1,716	1,610	1,376	1,539
Provision for credit losses				
Noninterest expense	7,190	6,865	7,184	7,355
Net income (loss)	76	393	(157)	(72)
Earnings (loss) per share, basic	0.00	0.02	(0.01)	0.00
Earnings (loss) per share, fully diluted	0.00	0.02	(0.01)	0.00
Period end balance sheet				
Total loans and leases	$ 457,549	$ 463,942	$ 471,646	$ 482,746
Total assets	651,084	669,449	682,816	696,501
Total deposits	585,192	602,847	616,883	630,212
Total shareholders equity	42,851	40,667	40,233	40,126

	2013 QUARTERS			
(Dollars in thousands except per share data)	Fourth	Third	Second	First
Income statement				
Net interest income	$ 6,347	$ 6,265	$ 6,455	$ 6,266
Noninterest income	1,318	1,467	1,277	1,469
Provision for credit losses				550
Noninterest expense	7,782	7,279	6,821	7,019
Net income (loss)	(55)	447	945	147
Earnings (loss) per share, basic	0.00	0.02	0.04	0.01
Earnings (loss) per share, fully diluted	0.00	0.02	0.04	0.01
Period end balance sheet				
Total loans and leases	$ 493,023	$ 500,974	$ 510,028	$ 511,376
Total assets	684,711	690,817	699,238	707,744
Total deposits	618,997	624,180	632,637	641,295
Total shareholders equity	39,960	40,134	40,302	39,829

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Management s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting of New Peoples Bankshares, Inc. New Peoples internal control system was designed to provide reasonable assurance to management and the Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting practices.

All internal control systems, no matter how well designed, have inherent limitations. Because of these inherent limitations, internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and presentation, and may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of New Peoples internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework issued in 1992. Based on this assessment management concluded that the internal control over financial reporting was effective as of December 31, 2014.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures that is designed to ensure that material information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were operating effectively as of December 31, 2014.

Item 9B. Other Information

None.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information contained under the captions Election of Directors, Executive Officers Who Are Not Directors, Corporate Governance and Section 16(a) Beneficial Ownership Reporting Compliance in the 2015 Proxy Statement that is required to be disclosed in this Item 10 is incorporated herein by reference.

Item 11. Executive Compensation

The information contained under the captions Director Compensation and Executive Compensation and Related Party Transactions in the 2015 Proxy Statement that is required to be disclosed in this Item 11 is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information contained under the captions Security Ownership of Management and Security Ownership of Certain Beneficial Owners in the 2015 Proxy Statement that is required to be disclosed in this Item 12 is incorporated herein by reference.

Item 13. Certain Relationships, Related Transactions and Director Independence

The information contained under the caption Executive Compensation and Related Party Transactions and Corporate Governance in the 2015 Proxy Statement that is required to be disclosed in this Item 13 is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information contained under the caption Audit Information in the 2015 Proxy Statement that is required to be disclosed in this Item 14 is incorporated herein by reference.

Table of Contents

Item 15. Exhibits and Financial Statement Schedules

(a)(1) The response to this portion of Item 15 is included in Item 8 above.

(a)(2) The response to this portion of Item 15 is included in Item 8 above.

(a)(3) The following exhibits are filed as part of this Form 10-K, and this list includes the exhibit index::

Exhibit Number	
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 Registrant (incorporated by reference to Exhibit 3.1 to Form 8-K filed 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).
14	Code of Ethics (incorporated by reference to Exhibit 14 to Annual Report on Form 10-K for the fiscal year ended December 31, 2003).
21	Subsidiaries of the Registrant.
23	Consent of Elliott Davis Decosimo, LLC.
24	Powers of Attorney (contained on signature page).
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification by Chief Financial Officer pursuant to Rule 13a-14(a).
32	Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.
101	The following materials for the Company s 10-K Report for the year ended December 31, 2014, 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.)

* Denotes management contract.

(b) See Item 15(a)(3) above.
(c) See Items 15(a)(1) and (2) above.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ C. TODD ASBURY
C. Todd Asbury
President and Chief Executive Officer
Date: March 26, 2015

By: /s/ FRANK SEXTON, JR.
Frank Sexton, Jr.
Executive Vice President, Chief Operating Officer and Interim Chief Financial Officer
Date: March 26, 2015

Table of Contents

POWER OF ATTORNEY

Each of the undersigned hereby appoints C. Todd Asbury and Frank Sexton, Jr., and each of them, as attorneys and agents for the undersigned, with full power of substitution, in his name and on his behalf as a director of New Peoples Bankshares, Inc. (the Registrant), to act and to execute any and all instruments as such attorneys or attorney deem necessary or advisable to enable the Registrant to comply with the Securities Exchange Act of 1934, and any rules, regulations, policies or requirements of the Securities and Exchange Commission (the Commission) in respect thereof, in connection with the preparation and filing with the Commission of the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (the Report), and any and all amendments to such Report, together with such other supplements, statements, instruments and documents as such attorneys or attorney deem necessary or appropriate.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ C. TODD ASBURY C. Todd Asbury	President and Chief Executive Officer (Principal Executive Officer)	March 26, 2015
/s/ FRANK SEXTON, JR. Frank Sexton, Jr.	Executive Vice President, Chief Operating Officer, and Interim Chief Financial Officer (Principal Financial and Accounting Officer)	March 26, 2015
/s/ TIM BALL Tim Ball	Director	March 26, 2015
/s/ JOE CARTER Joe Carter	Director	March 26, 2015
/s/ JOHN D. COX John D. Cox	Director	March 26, 2015
/s/ CHARLES H. GENT Charles H. Gent	Director	March 26, 2015
/s/ EUGENE HEARL Eugene Hearl	Director	March 26, 2015
/s/ HAROLD LYNN KEENE Harold Lynn Keene	Chairman, Director	March 26, 2015
/s/ MICHAEL G. MCGLOTHLIN Michael G. McGlothlin	Director	March 26, 2015

/s/ FRED MEADE Fred Meade	Director	March 26, 2015
/s/ B. SCOTT WHITE B. Scott White	Director	March 26, 2015