NEW PEOPLES BANKSHARES INC
Form 10-K
March 16, 2010
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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, 2009

Commission File Number 000-33411

New Peoples Bankshares, Inc.

(Exact name of registrant as specified in its charter)

Virginia	**31-1804543**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization) **Identification No.)**

67 Commerce Drive

Honaker, 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 ¨ No x

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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. ¨

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	x
Non-accelerated filer	¨ (Do not check if smaller reporting company)	Smaller reporting company	¨

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 $10.00 per share on the last business day of the second quarter of 2009 was $88,036,560.00.

The number of shares outstanding of the registrant s common stock was 10,009,037 as of March 15, 2010.

DOCUMENTS INCORPORATED BY REFERENCE:

Items 10 through 14 are incorporated by reference to the annual proxy statement.

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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. New Peoples subsidiaries include: New Peoples Bank, Inc., a Virginia banking corporation (the Bank) and NPB Web Services, Inc., a web design and hosting company (NPB Web). In July 2004, NPB Capital Trust I was formed for the issuance of trust preferred securities. In September 2006, NPB Capital Trust 2 was formed for the issuance of trust preferred securities. NPB Financial Services, Inc., an insurance and investment services corporation (NPB Financial) was a subsidiary of New Peoples until January 1, 2009 when it became a subsidiary of the Bank.

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 31 full service offices in the southwestern Virginia counties of Russell, Scott, Washington, Tazewell, Buchanan, Dickenson, Wise, Lee, Smyth, and Bland; Mercer County in southern West Virginia and the eastern Tennessee counties of Sullivan and Washington. The close proximity and mobile nature of individuals and businesses in adjoining counties and nearby cities in Virginia, West Virginia and Tennessee places these markets within our bank s targeted trade area, as well.

We provide professionals and small and medium size businesses in our market area with responsive and technologically advanced 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. and NPB Web Services, Inc.

NPB Financial is a full-service insurance and investment firm, dealing in personal and group life, health, and disability products, along with mutual funds, fixed rate annuities, variable annuities, fee based asset management and other investment products through a broker/dealer relationship with UVEST Financial Services, Inc.

NPB Web is an internet web site development and hosting company. It produces custom designed web pages for use on the world wide web and serves as a web site host for customers and non-profit organizations. It also develops the web sites of other New Peoples subsidiaries and supplies advertising and marketing expertise for New Peoples.

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.

Location and Market Area

We initially opened with full service branches in Honaker and Weber City, Virginia and in 1999 opened a full service branch in Castlewood, Virginia. During 2000, we opened full service branches in Haysi and Lebanon, Virginia. During 2001, we opened branches in Pounding Mill, Virginia and Princeton, West Virginia. In 2002, we opened branch offices in Gate City, Clintwood, Big Stone Gap, Tazewell and Davenport, Virginia. During 2003, we expanded into Grundy, Dungannon, and Bristol, Virginia. We expanded into Tennessee and opened an office in Bloomingdale, Tennessee in 2003, as well. In 2004, we opened offices in Richlands, Abingdon, and Bristol, Virginia. In 2005 full service branches were opened in Bluefield and Cleveland, Virginia. During 2006, we opened full service branches in Esserville, Pound, and Lee County, Virginia and Jonesborough, Tennessee. During 2007, we opened full service offices in Bland, and Chilhowie, Virginia; and Bramwell, West Virginia. We purchased two operating branches from another bank, including deposits and loans located in Norton and Pennington Gap, Virginia in June 2007. During 2008, we opened one full service office in Bluewell, West Virginia.

In order to open additional banking offices, we must obtain prior regulatory approval which takes into account a number of factors, including, among others, a determination that we have adequate capital and a finding that the public interest will be served.

Internet Site

In March 2001, we opened 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 to the limits provided thereunder.

We offer a full range of short-to-medium term commercial 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,				
	2009	2008	2007	2006	2005
Commercial, financial and agricultural	15.56%	15.26%	17.77%	18.34%	20.08%
Real estate construction	9.41%	8.96%	5.63%	6.63%	5.61%
Real estate mortgage	66.02%	67.04%	67.87%	65.18%	64.47%
Installment loans to individuals	9.01%	8.74%	8.73%	9.85%	9.84%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

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 generally are 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 generally are 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 the appraisal policies and real estate lending policies, which detail maximum loan-to-value ratios and maturities.

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 accurately the total loan funds required to complete a project and related loan-to-value ratios. 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 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.

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Our underwriting policy for consumer loans seek to moderate 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.

Other Bank Services. Other bank services include safe deposit boxes, cashier s checks, certain cash management services, traveler s checks, 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 exercising trust powers, but we are able to provide similar services through our affiliation with UVEST 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 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 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, 2009, 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 29.87%, Scott County, VA 34.39%, Dickenson County, VA 23.92%, Tazewell County, VA 7.87%, Smyth County, VA 2.26%, Lee County, VA 6.77%, Buchanan County, VA 10.74%, Wise County, VA 10.92%, city of Norton, VA 22.36%, Bland County, VA 28.92%, combined Washington County, VA and the City of Bristol, VA 3.07%, Mercer County, WV 9.04%, Sullivan County, TN 0.67%, and Washington County, TN 0.47%.

Employees

As of December 31, 2009, we had 367 total employees, of which 341 were full-time employees. None of our employees is 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.

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.

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. . During the year ended December 31, 2009 the Bank declared and paid dividends to New Peoples totaling $500 thousand in order to service debt obligations. However, in October 2009, the Federal Reserve Bank of Richmond (Richmond FRB) restricted the Bank from paying dividends to the Company. It is therefore highly unlikely that the Company will pay any dividends at least until the Richmond FRB s restriction is removed.

As the 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 is 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.

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 one or more subsidiary bank. In this respect, the Richmond FRB also notified New Peoples that we must defer dividends on our trust preferred issuances. As of December 31, 2009, the Bank was well capitalized, with a Total Capital ratio of 10.59%; a Tier 1 Capital ratio of 9.76%; and a leverage ratio 7.40%.

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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 interest.

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 3, 2009.

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. Accordingly, legislation restoring some of the limitations removed by GLBA is a possibility. Any such change would not 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 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 the EESA, the U.S. Treasury was given the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. 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 (from the $700 billion authorized by the EESA). Numerous requirements have been imposed on TARP participating financial institutions, particularly requirements related to executive compensation. We did not elect to apply to participate in TARP.

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American Recovery and Reinvestment Act of 2009. The ARRA was enacted on February 17, 2009. The ARRA includes a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. In addition, the ARRA imposes certain new executive compensation and corporate governance obligations on all current and future TARP Capital Purchase Program recipients until the institution has redeemed the preferred stock, which TARP Capital Purchase Program recipients are now permitted to do under the ARRA without regard to the three year holding period and without the need to raise new capital, subject to approval of its primary federal regulator. Because we did not participate in TARP, we are not affected by these requirements.

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. The maximum deposit insurance amount per depositor has been increased from $100,000 to $250,000 until December 31, 2013. Due to the increased number of bank failures resulting from the credit crisis and severe recession, FDIC premiums have materially increased and are likely to increase further. This is a significant expense for us and is likely to continue to be. Additionally, the FDIC has established its Temporary Liquidity Guarantee Program (TLGP). Under the transaction account guarantee program of the TLGP, the FDIC fully guarantees, until June 30, 2010, all non-interest-bearing transaction accounts, including NOW accounts with interest rates of 0.5 percent or less and IOLTAs (lawyer trust accounts). Under TLGP s Debt Guarantee Program, TLGP guaranteed all senior unsecured debt of insured depository institutions or their qualified holding companies issued between October 14, 2008 and June 30, 2009 with a stated maturity greater than 30 days. Institutions were required to opt-out of the TLGP if they did not wish to participate. We elected to participate in the transaction account guarantee program of the TLGP, but opted out of the debt guarantee program.

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. Although Congress in recent years has sought to reduce the regulatory burden on financial institutions with respect to the approval of specific transactions, New Peoples fully expects that the financial institution industry will remain heavily regulated in the near future and that additional laws or regulations may be adopted further regulating specific banking practices.

Item 1A. Risk Factors

Difficult market conditions have adversely affected our industry.

Continued declines in the housing market over the past year after the previous dramatic declines, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of real estate related loans and resulted in significant write-downs of asset values by financial institutions. These write-downs, initially of asset-backed securities but spreading to other securities and loans, have caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets adversely affects our business and results of operations. Market developments may affect consumer confidence levels and may cause further adverse changes in payment patterns, causing increases in delinquencies and default rates, which may impact our charge-offs and provision for credit losses. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry.

Recent levels of market volatility are unprecedented.

The capital and credit markets experienced volatility and disruption although this appears to have stabilized. In 2009, the volatility and disruption reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers underlying financial strength. If these levels of market disruption and volatility return, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

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Liquidity is important to financial institutions and market conditions as well as regulatory actions could adversely affect us in this respect.

The ability of a financial institution to make loans, return funds to its depositors as required and to meet its funding commitments depends to a large measure on a stable deposit base and access to other sources for borrowing such as advances from the Federal Home Loan Bank of Atlanta, overnight federal funds, repurchase agreements and other credit sources. The factors discussed above, the performance of New Peoples in the difficult economic environment and the actions of regulatory authorities in response to these conditions may result in diminished access by us to these liquidity sources, in turn affecting our ability to fund our regular business activities.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations.

The impact on us of recently enacted legislation, in particular the Emergency Economic Stabilization Act of 2008 and American Recovery and Reinvestment Act of 2009 and their implementing regulations, and actions by the FDIC, cannot be predicted at this time.

The programs established or to be established under the EESA, ARRA and Troubled Asset Relief Program may have adverse effects upon us. We may face increased regulation of our industry. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities. Also, participation in specific programs may subject us to additional restrictions. The affects of participating or not participating in any such programs and the extent of our participation in such programs cannot reliably be determined at this time.

Because there is no market for New Peoples common stock, your ability to readily sell any shares you hold is doubtful.

Our stock is not listed on a stock market, and we have no intention of listing it. If you want to sell shares of our stock, you will need to find a buyer and negotiate the price.

Changes in interest rates could have an adverse effect on our income particularly if we have a period of general inflation.

Our profitability depends to a large extent upon our net interest income. Net interest income is the difference between interest income on interest-earning assets, such as loans and investments, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Our net interest income will be adversely affected if market interest rates change so that the interest we pay on deposits and borrowings increases faster than the interest we earn on loans and investments. Changes in interest rates also affect the value of our loans. An increase in interest rates could adversely affect borrowers ability to pay the principal or interest on existing loans or reduce their desire to borrow more money. This may lead to an increase in our nonperforming assets or a decrease in loan originations, either of which could have a material and negative effect on our results of operations. Interest rates are highly sensitive to many factors that are partly or completely outside of our control, including governmental monetary policies, domestic and international economic and political conditions and general economic conditions such as inflation, recession, unemployment and money supply. Fluctuations in market interest rates are neither predictable nor controllable and may have a material and negative effect on our business, financial condition and results of operations.

We have a high concentration of loans secured by real estate and the downturn in the real estate market should it deepen or be extended, could result in additional losses and materially and adversely affect business, financial condition, results of operations and future prospects further.

A significant portion of our loan portfolio is dependent on real estate. In addition to the financial strength and cash flow characteristics of the borrower in each case, we often secure loans with real estate collateral. At December 31, 2009, approximately 75.42% of our loans have real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. Further adverse changes in the economy affecting values of real estate generally or in our primary markets specifically could significantly impair the value of our collateral and result in further under-collateralization in our portfolio. In such a case, it would be likely that we would be required to increase our provision for loan losses, beyond current provisions, which would negatively affect our results of operations. Liquidation of collateral securing a loan to satisfy the

debt during a period of reduced real estate values diminishes our ability to recover fully on defaulted loans by foreclosing and selling the real estate collateral and we would be more likely to suffer losses on defaulted loans. These circumstances could adversely affect our current profitability and financial condition.

If we need additional capital in the future to support our business or to respond to regulatory requirements, we may not be able to obtain it on terms that are favorable. This could negatively affect our performance and the value of our common stock.

While our current business strategy calls for future growth, general economic, market or regulatory conditions impact this strategy. Our ability to raise capital through the sale of additional securities will depend primarily upon our financial condition and the condition of financial markets. To the extent future growth, our performance as affected by the recession, or regulatory requirements dictate the need for us to obtain additional capital, it is likely we may have to obtain additional capital on terms that are disadvantageous to our existing shareholders.

We rely heavily on our management team and the unexpected loss of any of those personnel could adversely affect our operations; we depend on our ability to attract and retain key personnel.

We are a customer-focused and relationship-driven organization. We expect our future growth to be driven in a large part by the relationships maintained with our customers by our executives and senior lending officers. From time to time we enter into employment agreements with certain of our executives. The existence of such agreements, however, does not necessarily assure that we will be able to continue to retain the services of such executives. The unexpected loss of any of our key employees could have a material adverse effect on our business and possibly result in reduced revenues and earnings.

Our reputation as a safe and sound financial institution is an important factor in our success and could be damaged by circumstances some of which we do not control.

We, like all financial institutions, have an important stake in our good reputation among customers, investors and other constituencies. Damage to our reputation can occur under many circumstances. Some of these we can control and some, like litigation or regulatory actions, we cannot fully control. For example, as a result of our most recent examination, the Bank anticipates entering into a formal agreement with its primary regulators. These types of occurrences could adversely affect our business and negatively impact our reputation.

Additional provisions for our allowance for loan losses may adversely affect our results of operations.

We maintain an allowance for loan losses that we believe is a reasonable estimate of known and inherent losses in our loan portfolio. Through a periodic review and consideration of the loan portfolio, management determines the amount of the allowance for loan losses by considering general market conditions, credit quality of the loan portfolio, the collateral supporting the loans and performance of our customers relative to their financial obligations with us. While we added substantially to our allowance for loan losses in 2009 in response to the continued deterioration of the economy, the amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, that may be beyond our control, and these losses may exceed our current estimates even though we made a substantial increase in our loan loss reserve in 2009. Rapidly growing loan portfolios are, by their nature, unseasoned. As a result, estimating loan loss allowances is more difficult, and may be more susceptible to changes in estimates, and to losses exceeding estimates, than more seasoned portfolios. Although we believe the allowance for loan losses is a reasonable estimate of known and inherent losses in our loan portfolio, we cannot fully predict such losses or that our loan loss allowance will be adequate in the future. Excessive loan losses could have a material impact on our financial performance. Due to the severe recession, we expect to make additions to our loan loss reserve levels which may affect our short-term earnings.

Federal and state regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs, based on judgments different than those of our management. Any increase in the amount of our provision or loans charged-off as required by these regulatory agencies could have a negative effect on our operating results.

Lack of seasoning of our loan portfolio may increase the risk of credit defaults in the future, which would adversely affect our financial condition and results of operation.

Although we have experienced lenders who are familiar with their customer base, some of our loans are too new to have exhibited signs of weakness. In addition, recent expansions into new markets increase credit risk. In general, new loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as seasoning. As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio, although there can be no assurance that more seasoned loans will be of higher quality or perform better. Because a portion of our loan portfolio is relatively new and the economic recovery continues to be slow, the current level of delinquencies and defaults may not be representative of the level that will prevail, which may be significantly higher than current levels. A higher rate of delinquencies or defaults on loans could cause us to increase our provision for loan losses and otherwise negatively affect our financial condition, results of operations and financial prospects.

Our profitability may suffer because of rapid and unpredictable changes in the highly regulated environment in which we operate.

We are subject to extensive supervision by several governmental regulatory agencies at the federal and state levels. These agencies examine financial and bank holding companies and commercial banks, establish capital and other financial requirements and approve new branches, acquisitions or other changes of control. Our ability to establish new banks or branches or make acquisitions is conditioned on receiving required regulatory approvals from the applicable regulators. Recently enacted, proposed and future banking legislation and regulations have had, and will continue to have, or may have a significant impact on the financial services industry. These regulations, which are intended to protect depositors and not our shareholders, and the interpretation and application of them by federal and state regulators, are beyond our control, may change rapidly and unpredictably and can be expected to influence our earnings and growth. Such changes could subject us to additional costs, limit the types of financial services and products we may offer, increase the ability of non-banks to offer competing financial services and products, and/or assist competitors that are not subject to similar regulation, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and damage to our reputation, which could have a material adverse effect on our business, financial condition and results of operation.

The Bank s ability to pay dividends is subject to regulatory limitations which, to the extent we require such dividends in the future, affects our ability to pay our obligations and pay dividends.

We are a separate legal entity from the Bank and our other subsidiaries and we do not have significant operations of our own. We currently depend on the Bank s cash and liquidity as well as dividends paid by it to us to pay our operating expenses. As discussed above, in October 2009, the Richmond FRB imposed a restriction which prevents the Bank from paying dividends to us. This adversely impacts the Company because these dividends were a major source of the Company s income. At the same time the Richmond FRB notified us that we must defer dividends on our trust preferred issues since the source for these payments was the dividends from the Bank. While we anticipate that these restrictions will be eliminated when capital ratios improve, until then the inability to receive dividends from the Bank could adversely affect our financial condition, results of operations, cash flows and prospects.

Our business is subject to various lending and other economic risks that adversely impact our results of operations and financial condition.

Changes in economic conditions, particularly the current and prolonged economic slowdown, hurts our business. Our business is directly affected by political and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in governmental monetary and fiscal policies and inflation, all of which are beyond our control. We have already been adversely affected by these factors. We are in technical default under the terms of our line of credit with a correspondent bank. This loan is secured by our stock in the Bank. Current conditions make it more difficult for us to replace this line of credit or cure the default. Failure to do so could have a materially negative impact on us. A continuing deterioration in economic conditions, in particular within our geographic region, could result in the following consequences intensifying any of which could further hurt our business materially:

- loan delinquencies may increase further;
- problem assets and foreclosures may increase further;
- demand for our products and services may decline further; and
- collateral for loans made by us may decline in value further, in turn reducing a client s borrowing power, and reducing the value of assets and collateral associated with our loans held for investment.

Although our market area is somewhat economically diverse, in certain areas the local economies are more reliant upon agriculture and coal mining. To the extent an economic downturn disproportionately affected these two industries, the above-described negative effects could be exacerbated.

The downturn in the real estate market has hurt our business and absent a recovery will continue to do so. Our business activities and credit exposure are concentrated in Virginia, West Virginia and Tennessee and at December 31, 2009, approximately 75.42% of our loans have real estate as a primary or secondary component of collateral. As such, the downturn in this regional real estate market hurts our business because of the geographic concentration within this regional area. If there is a further decline in real estate values in our local markets, the collateral for our loans will provide less security. As a result, our ability to recover on defaulted loans by selling the underlying real estate would be diminished, and we would be more likely to suffer losses on defaulted loans. In addition, we would be required to add to our loan loss reserve which negatively impacts earnings.

We face strong competition from other financial institutions, financial service companies and other organizations offering services similar to those offered by us and our subsidiaries, which could hurt our business.

Our business operations are centered primarily in Virginia, West Virginia, and Tennessee. Increased competition within this region may result in reduced loan originations and deposits. Ultimately, we may not be able to compete successfully against current and future competitors. Many competitors offer the types of loans and banking services that we offer. These competitors include other savings associations, national banks, regional banks and other community banks. We also face competition from many other types of financial institutions, including finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular, the Bank s competitors include other state and national banks and major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and to mount extensive promotional and advertising campaigns.

Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are thereby able to serve the credit needs of larger clients. These institutions, particularly to the extent they are more diversified than us, may be able to offer the same loan products and services that we offer at more competitive rates and prices. If we are unable to attract and retain banking clients, we may be unable to continue the Bank s loan and deposit growth and our business, financial condition and prospects may be negatively affected.

We may be adversely affected by economic conditions in our markets.

Our banking operations are located primarily in the Virginia counties of Buchanan, Dickenson, Lee, Russell, Scott, Smyth, Tazewell, Washington, and Wise, the West Virginia county of Mercer and the Tennessee counties of Sullivan and Washington. Because our lending is concentrated in this market, we will be affected by the general economic conditions in the area. Changes in the economy may influence the growth rate of our loans and deposits, the quality of the loan portfolio and loan and deposit pricing. A significant further decline in general economic conditions caused by inflation, recession, unemployment or other factors beyond our control would have an additional impact on the demand for banking products and services generally, which could negatively affect our financial condition and performance. We also have lending exposure in the Coastal Carolina market which has been particularly impacted by the real estate recession. Additional declines in this market could adversely affect us further.

Failure to maintain effective systems of internal and disclosure control could have a material adverse effect on our results of operation and financial condition.

Effective internal and disclosure controls are necessary for us to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. As part of our ongoing monitoring of internal control we may discover material weaknesses or significant deficiencies in our internal control as defined under standards adopted by the Public Company Accounting Oversight Board, or PCAOB, that require remediation. Under the PCAOB standards, a material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. As discussed in Item 9A. Controls and Procedures, we identified certain material weaknesses as a result of our assessment of internal controls over financial reporting. These material weaknesses related to the need to update classification codes for real estate and construction loans and the maintenance of an effective control environment. We have taken the remedial actions discussed in Item 9A and have determined that the identified material weaknesses have been remediated. Even so, we are continuing to work to improve our internal controls. We cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial processes and reporting in the future. Any failure to maintain effective controls or to timely effect any necessary improvement of our internal and disclosure controls could, among other things, result in losses from fraud or error, harm our reputation or cause investors to lose confidence in our reported financial information, all of which could have a material adverse effect on our results of operation and financial condition.

Item 1B. Unresolved Staff Comments

As of March 15, 2010, there were no unresolved comments from the staff of the SEC with respect to any of New Peoples periodic or current reports.

Item 2. Properties

At December 31, 2009, the Company s net investment in premises and equipment in service was $35.0 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 28 of its 31 full service branches. The owned properties in Virginia are located in Abingdon, Big Stone Gap, Bluefield, Bland, Bristol, Castlewood, Chilhowie, Clintwood, Gate City, Grundy, Haysi, Honaker, Jonesville, Lebanon, Norton, Pennington Gap, Pound, Pounding Mill, Richlands, Tazewell, and Weber City. Offices in Princeton, West Virginia and Bloomingdale and Jonesborough, Tennessee are also owned by the Bank.

The Bank has three operating lease arrangements of varying lengths. These full service branches are located in Bramwell, West Virginia and in Cleveland and Davenport, Virginia.

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

Item 3. Legal Proceedings

In the course of operations, we may become a party to legal proceedings. We are not aware of any material pending or threatened legal proceedings.

Item 4. Reserved

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PART II

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

(a) Market Information

The Bank acts as the transfer agent for New Peoples. At present, there is no public trading market for our common stock. Trades in our common stock occur sporadically on a local basis.

The high and low bids known to us of our common stock for each quarter in the past two years are set forth in the table below. These bids are obtained through inquiry by our stock transfer agent of shareholders transferring stock. Other transactions may have occurred at prices about which we are not aware.

	2009		2008	
	High	Low	High	Low
1st quarter	$ 12.00	$ 9.00	$ 15.00	$ 10.00
2nd quarter	12.00	10.00	13.00	6.00
3rd quarter	12.00	6.56	13.00	8.68
4th quarter	10.00	4.66	12.50	9.00

The most recent sales price of which management is aware was $6.99 per share on March 8, 2010.

(b) Holders

On March 15, 2010, there were approximately 4,405 shareholders of record.

(c) Dividends

On September 12, 2007, we issued a 13 for 10 stock split effected in the form of a stock dividend to all shareholders of record on September 4, 2007. We have never declared a cash dividend. 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. Additionally, we intend to follow a policy of retaining earnings, if any, for the purpose of increasing net worth and reserves in light of the unsettled nature of the current economy. So long as the restriction imposed by the FRB Richmond on the Bank s ability to pay dividends to the Company remains, the Company is unlikely to have the resources with which to pay a dividend. As a result, we do not anticipate paying a dividend on our common stock in 2010. See Note 16 and Note 23 of the Notes to the Consolidated Financial Statements for further discussion of dividend limitations and capital requirements.

(d) Stock Performance Graph

There currently is not a public trading market for the Company s Common Stock. The Company, however, is frequently informed of the sales price at which shares of Common Stock are exchanged in privately negotiated transactions. Because shares of Common Stock are not listed or traded on an exchange or in the over-the-counter market, the Company cannot be certain that the prices at which such shares have historically sold are not higher than the prices that would prevail in an active market where securities professionals participate. As a result, the comparisons presented in the following graph do not reflect similar market conditions.

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The following graph compares the Company s cumulative shareholder return on its Common Stock, assuming an initial investment of $100 and reinvestment of all dividends, with the cumulative return on the S&P 500, the NASDAQ Composite, and SNL Securities Bank and Thrift Index using the same assumptions, as of December 31 st of each year since December 31, 2004.

New Peoples Bankshares, Inc.

	Period Ending					
Index	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**	**12/31/08**	**12/31/09**
New Peoples Bankshares, Inc.	100.00	117.86	110.00	122.57	127.68	102.14
S&P 500	100.00	104.91	121.48	128.16	80.74	102.11
NASDAQ Composite	100.00	101.37	111.03	121.92	72.49	104.31
SNL Bank and Thrift Index	100.00	101.57	118.68	90.50	52.05	51.35

Source: SNL Financial LC, Charlottesville, VA

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Item 6. Selected Financial Data

The following consolidated summary sets forth selected financial data for us for the periods and at the dates indicated. The selected financial data has been derived from our audited financial statements. The following is qualified in its entirety by the detailed information and the financial statements included elsewhere in this Form 10-K.

	For the Years Ended December 31,				
(Amounts in thousands, except per share data)	2009	2008	2007	2006	2005
Income Statement Data					
Gross interest income	$ 50,188	$ 52,317	$ 51,447	$ 41,280	$ 30,507
Gross interest expense	18,563	23,095	25,738	19,393	11,279
Net interest income	31,815	29,222	25,709	21,887	19,228
Provision for possible loan losses	12,841	1,500	3,840	1,277	1,130
Non-interest income	5,449	6,162	4,651	3,460	2,822
Non-interest expense	29,847	27,231	23,674	19,805	16,710
Net income (loss)	(3,686)	4,737	2,870	3,090	2,723
Per Share Data and Shares Outstanding [(1)]					
Net income (loss), basic	(0.37)	0.47	0.29	0.31	0.27
Net income (loss), diluted	(0.37)	0.46	0.28	0.30	0.26
Cash dividends					
Book value at end of period	4.66	5.03	4.54	4.25	3.93
Tangible book value at period end	4.21	4.56	4.06	4.25	3.93
Period-End Balance Sheet Data					
Total assets	857,910	807,898	765,951	635,819	527,770
Total loans	763,570	721,174	682,260	569,198	468,045
Total allowance for loan losses	(18,588)	(6,904)	(6,620)	(4,870)	(3,943)
Total deposits	760,714	705,688	657,033	572,187	462,692
Shareholders equity	46,619	50,323	45,249	42,346	38,964
Performance Ratios					
Return on average assets	(0.44)%	0.61%	0.42%	0.54%	0.56%
Return on average shareholders equity	(7.37)%	9.98%	6.60%	7.61%	7.28%
Average shareholders equity to average assets	5.94%	6.09%	6.34%	7.06%	7.72%
Net interest margin [(2)]	4.14%	4.13%	4.11%	4.11%	4.38%
Asset Quality Ratios					
Net charge-offs to average loans	0.15%	0.17%	0.34%	0.07%	0.07%
Allowance to period-end gross loans	2.43%	0.96%	0.97%	0.86%	0.84%
Nonperforming loans to gross loans	3.74%	0.89%	0.47%	0.21%	0.12%
Capital and Liquidity Ratios					
Risk-based:					
Tier 1 capital	8.12%	9.50%	8.73%	10.84%	11.78%
Total capital	9.83%	10.78%	10.29%	12.20%	12.71%
Leverage capital ratio	6.14%	7.72%	7.22%	8.94%	9.63%
Total equity to total assets	5.43%	6.23%	5.91%	6.66%	7.38%

(1) We have adjusted all share amounts and per share data to reflect, a 10% stock dividend in June 2005 and a 13 for 10 stock split effected in the form of a stock dividend in September 2007.

(2) Net interest margin is calculated as tax-equivalent net interest income divided by average earning assets and represents our net yield on our earning assets.

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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, should, projects, contemplates, anticipates, forecasts, intends, or other sir terms are intended to identify forward looking statements.

These forward looking statements are subject to significant uncertainties because they are based upon or are affected by factors including the following: 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; maintaining capital levels adequate to support our growth; 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; and changes in banking and other laws and regulations applicable to us.

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.

For additional discussion of risk factors that may cause our actual future results to differ materially from the results indicated within forward looking statements, please see Item 1A Risk Factors herein.

General

The following commentary discusses major components of our business and presents an overview of our consolidated financial position at December 31, 2009 and 2008 as well as results of operations for the years ended December 31, 2009, 2008 and 2007. 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 amount 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.

In October, 2009, New Peoples was notified by the Richmond FRB that we must defer dividends on our trust preferred issuances. Until further notice the Richmond FRB also restricted the Bank from paying dividends to New Peoples which is the source for serving these payments. When capital ratios improve we anticipate the restrictions to be released.

As a result of our most recent examination, the Bank anticipates entering a formal agreement with its primary regulators in 2010.

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Overview

At December 31, 2009, New Peoples Bankshares, Inc. reports total assets were $857.9 million, total loans were $763.6 million, and total deposits were $760.7 million. The Company had a total net loss after tax of $3.7 million or $0.37 per basic share and per diluted share for the year ended December 31, 2009 as compared to net income of $4.7 million, or $0.47 per basic share and $0.46 per diluted share for the year ended December 31, 2008. The annualized return on average assets for the fiscal year 2009 was (0.44)% as compared to 0.61% for the same period in 2008. The annualized return on average equity was (7.37)% for the fiscal year 2009 and 9.98% for the same period in 2008.

The net loss for the year ending 2009 is solely related to the $11.3 million increased provision for loan loss. We did this prudentially in light of the current economic circumstances. At December 31, 2009, our allowance for loan loss totaled $18.6 million, or 2.43% of total loans, as compared with a total of $6.9 million, and 0.96% of total loans, in 2008. Net charge-offs year-to-date for 2009 as a percentage of total average loans were 0.15% as compared to 0.17% in 2008. Even though net charge offs actually decreased in 2009, we experienced an increase in impaired loans to $30.1 million with an estimated allowance of $8.8 million for potential losses at December 31, 2009 as compared to $6.8 million in impaired loans with an estimated allowance of $218 thousand at the end of 2008. These factors underlay the significant increase in the allowance for loan loss leading to the net loss for 2009. Given the current high level of unemployment and slow economic recovery, we believe the increased allowance to be appropriate and adequate.

The Bank remains well capitalized as defined by regulatory agencies. The following ratios existed at December 31, 2009: Tier 1 leverage ratio of 7.40%; Tier 1 risk based capital ratio of 9.76%; and Total risk based capital ratio of 10.59%. We anticipate continued capital growth through retained earnings and slower asset growth in the near future.

Asset quality improvement is our main focus. We have made several changes recently to enhance our credit function. For example, we have hired a consulting firm, Credit Risk Management, to assist us in improving credit underwriting, loan portfolio risk management, and loan review. In addition, we have named Sharon V. Borich as our Senior Vice President and Chief Credit Officer with overall responsibility for the credit function of the Bank. We are putting additional emphasis on loan training. We are committed to these enhancements to further strengthen our credit culture. While still meeting loan demand, we are obviously focused on credit quality.

The ratio of nonperforming assets to total assets is 3.99% at December 31, 2009 in comparison to 1.11% at December 31, 2008. Nonperforming assets, which include nonaccrual loans, other real estate owned and past due loans greater than 90 days still accruing interest, were $34.2 million at December 31, 2009 and $8.9 million at December 31, 2008. The majority of these assets are real estate development projects outside of our market area, primarily in the coastal Carolinas. In addition, there are also some similar projects located in Northeastern Tennessee. We are undertaking aggressive efforts to work out these credits. However, this will take some time.

New Peoples Bankshares, Inc. and its subsidiary New Peoples Bank, Inc. has 31 branch locations throughout Southwest Virginia, southern West Virginia, and northeastern Tennessee providing traditional banking, investment and insurance services to its customers.

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 policy relates to our provision for loan losses, which reflects the estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our borrowers were to 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. 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, increased $2.6 million, or 8.87% from 2008 to 2009. The increase in net interest income is due primarily to an increase in volume of loans and a reduction in the cost of funds. Interest expense decreased $4.5 million, or 19.62%, from $23.1 million for the year ending 2008 to $18.6 million in 2009 as a result of historic low interest rates. The net interest margin for the year ending December 31, 2009 was 4.14% as compared to 4.13% for the same period in 2008. The net interest margin continued to trend upward during the last half of 2009.

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Net interest income for the year ended 2008 increased to $29.2 million from $25.5 million in 2007. This was an increase of $3.7 million, or 14.47%. The majority of the growth was related to the increased loan volume during the fiscal 2008. Loan income increased to $51.9 million for 2008 from $50.9 million for 2007, which was an increase of $1.0 million, or 2.02%. Total interest expense was $23.1 million for 2008 as compared to $25.7 million for 2007. This $2.6 million, or 10.3%, decrease resulted mainly from an increase in loan production and a decrease in the cost of funds.

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, 2009			For the Year Ended December 31, 2008			For the Year Ended December 31, 2007		
	Average Balance	Income/ Expense	Yields/ Rates	Average Balance	Income/ Expense	Yields/ Rates	Average Balance	Income/ Expense	Yields/ Rates
ASSETS									
Loans (1), (2), (3)	$ 747,971	$ 50,188	6.71%	$ 697,733	$ 51,911	7.44%	$ 611,101	$ 50,884	8.33%
Federal funds sold	10,648	26	0.24%	1,881	35	1.86%	2,779	129	4.64%
Other investments (3)	7,134	89	1.25%	8,525	371	4.35%	7,421	254	3.42%
Total Earning Assets	765,753	50,303	6.57%	708,139	52,317	7.39%	621,301	51,267	8.25%
Less: Allowance for loans losses	(10,245)			(6,756)			(5,280)		
Non-earning assets	87,655			78,723			69,372		
Total Assets	$ 843,163			$ 780,106			685,393		
LIABILITIES AND STOCKHOLDERS EQUITY									
Deposits									
Demand Interest bearing	$ 39,384	$ 233	0.59%	$ 32,192	$ 240	0.75%	$ 20,957	$ 164	0.78%
Savings	84,215	994	1.18%	58,784	682	1.16%	45,135	485	1.07%
Time deposits	522,439	15,491	2.97%	489,788	19,817	4.05%	458,369	22,949	5.01%
Other Borrowings	30,937	1,312	4.24%	37,511	1,351	3.60%	15,820	857	5.42%
Trust Preferred Securities	16,496	533	3.23%	16,496	1,005	6.09%	16,496	1,283	7.78%
Total interest bearing liabilities	693,471	18,563	2.68%	634,771	23,095	3.64%	556,777	25,738	4.62%
Non-interest bearing deposits	95,372			92,677			79,932		
Other liabilities	4,278			5,186			5,206		
Total Liabilities	793,121			732,634			641,915		
Stockholders Equity	50,042			47,472			43,477		
Total Liabilities and Stockholders Equity	$ 843,163			$ 780,106			685,393		
Net Interest Income		$ 31,740			$ 29,222			$ 25,529	
Net Interest Margin			4.14%			4.13%			4.11%

Net Interest Spread	3.89%	3.75%	3.63%

(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.

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. The change in interest due to both volume and rate has been allocated to the change due to rates.

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Volume and Rate Analysis

(Dollars in thousands)

	2009 Compared to 2008 Increase (Decrease)			2008 Compared to 2007 Increase (Decrease)		
	Volume Effect	Rate Effect	Change in Interest Income/ Expense	Volume Effect	Rate Effect	Change in Interest Income/ Expense
Interest Income:						
Loans	$ 3,738	$ (5,461)	$ (1,723)	$ 7,214	$ (6,187)	$ 1,027
Federal funds sold	163	(172)	(9)	(42)	(52)	(94)
Other investments	(61)	(221)	(282)	38	79	117
Total Earning Assets	3,840	(5,854)	(2,014)	7,210	(6,160)	1,050
Interest Bearing Liabilities:						
Demand	54	(61)	(7)	88	(12)	76
Savings	295	17	312	147	50	197
All other time deposits	1,321	(5,647)	(4,326)	1,573	(4,705)	(3,132)
Other borrowings	(237)	198	(39)	1,175	(681)	494
Trust Preferred Securities		(472)	(472)		(278)	(278)
Total Interest Bearing Liabilities	1,433	(5,965)	(4,532)	2,983	(5,626)	(2,643)
Change in Net Interest Income	$ 2,407	$ 111	$ 2,518	$ 4,227	$ (534)	$ 3,693

Loans

Our primary source of income comes from interest earned on loans receivable. Loan production slowed in 2009 as evidenced by total loans increasing $42.4 million, or 5.88%. We have purposely kept loan growth at a minimum as we remain focused on minimizing credit risks in the loan portfolio in the current economic downturn. We plan to decrease the loan portfolio in the near future as we reduce our exposure to certain risks. Total loans increased $38.9 million and $113.1 million for the years 2008 and 2007, respectively. A schedule of loans by type is set forth immediately below. Approximately 75.42% of the loan portfolio is secured by real estate at the end of 2009.

Loans receivable outstanding are summarized as follows:

Loan Portfolio

	December 31,				
(Dollars in thousands)	2009	2008	2007	2006	2005
Commercial, financial and agricultural	$ 118,844	$ 110,060	$ 121,198	$ 104,372	$ 93,987
Real estate construction	71,854	64,595	38,420	37,716	26,267
Real estate mortgage	504,071	483,471	463,079	371,021	301,740
Installment loans to individuals	68,801	63,048	59,563	56,089	46,051
Total	$ 763,570	$ 721,174	$ 682,260	$ 569,198	$ 468,045

Our loan maturities as of December 31, 2009 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	$ 51,307	$ 51,339	$ 16,198	$ 118,844
Real estate construction	53,339	11,994	6,521	71,854
Real estate mortgage	113,329	264,274	126,468	504,071
Installment loans to individuals	15,506	48,039	5,256	68,801
Total	$ 233,481	$ 375,646	$ 154,443	$ 763,570
Loans with fixed rates	$ 88,472	$ 144,023	$ 148,755	$ 381,250
Loans with variable rates	145,009	231,623	5,688	382,320
Total	$ 233,481	$ 375,646	$ 154,443	$ 763,570

This above table reflects the earlier of the maturity or re-pricing dates for loans at December 31, 2009. 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 increased to $18.6 million at December 31, 2009 as compared to $6.9 million at December 31, 2008. The allowance for loan losses at the end of 2009 was approximately 2.43% of total loans as compared to 0.96% at the end of 2008. Net loans charged off for 2009 were $1.3 million, or 0.16% of average loans, and $1.2 million, or 0.17% of average loans, in 2008. The provision for loan losses was $12.8 million for 2009 as compared with $1.5 million for 2008 and $3.8 million in 2007.

Certain risks exist in the Bank s loan portfolio. Historically, we have experienced significant annual loan growth. Although we have experienced lenders who are familiar with their customer base, some of the loans are too new to have exhibited signs of weakness. Recent expansions into new markets increase potential credit risk. In addition, a majority of the 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. The recent negative trends in the national real estate market and economy pose potential threats. Local real estate market values have shown some deterioration but remain relatively stable, while national real estate markets have experienced a downturn. 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. Prior to 2008, we had purchased participation construction loans in the Coastal Carolina area. The totals of these credits were $12.7 million at December 31, 2009, and $13.7 million at December 31, 2008. This market area has posed some higher risk, but decreased collateral values still provide adequate coverage on these credits with the exception of one loan totaling $3.4 million at December 31, 2009. This credit has an estimated exposure of $1.2 million. In addition to the Coastal Carolina area, we have a $7.0 million construction loan project in the Pigeon Forge, Tennessee area that has experienced deterioration in market value. The estimated exposure on this credit is $3.5 million. Our market area is somewhat diverse, but certain areas are more reliant upon agriculture and coal mining. As a result, increased risk of loan impairments is possible if these industries experience a significant downturn although we do not believe this to be likely at least in the near future. We consider these factors to be the primary higher risk characteristics of the loan portfolio.

An evaluation of individual loans is performed by the loan review function. 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 typically determined by either the loan officer or loan reviewers. 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.

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All loans classified as other assets especially mentioned, substandard, doubtful and loss are individually reviewed for impairment. If collateral appraisals are outdated, we generally obtain updated appraisals. An evaluation is made to determine if the collateral is sufficient for each of these credits. 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. Impaired loans increased to $30.1 million with a valuation allowance of $8.8 million at December 31, 2009 as compared to $6.8 million with a valuation allowance of $218 thousand at December 31, 2008. Of the $30.1 million recorded as impaired loans, $28.6 million were nonperforming loans, which includes nonaccrual loans and past due 90 days or more. Impaired loans increased $23.3 million, or 342.65%, from $6.8 million recorded as impaired loans at December 31, 2008. The increase is primarily due to nonperformance of three real estate development loans located in northeastern Tennessee totaling $13.7 million with an estimated exposure totaling $5.4 million. These three credits comprise 58.80% of the $23.3 million increase in impaired loans. The remaining difference is made up of various credits in Southwest Virginia. Management is aggressively working to reduce the impaired credits at minimal loss.

Loans delinquent greater than 90 days still accruing interest and loans in non-accrual status present higher risks. At December 31, 2009, there were 80 loans in non-accrual status totaling $24.7 million, or 3.24% of total loans. At December 31, 2008, there were 36 loans in non-accrual status totaling $6.4 million, or 0.89% of total loans. The amounts of interest that would have been recognized on these loans were $1.4 million and $221 thousand in the years 2009 and 2008, respectively. There were 46 loans past due 90 days or greater and still accruing interest totaling $3.9 million, or 0.51% of total loans at December 31, 2009. There were 3 loans past due 90 days or greater and still accruing interest totaling $33 thousand in 2008. It is our policy to stop accruing interest on a loan, and to 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. Non-accrual loans did not have a significant impact on interest income in any of the periods presented. No loans are classified as troubled debt restructurings. There are also no loans identified as potential problem loans. We do not have any commitments to lend additional funds to non-performing debtors. Following is a summary of non-accrual and past due loans greater than 90 days still accruing interest:

Non-Accrual and Past Due Loans

(Dollars in thousands)

			December 31,		
	2009	**2008**	**2007**	**2006**	**2005**
Non-accruing loans					
Commercial, financial and agricultural	$ 1,027	$ 100	$ 1,250	$ 246	$ 19
Real estate construction	13,727	2,875	351		
Real estate mortgage	9,670	3,269	1,128	857	407
Installment loans to individuals	289	170	217	103	20
Total Non-accruing loans	24,713	6,414	2,946	1,206	446
Loans past due 90 days or more and still accruing	3,875	33	267	9	116
Total	$ 28,588	$ 6,447	$ 3,213	$ 1,215	$ 562
Percent of total loans	3.74%	0.89%	0.47%	0.21%	0.12%

In addition to impaired loans, the remaining loan portfolio is evaluated based on past due history, economic conditions, and internal processes. Past due data and the last five year historical quarterly charge off data per loan category is evaluated and compared to Virginia peers. Where we do not have loss experience, we apply the peer data. Otherwise, we compare our loss experience to the peer group and weigh it accordingly to the various associated risks. Economic data used include Central Appalachia regional unemployment information, 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. These factors are not directly allocated to a particular loan category and are considered unallocated in the breakdown data in the table below. This is a new methodology applied in the last quarter of 2009. In past allowance for loan loss evaluation models, these factors were allocated to the different loan types. As economic conditions, performance of our loans and internal processes change, it is possible that future increases may be needed to the allowance for loan losses. The following table provides a summary of the activity in the allowance for loan losses.

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Analysis of the Allowance for Loan Losses

(Dollars in thousands)

	For the Years Ended December 31,				
Activity	**2009**	**2008**	**2007**	**2006**	**2005**
Beginning Balance	$ 6,904	$ 6,620	$ 4,870	$ 3,943	$ 3,090
Provision charged to expense	12,841	1,500	3,840	1,277	1,130
Loan Losses:					
Commercial, financial and agricultural	(129)	(591)	(1,701)	(52)	(4)
Real estate construction	(446)	(44)	(2)		(12)
Real estate mortgage	(367)	(256)	(179)	(148)	(16)
Installment loans to individuals	(334)	(420)	(284)	(223)	(266)
Total loan losses	(1,276)	(1,311)	(2,166)	(423)	(298)
Recoveries:					
Commercial, financial and agricultural	37	18	20		
Real estate construction	8				
Real estate mortgage	21	17	6	44	2
Installment loans to individuals	53	60	50	29	19
Total recoveries	119	95	76	73	21
Net charge offs	(1,157)	(1,216)	(2,090)	(350)	(277)
Balance at End of Period	$ 18,588	$ 6,904	$ 6,620	$ 4,870	$ 3,943
Net charge offs as a % of average loans	0.15%	0.17%	0.34%	0.07%	0.07%

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 19% of the allowance to cover real estate loans, which constituted 66.02% of our loan portfolio at December 31, 2009. The allocation reflects their lower risk. 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.

We have allocated 43% of the allowance to cover real estate construction loans, which constituted 9.41% of our loan portfolio at December 31, 2009. Construction loans are secured by real estate with values that are dependent upon market and economic conditions. Values may not always 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. Based upon recent appraised values of construction loans considered impaired, the percentage of the allowance for loan losses attributed to construction loans increased in 2009.

We have allocated 9% of the allowance to commercial loans, which constituted 15.56% of our loan portfolio at December 31, 2009. This allocation decreased as a percentage of the allowance for loan losses as a result of the increased percentages related to real estate and construction loan. In addition, the new methodology resulted in shifting unallocated factors from the loan types to an unallocated balance. 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 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.

We have allocated 8% of the allowance to consumer installment loans, which constituted 9.01% of our loan portfolio at December 31, 2009. Consumer installment loans entail greater risk than commercial or real estate loans, because the loans may be unsecured, such as lines of credit, or secured by rapidly depreciable assets such as automobiles. 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. Losses related to consumer loans have been influenced by the increase in personal bankruptcies in recent years. To date, the largest majority of all loans charged off by the Bank have been consumer loans. The allocation as a percentage of the allowance for loan losses did decrease in proportion as a result of the increased exposure to real estate and construction loans. In addition, the shift of unallocated factors reduced this percentage as well.

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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, 2005 through December 31, 2009

(Dollars in thousands)

	December 31, 2009			December 31, 2008			December 31, 2007		
	Amount	% of ALLL	% of Loans	Amount	% of ALLL	%of Loans	Amount	% of ALLL	% of Loans
Commercial	$ 1,710	9%	15.56%	$ 3,866	56%	15.26%	$ 3,254	49%	17.76%
R/E const.	8,036	43%	9.41%	621	9%	8.96%	199	3%	5.63%
R/E mortg.	3,525	19%	66.02%	1,036	15%	67.04%	1,200	18%	67.88%
Installment	1,501	8%	9.01%	1,381	20%	8.74%	1,967	30%	8.73%
Unallocated	3,816	21%							
Total	$ 18,588	100%	100.00%	$ 6,904	100%	100.00%	$ 6,620	100%	100.00%

	December 31, 2006			December 31, 2005		
	Amount	% of ALLL	% of Loans	Amount	% of ALLL	% of Loans
Commercial	$ 1,704	35%	18.34%	$ 1,380	35%	20.08%
R/E const.	146	3%	6.63%	118	3%	5.61%
R/E mortg.	828	17%	65.18%	671	17%	64.47%
Installment	2,192	45%	9.85%	1,774	45%	9.84%
Unallocated						
Total	$ 4,870	100%	100.00%	3,943	100%	100.00%

Other Real Estate Owned

Other real estate owned increased $3.1 million, or 126.08%, to $5.6 million at December 31, 2009 from $2.5 million at December 31, 2008. We anticipate total other real estate owned to increase in the near future as we foreclose on real estate collateralized loans. In the last quarter of 2009, management decided to add the Duffield branch location to other real estate owned since this building is no longer intended to be used as a branch location. All properties are being marketed for sale. The values at December 31, 2009 were adjusted to reflect current fair market values based upon market conditions.

Investment Securities

Total investment securities decreased to $2.6 million at December 31, 2009 from $3.4 million at December 31, 2008. All securities are classified as available for sale for liquidity purposes. The carrying amount of certain securities pledged by us to secure public deposits totaled $900 thousand at December 31, 2009 as compared to $400 thousand at December 31, 2008.

As we slow loan growth, we are beginning to build an investment portfolio. We anticipate increasing the size of the portfolio during 2010. The portfolio will be 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,	2009		2008		2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for Sale						
U.S. Government Agencies	$ 1,999	$ 2,037	$ 3,000	$ 3,063	$ 4,495	$ 4,502
Taxable municipals	317	312				
Mortgage backed securities	249	257	378	386	467	472
Total Securities AFS	$ 2,565	$ 2,606	$ 3,378	$ 3,449	$ 4,962	$ 4,974

The amortized cost, fair value and weighted average yield of investment securities at December 31, 2009 by contractual maturity, are shown 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.

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Maturities of Securities

(Dollars in thousands)

Securities Available for Sale	Amortized Cost	Fair Value	Weighted Average Yield
Due in one year or less	$ 1,500	$ 1,534	3.18%
Due after one year through five years	747	760	3.20%
Due after five years through ten years	318	312	5.45%
Due after ten years			
Total	$ 2,565	$ 2,606	3.44%

Deposits

Total deposits were $760.7 million at December 31, 2009, an increase of $55.0 million, or 7.80%, from $705.7 million at December 31, 2008. This growth is attributed to the new branch opened in 2008 in Bluewell, West Virginia and from continued growth in various other branches. In addition, many larger banks in our market area drastically lowered their time deposit interest rates during 2009. We lowered our interest rates, as well, however not by as much as the larger banks. As a result, we experienced a growth in time deposits during 2009. We have also developed some new consumer and commercial deposit products that have contributed to core deposit growth.

The largest areas of growth were in time deposits. This area of deposits increased $53.2 million, or 10.95%, during 2009 from $486.0 million at December 31, 2008 to $539.2 million at December 31, 2009. Demand and savings deposits increased slightly during 2009. Noninterest bearing demand deposits decreased $7.1 million, or 7.47%, to $88.3 million in 2009 from $95.4 million in 2008. Interest-bearing demand deposits increased by $8.3 million, or 23.98%, to $42.8 million in 2009 from $34.5 million in 2008. This increase is primarily attributed to growth in our new Freedom 50 checking account. Savings deposits increased $680 thousand, or 0.76%, to $90.5 million in 2009 from $89.8 million in 2008. Time deposits increased by $53.2 million, or 10.95%, to $539.2 million at December 31, 2009 from $486.0 million in 2008. During 2009, many larger banks in our market area drastically lowered their time deposit interest rates. We decreased our interest rates also, but not to the same level as the larger regional banks and the megabanks. As a result, we experienced a growth in time deposits during 2009. Part of this growth was in the CDARs time deposits that allow customers to be FDIC insured above the normal level. These time deposits increased $15.1 million during 2009.

Time deposits of $100,000 or more equaled approximately 24.77% of deposits at the end of 2009 and 23.47% of deposits at the end of 2008. The increase is primarily due to the increased FDIC insurance coverage to $250 thousand from $100 thousand.

We have brokered deposits totaling $2.9 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.

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

Maturities of Time Deposits of $100 Thousand and More

(Dollars in thousands)

	December 31, 2009
Three months or less	$ 51,281
Over three months through six months	63,852
Over six months through twelve months	52,457
Over one year	20,871

Total	$	188,461

Noninterest Income

2009 and 2008 Changes

Noninterest income decreased $101 thousand, or 1.82%, from $5.6 million in 2008 to $5.4 million in 2009. The primary reason for the decrease is a reduction in insurance and investment fee income due to poor market conditions and reduced sales staff. This category of noninterest income decreased $320 thousand, or 32.89%, from $973 thousand in 2008 to $653 thousand in 2009. This type of income is cyclical to market conditions. We anticipate it to increase as market conditions improve. Service charges remained flat in 2009 from 2008. Service charges on deposit accounts are primarily overdraft fees. We experienced slower growth in income in 2009 from service charges due to improved customer conveniences and service from extended banking cutoff times and a customer friendly overdraft waived fees policy change. With recent regulatory changes applicable to overdraft fees in 2010, we anticipate this source of income to slightly decrease in the future. Fees, commissions and other income increased $310 thousand, or 22.17% in 2009. The main reason is that interchange fees from ATM and debit cards increased during 2009 by $301 thousand, or 32.60%. This is the result of increased usage by consumers. Life insurance investment income from bank owned life insurance policies was slightly reduced due to lower interest rates. When interest rates increase, we anticipate this category of income to increase.

Noninterest income as a percentage of average assets decreased to 0.65% in 2009 from 0.79% in 2008 and 0.68% in 2007. We anticipate this percentage to remain flat during 2010 for the same reasons that they were flat in 2009.

2008 and 2007 Changes

Noninterest income increased $899 thousand, or 19.33%, to $5.5 million for 2008 as compared to $4.7 million in 2007. Deposit service fees, retail investment sales and insurance commissions increased as a result of increased volume to $2.7 million in 2008 from $2.5 million in 2007. Fees, commissions and other income increased to $1.4 million in 2008 from $1.0 million in 2007. This increase is primarily related to ATM and bank card interchange fees. Insurance and investment commissions also increased in 2008 to $973 thousand from $769 thousand in 2007. This is the result of additional sales staff, stronger customer relationships, and meeting customer needs that are underserved for these types of products in some of our markets.

Noninterest Expense

2009 and 2008 Changes

Noninterest expenses increased $3.2 million, or 12.13%, to $29.8 million in 2009 from $26.6 million in 2008. Following are explanations of the increase.

The FDIC insurance premium increased $1.5 million, or 201.66%, from $724 thousand to $2.2 million. We incurred a one-time special assessment in June 2009 totaling $375 thousand. In addition, we opted into the government s Temporary Liquidity Guarantee Program which insures all noninterest bearing demand deposits with unlimited FDIC insurance through June 30, 2010. Finally, higher assessments have been imposed on banks as a result of the economic recession. Each of these is contributing factors to the increased FDIC premiums. We anticipate this expense to increase in 2010 as well.

In addition, other real estate owned and repossessed vehicle expenses increased $726 thousand to $860 thousand in 2009 from $134 thousand in 2008. The increase is related to an increase in foreclosures and repossessions in 2009. We also re-assessed the values of the properties in other real estate owned in late 2009 and wrote down these assets by $577 thousand to allow for fair market value changes in the properties since the original date that the assets were acquired. In the year 2008, we had a net gain on the sale of other real estate owned property of $612 thousand. In 2009, however, we had a net loss of $143 thousand. This $755 thousand, or 123.37%, change also contributes to the overall increase in noninterest expenses.

Salaries and employee benefits decreased from $15.6 million in 2008 to $15.2 million in 2009. This $476 thousand decrease is related to the Board of Director s decision to not pay employee bonuses in 2009. In addition, we did not open any new branches in 2009 and this held these expenses down. Historically, we have opened multiple branches annually and had new hires for these offices which have resulted in annual increases in salaries and benefits.

Other operating expenses increased $695 thousand, or 15.91%, to $5.1 million in 2009 from $4.4 million in 2008. The increase is related to increased professional fees incurred from increased legal, accountant and consultant fees during 2009. These fees increased as the result of complying with the material weakness in internal controls identified in 2008 which now have been fully remediated.

The ratio of noninterest expense as a percentage of average assets slightly increased in 2009 to 3.54% as compared to 3.49% in 2008. We expect greater efficiencies to result as we maximize the performance of our branches and as the economy improves. Our efficiency ratio, which is defined as noninterest expense divided by the sum of net interest income plus noninterest income, was 79.84% in 2009 as compared to 76.96% for 2008.

2008 and 2007 Changes

Noninterest expenses increased $2.9 million, or 12.44%, in 2008 to $26.6 million from $23.7 million in 2007. The majority of the increase is related to additional operating expenses from a new branch location in 2008, and a full year of expenses for the five new branches opened in 2007. A net gain of $612 thousand from the sale of other real estate owned was realized in 2008 and reduced noninterest expenses for the year.

The total salaries and benefits expense in the year 2008 was $15.6 million which is a $1.7 million, or 11.80%, increase over $14.0 million in the year 2007. The increase is primarily related to the new branches opened, a full recognition of salaries and benefits of employees added in prior years and annual raises for existing employees.

Occupancy and equipment expenses directly correlate with branch expansion. Occupancy expense increased $439 thousand, or 24.72%, to $2.2 million for 2008 as compared to $1.8 million for 2007. Equipment expense for the period of 2008 increased $91 thousand, or 4.04% from $2.3 million in 2007.

An increase of FDIC assessment fees of $357 thousand for 2008 to $724 thousand from $367 thousand in 2007 was realized. Other operating expenses increased $646 thousand, or 17.36%, from $3.7 million for the year 2007 to $4.4 million in the year 2008. Legal expenses increased during the year as we pursued various capital raising initiatives that were not implemented due to market conditions during both 2007 and 2008. Other operating expenses have increased as our branch network has expanded.

The ratio of noninterest expense as a percentage of average assets slightly increased in 2008 to 3.49% from 3.45% in 2007. Our efficiency ratio was 76.96% for 2008 as compared to 77.98% for 2007.

Life Insurance and Related Change of Accounting Estimate

We have life insurance policies on the lives of two key officers and two former key officers. The Bank is the beneficiary under each policy. The total cash surrender value of the policies was $10.5 million and $10.2 million at December 31, 2009 and December 31, 2008, respectively. Total income for the policies during 2009 was $440 thousand as compared to $475 thousand and $433 thousand for the years ending 2008 and 2007, respectively. As described below, in 2007 we transferred all existing insurance policies from general accounts products to separate account products.

In the latter part of 2006 and in January 2007, management began exploring the option to purchase additional bank owned life insurance to financially protect the Company in case of the death of other key employees. During the first half of 2007, due diligence was conducted on products and companies. During this process, the option to purchase separate account bank owned life insurance became available to the Company in addition to the traditional general account bank owned life insurance product. The primary difference between the two is that the separate account product offers the Company greater flexibility in investing the funds to yield a higher return and also a larger variety of investments from which to choose. The earnings stream of the investment is managed through a stable wrap provider. General account products are sold directly by a particular insurance company which makes the investment decisions and gives substantially less flexibility in investment options. In addition, separate account products may be classified as a 20% risk weight for capital regulatory calculations as opposed to 100% risk weights for the general account products. The separate account product has typically been offered to large financial institutions, but now it is available to smaller community banks. The Company s past asset size and capital levels did not qualify us for separate account bank owned life insurance. But since the Company experienced asset and capital growth, the option to purchase and like-kind exchange, or 1035 exchange, the existing policies became available. As a result, management decided to purchase the separate account product and 1035 exchange the existing policies.

Up until this time, the intention of management left the option open to cash in the existing policies before the death of the insured officers. This created a deferred tax liability on the earnings of the policies which typically would be tax exempt since they are life insurance proceeds. Management, the Bank Owned Life Insurance and Compensation Committees met and decided in August 2007 to change existing policies and any new purchases of bank owned life insurance to the separate account product. The Board of Directors ratified this decision in September 2007. As a result, management changed its intention to keep the life insurance policies until the death of the insured.

This resulted in a change of accounting estimate. As a result, the deferred taxes were adjusted by $638 thousand and income tax expense was reduced by the same amount during the third quarter of 2007.

Income Taxes

Due to timing differences between book and tax treatment of several income and expense items, a deferred tax asset of $5.4 million existed at December 31, 2009 as compared to a deferred tax asset of $1.2 million at December 31, 2008. The $4.2 million difference is primarily related to the increased provision to the allowance for loan loss in 2009. Only direct charge-offs are permitted as tax deductions. The deferred tax asset represents decreases to future income tax liabilities from future increased deductions for allowance for loan losses. Our income tax expense was computed at the normal corporate income tax rate of 34% of taxable income included in net income. We do not have significant nontaxable income or nondeductible expenses.

Capital Resources

Our total capital at the end of 2009 was $46.6 million compared to $50.3 million in 2008. The decrease was $3.7 million, or 7.36%. The Bank remains well-capitalized at the end of 2009, as defined by the capital guidelines of the bank regulators. New Peoples capital as a percentage of total assets was 5.43% at December 31, 2009 compared to 6.23% at December 31, 2008. The decrease in New Peoples capital is due to the net loss incurred in 2009 as a result of the increased provision for loan losses.

New Peoples did not apply to participate in the federal Troubled Asset Relief Program, or TARP, funds as we thought participation might not be in the best long-term interest of our stockholders. Our region did not experience a rapid rise in real estate prices in recent years. Likewise, real estate values have not declined precipitously like many other regions of the country. Regional rates of unemployment have held fairly steady compared to other regions.

Total asset growth for 2009 slowed and we anticipate this slower rate of growth to continue in the near future. We still have targeted markets that we anticipate entering in the future as conditions permit, and additional capital may be needed to implement those strategic plans. However, our primary source of capital for asset growth comes from retained earnings. Our strategic plan, including geographic growth, can be supported by projected retained earnings unless projected earnings are adversely affected by asset quality deterioration due to the severe recession. Therefore, under current economic conditions, we believe it is prudent 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. It is possible that retained earnings alone may not provide sufficient capital for this economic cycle and additional sources of capital may have to be obtained. We are exploring various options to increase capital, which may include a stock offering.

In June 2008, a majority of New Peoples stockholders voted to amend the Articles of Incorporation to authorize 50 million shares of common stock. Prior to this approval, 12 million shares of common stock were authorized.

No cash dividends have been paid historically and none are anticipated in the foreseeable future. New Peoples strategic plan is to continue growing but at a slower pace. Earnings will continue to be retained to build capital.

Liquidity

We have not experienced liquidity issues during 2009. We closely monitor our liquidity and have a variety of ways to increase liquidity levels as needed. At December 31, 2009 and December 31, 2008, we had liquid assets in the form of cash, due from banks and federal funds sold of approximately $39.6 million and $23.9 million, respectively. We are continuing to increase short-term assets during 2010.

At December 31, 2009, we had borrowings from the Federal Home Loan Bank totaling $25.4 million as compared to $26.6 million at December 31, 2008. Of these borrowings at December 31, 2009, none are overnight and subject to daily interest rate changes. Term notes of $15.2 million mature in the year 2012. Two additional borrowings totaling $10.2 million have a maturity date in the year 2018, but reduce in principal amounts monthly. We also used our line of credit with the Federal Home Loan Bank to issue a letter of credit for $7.0 million to the Treasury Board of Virginia for collateral on public funds. An additional $69.4 million was available on December 31, 2009 on the $101.7 million line of credit which is secured by a blanket lien on our residential real estate loans.

At December 31, 2009, all of our investments are classified as available-for-sale, providing an additional source of liquidity in the amount of $1.6 million, which is net of those securities pledged as collateral. We anticipate developing an investment portfolio in the near future as we shrink our loan portfolio and increase deposits. This will primarily serve as a source of liquidity while yielding a higher return than federal funds sold.

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As mentioned above, in the second quarter of 2008, we utilized $7.0 million of our Federal Home Loan Bank line of credit as a letter of credit for public funds collateral. This was authorized by the state legislature in the 2008 session, and we have taken advantage of this efficient way to secure these deposits.

Our loan to deposit ratio was 100.38% at December 31, 2009 and 102.19% at year end 2008. We anticipate this ratio to decrease below 100% as we continue to grow deposits in our branch network. 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.

On November 21, 2008, the Board of Directors of the Federal Deposit Insurance Corporation (FDIC) adopted a final rule relating to the Temporary Liquidity Guarantee Program (TLG Program). The TLG Program was announced by the FDIC on October 14, 2008, preceded by the determination of systemic risk by the Secretary of the Department of Treasury (after consultation with the President), as an initiative to counter the system-wide crisis in the nation s financial sector. Under the TLG Program the FDIC will (i) guarantee, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008, and before June 30, 2009 and (ii) provide full FDIC deposit insurance coverage for non-interest bearing transaction deposit accounts, Negotiable Order of Withdrawal (NOW) accounts paying less than 0.50% interest per annum and Interest on Lawyers Trust Accounts (IOLTA) accounts held at participating FDIC-insured institutions through December 31, 2009. Coverage under the TLG Program was available for the first 30 days without charge. The fee assessment for coverage of senior unsecured debt ranges from 50 basis points to 100 basis points per annum, depending on the initial maturity of the debt. The fee assessment for deposit insurance coverage is 10 basis points per quarter on amounts in covered accounts exceeding $250,000. In December 2008, the Bank elected to participate in both guarantee programs, which provide the Bank with an additional source of liquidity. An option to extend through June 30, 2010 the TLG Program for full FDIC insurance coverage for deposit accounts mentioned above was elected by the Bank.

In the event we need additional funds, we have the ability to purchase federal funds under established lines of credit totaling $27.4 million. In addition, in the third quarter of 2008 we joined with the Promontory Interfinancial Network, LLC, otherwise known as CDARS. CDARS allows our customers to access FDIC insurance protection on multi-million dollar certificates of deposit through our Bank. When a customer places a large deposit through CDARS, we place their funds into certificates of deposit with other banks in the CDARS network in increments of less than $100,000 so that principal and interest are eligible for FDIC insurance protection. CDARS also permits its members to use their treasury desk for one-way funds purchasing to meet liquidity needs on a term-basis. We have tested this program for liquidity planning purposes. We do not have any funds purchased through the one-way purchase program. At December 31, 2009, we had customer deposits of $22.4 million in CDARS deposits as compared to $7.3 million in 2008.

Another source of liquidity available to us is through the brokered deposits market. We currently have $2.9 million in 10 year term time deposits comprised of $3 thousand increments at a yielded interest rate of 4.10%. We utilized this low cost source of funds to match funding for a 10 year balloon mortgage product. With the exception of CDARS time deposits, we have no other brokered deposits. Though this has not been a strategy in the past, we may utilize this source in the future as a lower cost source of funds.

In September 2009, the Bank obtained approval for the Federal Reserve Bank discount window for overnight funding needs. We may collateralize this line with investment securities and loans at our discretion. We currently do not have collateral pledged, but we may physically deliver collateral to the Federal Reserve and obtain funding. We do not, however, anticipate using this funding source.

Additional liquidity is expected to be provided by the future growth that management expects in deposit accounts and from loan repayments. We believe that this future growth will result from an increase in market share in our targeted trade area.

During 2009, we lost availability of $1.6 million on our $6.5 million holding company line of credit obtained from Silverton Bank. The reason that we lost this availability was due to the failure of Silverton Bank in early 2009. We are in technical default under this line of credit which is secured by our stock in The Bank. We are currently trying to refinance the outstanding $4.9 million balance. As indicated above, the inability of the Bank to pay dividends to the Company because of the restriction imposed by Richmond FRB may impact our ability to refinance this balance.

With the lines of credit available, anticipated deposit growth, CDARs, the TLG Program, and other external sources of funding, we believe we have adequate liquidity and capital resources to meet our requirements and needs for the foreseeable future. However, liquidity can be 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.

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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 and to reduce its own exposure to fluctuations in interest rates. 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, 2009 and 2008 is as follows:

(Dollars in thousands)	2009	2008
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 48,022	$ 51,190
Standby letters of credit	5,159	4,022

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.

Contractual Obligations

New Peoples and its subsidiaries have Federal Home Loan Bank advances, operating lease obligations and line of credit and trust preferred securities indebtedness. The following is a breakdown of the payment obligations over the life of the agreements:

		Payments Due by Period			
(Dollars in thousands)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Trust preferred securities indebtedness	$ 16,496	$	$	$	$ 16,496
Federal Home Loan Bank advances	25,383		15,225		10,158
Line of credit	4,900		4,900		
Operating Lease Obligations	245	33	66	67	79
Total	$ 47,024	$ 33	$ 20,191	$ 67	$ 26,733

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Interest Sensitivity

At December 31, 2009, we had a negative cumulative gap rate sensitivity ratio of 50.00% for the one year re-pricing period, compared to 40.27% at December 31, 2008. 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. On a quarterly basis, management reviews our interest rate risk and has decided that the current position is an acceptable risk.

Interest Sensitivity Analysis

December 31, 2009

(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	$ 123,147	$ 81,910	$ 170,928	$ 230,668	$ 110,791	$ 46,126	$ 763,570
Federal funds sold	9,582						9,582
Investments	4,592	1,534	503		312		6,941
Bank owned life insurance	10,549						10,549
Total earning assets	$ 147,870	$ 83,444	$ 171,431	$ 230,668	$ 111,103	$ 46,126	$ 790,642
Sources of funds:							
Interest Bearing DDA	$ 42,769	$	$	$	$	$	$ 42,769
Savings & MMDA	90,467						90,467
Time Deposits	161,850	310,145	54,053	10,238	2,874		539,160
Trust preferred securities	16,496						16,496
Other borrowings	4,900		15,225		10,158		30,283
Total interest bearing liabilities	$ 316,482	$ 310,145	$ 69,278	$ 10,238	$ 13,032	$	$ 719,175
Discrete Gap	$ (168,612)	$ (226,701)	$ 102,153	$ 220,430	$ 98,071	$ 46,126	$ 71,467
Cumulative Gap	$ (168,612)	$ (395,313)	$ (293,160)	$ (72,730)	$ 25,341	$ 71,467	
Cumulative Gap as % of Total Earning Assets	(21.33)%	(50.00)%	(37.08)%	(9.20)%	3.21%	9.04%	

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss due to adverse changes in current and future cash flows, fair values, earnings or capital due to adverse movements in interest rates and other factors, including foreign exchange rates and commodity prices. Because we have no significant foreign exchange activities and hold no commodities, interest rate risk represents the primary risk factor affecting our balance sheet and net interest margin. Significant changes in interest rates by the Federal Reserve could result in similar changes in other interest rates that could affect interest earned on our loan and investment portfolios and interest paid on our deposit accounts. Changes in the interest rates earned and paid also affect the estimated fair value of our interest bearing assets and liabilities.

Our Asset and Liability Committee has been delegated the responsibility of managing our interest-sensitive balance sheet accounts to maximize earnings while managing interest rate risk. The committee, comprised of various members of senior management and five external board members, is also responsible for establishing policies to monitor and limit our exposure to interest rate risk and to manage our liquidity and capital positions. The committee satisfies its responsibilities through quarterly meetings during which product pricing issues, liquidity measures, capital levels, and interest sensitivity positions are monitored.

We use an asset/liability management and simulation software model to periodically measure the potential impact on net interest income of projected or hypothetical changes in interest rates. Our policy objective is to monitor our position and to manage our short-term and long-term interest rate risk exposure. Our board of directors has established percentages for the maximum potential reductions in net interest income that we are willing to accept, which result from changes in interest rates over the next 12-month period. The percentage limitations relate to instantaneous and sustained parallel changes in interest rates of plus and minus certain basis points.

The following tables summarize our established percentage limitations and the sensitivity of our net interest income to various interest rate scenarios for the next 12 months, based on assets and liabilities as of December 31, 2009 and 2008. During 2009, we increased some of our established limitations to match our interest risk tolerance. The changes of percentages of modeled changes in net interest income from 2008 to 2009 are reflective of the strategies implemented during a historically low interest rate environment. Our position changed from 2008 to 2009 to be in line with an interest rate decline to best enhance earnings. As interest rates increase, we will implement different strategies to enhance our earnings. At both dates, our interest rate risk is within the established limitations except for the 100 basis point increase scenario. This slight variance is an acceptable risk; however, we have begun to implement the strategy to lengthen the maturity of time deposits.

	2009	
Immediate Basis Point Change In Interest Rates	**Estimated Increase % Increase (Decrease) in Net Interest Income**	**Established Limitation**
+300	(17.97)%	(20.00)%
+200	(12.07)%	(15.00)%
+100	(8.92)%	(7.00)%
-100	5.88%	(7.00)%
-200	6.12%	(15.00)%
-300	6.10%	(20.00)%

	2008	
Immediate Basis Point Change In Interest Rates	**Estimated Increase % Increase (Decrease) in Net Interest Income**	**Established Limitation**
+300	(10.90)%	(15.00)%
+200	(7.69)%	(10.00)%
+100	(3.99)%	(7.00)%
-100	9.38%	(7.00)%

-200	11.32%	(10.00)%
-300	17.06%	(15.00)%

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The type of modeling used to generate the above tables does not take into account all strategies that we might adopt in response to a sudden and sustained change in interest rates. These strategies may include asset/liability acquisitions of appropriate maturities in the cash market and may also include off-balance sheet alternatives to the extent such activity is authorized by the board of directors.

The committee is also responsible for long-term asset/liability management and completes the following functions:

- Monitoring available opportunities to undertake major corrective actions (in the nature and mix of assets and liabilities) for structural mismatches.
- Determining the appropriateness of fixed rate vs. variable rate lending and investment strategies and formulation of policies to influence this activity.
- Developing parameters for the investment portfolio in the context of overall balance sheet management (liquidity, interest rate risk, credit risk, risk-based capital, price risk, and earnings).
- Establishing financial goals, including minimum standards for return on assets and equity.
- Overseeing the long-term strategic use of capital to maximize the return on equity within reasonable levels of risk.

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Item 8. Financial Statements and Supplementary Data

FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

New Peoples Bankshares, Inc.

Honaker, Virginia

We have audited the accompanying consolidated balance sheets of New Peoples Bankshares, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2009. New Peoples Bankshares, Inc. s management is responsible for these consolidated financial statements. 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of years in the three-year period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

As more fully discussed in Note 21, at December 31, 2009, New Peoples Bankshares, Inc. was in technical default under the terms of its line of credit agreement with a correspondent bank. Collateral for the line of credit includes New Peoples Bankshares, Inc. s ownership in New Peoples Bank. Also, as discussed in Note 16, the Board of Directors of the Federal Reserve Bank of Richmond has prohibited the payment of dividends by New Peoples Bank to New Peoples Bankshares, Inc.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), New Peoples Bankshares, Inc. s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2010 expressed an unqualified opinion.

/S/ BROWN, EDWARDS AND COMPANY, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Christiansburg, Virginia

March 15, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Stockholders of New Peoples Bankshares, Inc.

Honaker, Virginia

We have audited New Peoples Bankshares, Inc. s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). New Peoples Bankshares, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, 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.

In our opinion, New Peoples Bankshares, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets and the related statements of income, stockholders equity, and cash flows of New Peoples Bankshares, Inc., and our report dated March 15, 2010 expressed an unqualified opinion.