NEW PEOPLES BANKSHARES INC
Form 10-K
March 17, 2008
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 the fiscal year ended December 31, 2007

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

For the transition period from ____________ to _____________

Commission file number: 000-33411

NEW PEOPLES BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

Virginia	**31-1804543**
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act **None**

Securities registered pursuant to Section 12(g) of the Act **Common Stock - $2 Par Value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [ ] No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act.

Yes [ ] No x

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

x No[ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K(Section 229.405 of this chapter) 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 definition of "accelerated filer," "large 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 [ ]	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 $15.00 per share on the last business day of the second quarter of 2007 was $103,218,630.00.

The number of shares outstanding of the registrant's common stock, was 9,962,552 as of March 14, 2008.

DOCUMENTS INCORPORATED BY RFERENCE:

Portions of the Corporation's Proxy Statement for the Annual Meeting of Shareholders to be held on May 22, 2008 are incorporated by reference into Part III hereof.

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PART I

Item 1. Business

General

New Peoples Bankshares, Inc. (New Peoples) is a financial holding company operating under the laws of Virginia and is headquartered in Honaker, Virginia. New Peoples wholly owns five subsidiaries: New Peoples Bank, Inc., a Virginia banking corporation (the Bank); NPB Financial Services, Inc., an insurance and investment services corporation (NPB Financial); 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.

The Bank offers a range of banking and related financial services focused primarily towards 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 will enable us to establish a niche in the financial services marketplace in our market.

The Bank is headquartered in Honaker, Virginia and operates 30 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 three full service offices in Bland, and Chilhowie, Virginia; and Bramwell, West Virginia. We purchased two operating branch banks, including deposits and loans located in Norton and Pennington Gap, Virginia in June 2007. Management will continue to investigate and consider other possible sites that would enable us to profitably serve our chosen market area.

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. While we plan to seek regulatory approval at the appropriate time to establish additional banking offices, there can be no assurance when or if we will be able to undertake such expansion plans.

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,				
	2007	2006	2005	2004	2003
Commercial, financial and agricultural	17.77%	18.34%	20.08%	18.49%	19.83%
Real estate - construction	5.63%	6.63%	5.61%	2.95%	2.46%
Real estate - mortgage	67.87%	65.18%	64.47%	66.72%	62.68%
Installment loans to individuals	8.73%	9.85%	9.84%	11.83%	15.03%
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 properties are in place. These are in addition to the usual credit analysis of borrowers. Management feels that the loan-to-value ratios are sufficient 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. Such loans may also give rise to claims and defenses by a consumer loan borrower against an assignee of such loan such as the Bank, and a borrower may be able to assert against such assignee claims and defenses that it has against the seller of the underlying collateral.

Our underwriting policy for consumer loans is to accept moderate risk while minimizing 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 anticipate exercising trust powers in the next few years. We may establish a trust department in the future but cannot do so without the prior approval of the Virginia State Corporation Commission's Bureau of Financial Institutions. In the interim, 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, 2007, 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 - 31.51%, Scott County, VA - 32.75%, Dickenson County, VA - 26.49%, Tazewell County, VA - 7.52%, Smyth County, VA - 0.71%, Lee County, VA - 11.29%, Buchanan County, VA - 10.03%, Wise County, VA - 10.26%, city of Norton, VA - 26.36%, combined Washington County, VA and the City of Bristol, VA - 3.78%, Mercer County, WV - 5.41%, Sullivan County, TN - 0.62%, and Washington County, TN - 0.91%,.

Employees

As of December 31, 2007, we had 371 total employees, of which 349 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, and the examination and reporting requirements of the Board of Governors of the Federal Reserve System (the Federal Reserve). 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. It 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, the investments that it makes and the aggregate amount of loans that it may grant to one borrower.

The following description summarizes the 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 Bank Holding Company Act, New Peoples is subject to periodic examination by the Federal Reserve, with the cost of any such examination paid by New Peoples. New Peoples is required to file periodic reports regarding its operations and any additional information that the Federal Reserve may require. Activities at the bank holding company level are 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.

Some of the activities that the Federal Reserve has determined by regulation to be proper incidents to the business of a bank holding company include making or servicing loans and specific types of leases, performing specific data processing services and acting in some circumstances as a fiduciary or investment or financial adviser.

With some limited exceptions, the Bank Holding Company Act 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.

In addition, and subject to some exceptions, the Bank Holding Company Act and the Change in Bank Control Act, together with the regulations promulgated thereunder, require Federal Reserve approval prior to any person or company acquiring "control" of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Control is rebuttably presumed to exist if a person acquires 10% or more, but less than 25%, of any class of voting securities and either has registered securities under Section 12 of the Securities Exchange Act of 1934 or no other person owns a greater percentage of that class of voting securities immediately after the transaction. The regulations provide a procedure for challenging this rebuttable control presumption.

In 1999, Congress enacted the Gramm-Leach-Bliley Act (GLBA), which made substantial revisions to the statutory restrictions separating banking activities from other financial activities. Under the GLBA, bank holding companies that are well-capitalized and well-managed and meet other conditions can elect to become "financial holding companies." As financial holding companies, they and their subsidiaries are permitted to acquire or engage in previously impermissible activities such as insurance underwriting, securities underwriting and distribution, travel agency activities, insurance agency activities, merchant banking and other activities that the Federal Reserve determines to be financial in nature or complementary to these activities. Financial holding companies continue to be subject to the overall oversight and supervision of the Federal Reserve, but the GLBA applies the concept of functional regulation to the activities conducted by subsidiaries. For example, insurance activities would be subject to supervision and regulation by state insurance authorities. New Peoples has elected to be treated as a financial holding company.

Payment of Dividends New Peoples is a legal entity separate and distinct from its banking and other subsidiaries. New Peoples derives the majority of its revenues from dividends paid to the company 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. New Peoples does not expect that any of these laws, regulations or policies will materially affect the ability of the Bank to pay dividends. During the year ended December 31, 2007, the Bank, however, did not declare any dividends to New Peoples in order that it may retain earnings to fund future loan growth and branch expansion efforts. For additional discussion of restriction on dividends see Note 17 in the notes to the consolidated financial statements.

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.

Insurance of Accounts, Assessments and Regulation by the FDIC The Bank's deposits are insured by the Deposit Insurance Fund, as administered by the FDIC, to the maximum amount permitted by law, which is currently $100,000 for each non-retirement depositor and $250,000 for certain retirement-account depositors. The Bank pays insurance premiums on deposits in accordance with a deposit premium assessment system currently under revision by the FDIC in accordance with the Federal Deposit Insurance Reform Act of 2005 ("FDIRA"), which required that the FDIC revise its current risk-based deposit premium system by November 2006. On July 11, 2006, the FDIC issued a notice of proposed rulemaking with respect to the changes required by the Federal Deposit Insurance Reform Act. This proposed rulemaking imposes deposit insurance premium assessments based upon perceived risks to the Deposit Insurance Fund, by evaluating an institution's CAMELS (Capital, Assets, Management, Earnings, Liquidity and Sensitivity to market risk) ratios and other financial ratios and then determining insurance premiums based upon the likelihood an institution could be downgraded to a CAMELS 3 or worse in the succeeding year. As a result, institutions deemed to pose less risk would pay lower premiums than those institutions deemed to pose more risk, which would pay more. On November 2, 2006, the FDIC adopted final regulations implementing FDIRA. Under the risk-based assessments, most financial institutions will pay an assessment of between $0.05 and $0.07 for every $100 of domestic deposits annually beginning in 2007. New Peoples is not aware of any existing circumstances that could result in termination of any of the Bank's deposit insurance.

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, New Peoples and the Bank are each generally required to maintain a minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) of 8%. At least half of the total capital must be composed of "Tier 1 Capital", which is defined as common equity, retained earnings and qualifying perpetual preferred stock, less certain intangibles. The remainder may consist of "Tier 2 Capital", which is defined as specific subordinated debt, some hybrid capital instruments and other qualifying preferred stock and a limited amount of the loan loss allowance. 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 equal to 3% to 5%, subject to federal bank regulatory evaluation of an organization's overall safety and soundness. 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 holding company or 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 by the agency as a factor in evaluating a banking organization's capital adequacy.

The FDIC may take various corrective actions against any undercapitalized bank and any bank that fails to submit an acceptable capital restoration plan or fails to implement a plan accepted by the FDIC. These powers include, but are not limited to, requiring the institution to be recapitalized, prohibiting asset growth, restricting interest rates paid, 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 of December 31, 2007, New Peoples and the Bank were "well capitalized," with Total Capital ratios of 10.29% and 10.11%, respectively; Tier 1 Capital ratios of 8.73% and 9.04%, respectively; and leverage ratios of 7.22% and 7.52%, respectively.

Other Safety and Soundness Regulations There are a number of obligations and restrictions imposed on bank holding companies and their depository institution 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, under the requirements of the Federal Reserve with respect to bank holding company operations, a bank holding company is required 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.

Interstate Banking and Branching Current federal law authorizes interstate acquisitions of banks and bank holding companies without geographic limitation. A bank headquartered in one state is authorized to merge with a bank headquartered in another state, as long as neither of the states had opted out of such interstate merger authority prior to June 1997. After a bank has established branches in a state through an interstate merger transaction, the bank may establish and acquire additional branches at any location in the state where a bank headquartered in that state could have established or acquired branches under applicable federal or state law.

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 instruments of monetary policy employed by the Federal Reserve include open market operations in United States government securities, changes in the discount rate on member bank borrowing and changes in reserve requirements against deposits held by all federally insured banks. 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 changing conditions in the national and international economy and in the money markets, as well as the effect of actions by monetary fiscal authorities, including the Federal Reserve, no prediction can be made as to possible future changes in interest rates, deposit levels, loan demand or the business and earnings of the Bank.

Federal Reserve System In 1980, Congress enacted legislation that imposed reserve requirements on all depository institutions that maintain transaction accounts or nonpersonal time deposits. NOW accounts, money market deposit accounts and other types of accounts that permit payments or transfers to third parties fall within the definition of transaction accounts and are subject to these reserve requirements, as are any nonpersonal time deposits at an institution. These percentages 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. An affiliate of a bank is any bank or entity that controls, is controlled by or is under common control with such bank. Generally, Sections 23A and 23B (i) limit the extent to which the Bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such institution's capital stock and surplus, and maintain an aggregate limit on all such transactions with affiliates to an amount equal

to 20% of such capital stock and surplus, and (ii) require that all such transactions be on terms substantially the same, or at least as favorable, to the association or subsidiary as those provided to a nonaffiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and similar other types of transactions.

Loans to Insiders The Federal Reserve Act and related regulations impose specific restrictions on loans to directors, executive officers and principal shareholders of banks. Under Section 22(h) of the Federal Reserve Act,

loans to a director, an executive officer and to a principal shareholder of a bank, and some affiliated entities of any of the foregoing, may not exceed, together with all other outstanding loans to such person and affiliated entities, the bank's loan-to-one borrower limit. Loans in the aggregate to insiders and their related interests as a class may not exceed two times the bank's unimpaired capital and unimpaired surplus until the bank's total assets equal or exceed $100 million, at which time the aggregate is limited to the bank's unimpaired capital and unimpaired surplus. Section 22(h) also prohibits loans, above amounts prescribed by the appropriate federal banking agency, to directors, executive officers and principal shareholders of a bank or bank holding company, and their respective affiliates, unless such loan is approved in advance by a majority of the board of directors of the bank with any "interested" director not participating in the voting. The FDIC has prescribed the loan amount, which includes all other outstanding loans to such person, as to which such prior board of director approval is required, as being the greater of $25,000 or 5% of capital and surplus (up to $500 thousand). Section 22(h) requires that loans to directors, executive officers and principal shareholders be made on terms and underwriting standards substantially the same as offered in comparable transactions to other persons.

Community Reinvestment Act Under the Community Reinvestment Act and related regulations, 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 requires the adoption by each institution of a Community Reinvestment Act statement for each of its market areas describing the depository institution's 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. The Bank received a rating of "Satisfactory" at its last Community Reinvestment Act performance evaluation, as of August 13, 2007.

The GLBA and federal bank regulators have made various changes to the Community Reinvestment Act. Among other changes, Community Reinvestment Act agreements with private parties must be disclosed and annual reports must be made to a bank's primary federal regulator. A bank holding company will not be permitted to become a financial holding company and no new activities authorized under the GLBA 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.

Fair Lending; Consumer Laws In addition to the Community Reinvestment Act, other federal and state laws regulate various lending and consumer aspects of the banking business. The Federal banking agencies and the Department of Justice, have become concerned that prospective borrowers experience discrimination in their efforts to obtain loans from depository and other lending institutions. These agencies have brought litigation against depository institutions alleging discrimination against borrowers. Many of these suits have been settled, in some cases on material terms, short of a full trial.

Recently, these governmental agencies have clarified what they consider to be lending discrimination and have specified various factors that they will use to determine the existence of lending discrimination under the Equal Credit Opportunity Act and the Fair Housing Act, including evidence that a lender discriminated on a prohibited basis, evidence that a lender treated applicants differently based on prohibited factors in the absence of evidence that the treatment was the result of prejudice or a conscious intention to discriminate, and evidence that a lender applied an otherwise neutral non-discriminatory policy uniformly to all applicants, but the practice had a discriminatory effect, unless the practice could be justified as a business necessity.

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 and requirements regulating the availability of funds after deposit or the making of some loans to customers.

Gramm-Leach-Bliley Act of 1999 The Gramm-Leach-Bliley Act of 1999 covers a broad range of issues, including a repeal of most of the restrictions on affiliations among depository institutions, securities firms and insurance companies. The following description summarizes some of its significant provisions.

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.

A financial holding company may engage in or acquire companies that 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. New Peoples has elected to be treated as a financial holding company for various reasons.

The GLBA 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. Although the states generally must regulate bank insurance activities in a nondiscriminatory manner, the states may continue to adopt and enforce rules that specifically regulate bank insurance activities in specific areas identified under the law. Under the GLBA, the federal bank regulatory agencies adopted insurance consumer protection regulations that apply to sales practices, solicitations, advertising and disclosures.

The GLBA adopted a system of functional regulation under which the Federal Reserve is designated as the umbrella regulator for financial holding companies, but financial holding company affiliates are principally regulated by functional regulators such as the FDIC for state nonmember bank affiliates, the Securities and Exchange Commission for securities affiliates, and state insurance regulators for insurance affiliates. It repealed the broad exemption of banks from the definitions of "broker" and "dealer" for purposes of the Securities Exchange Act of 1934, as amended. It also identified a set of specific activities, including traditional bank trust and fiduciary activities, in which a bank may engage without being deemed a "broker," and a set of activities in which a bank may engage without being deemed a "dealer." Additionally, the GLBA made conforming changes in the definitions of "broker" and "dealer" for purposes of the Investment Company Act of 1940, as amended, and the Investment Advisers Act of 1940, as amended.

The GLBA contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, both at the inception of the customer relationship and on an annual basis, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. The law provides that, except for specific limited exceptions, an institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure. An institution may not disclose to a non-affiliated third party, other than to a consumer reporting agency, customer account numbers or other similar account identifiers for marketing purposes. The GLBA also provides that the states may adopt customer privacy protections that are stricter than those contained in the act.

USA Patriot Act The USA Patriot Act became effective in October 2001 and provides for the facilitation of information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering. Among other provisions, the USA Patriot Act permits financial institutions, upon providing notice to the United States Treasury, to share information with one another in order to better identify and report to the federal government concerning activities that may involve money laundering or terrorists' activities. The USA Patriot Act is considered a significant banking law in terms of information disclosure regarding certain customer transactions. Although it does create a reporting obligation and cost of compliance for the Bank and NPB Financial, New Peoples does not expect the USA Patriot Act to materially affect its products, services or other business activities.

The Federal Bureau of Investigation ("FBI") has sent, and will send, our banking regulatory agencies lists of the names of persons suspected of terrorist activities. The Bank and NPB Financial have been requested, and will be requested, to search their records for any relationships or transactions with persons on those lists. If the Bank or NPB Financial finds any relationship or transactions, it must file a suspicious activity report and contact the FBI.

The Office of Foreign Assets Control ("OFAC"), which is a division of the Department of the Treasury, is responsible for helping to ensure that United States entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. OFAC has sent, and will send, our banking regulatory agencies lists of names of persons and organizations suspected of aiding,

harboring or engaging in terrorist acts. If the Bank or NPB Financial finds a name on any account, or wire transfer that is on an OFAC list, it must freeze such account, file a suspicious activity report and notify the FBI. The USA Patriot Act also requires financial institutions, such as the Bank and NPB Financial, to maintain "customer identification programs". These programs must provide for the collection of certain identifying information at account openings, the verification of the identity of new account holders within a reasonable time period, the reasonable belief by a banking organization that it knows each customer's identity, the recordation of the information used to verify a customer's identity and the comparison of the names of new customers against government lists of known or suspected terrorists or terrorist organizations.

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 has a written privacy policy that is delivered to each of its customers when customer relationships begin and annually thereafter. In accordance with the privacy policy, the Bank will protect the security of information about its customers, educate its employees about the importance of protecting customer privacy, and allow its customers to remove their names from the solicitation lists they use and share with others. The Bank 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. The Bank has programs to fulfill the expressed requests of customers and consumers to opt out of information sharing subject to 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, but is authorized to consider proposals that would impose additional requirements or restrictions on the Bank. If the federal or state regulators establish further guidelines for addressing customer privacy issues, the Bank may need to amend its privacy policies and adapt its internal procedures.

Sarbanes-Oxley Act On July 30, 2002 President Bush signed into law the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). The stated goals of the Sarbanes-Oxley Act are 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 new corporate governance rules, which required the SEC to adopt extensive additional disclosures, corporate governance provisions and other related rules. New Peoples has expended considerable time and money in complying with the Sarbanes-Oxley Act and expects to continue to do so in the future.

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

Changes in interest rates could have an adverse effect on our income.

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 a downturn in the real estate market, for any reason, could result in losses and materially and adversely affect business, financial condition, results of operations and future prospects.

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, 2007, approximately 73.34% 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. An adverse change 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 a significant portion of our portfolio being under-collateralized. In such a case, it would be likely that we would be required to increase our provision for loan losses, which would negatively affect our results of operations. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our ability to recover fully on defaulted loans by foreclosing and selling the real estate collateral would be diminished and we would be more likely to suffer losses on defaulted loans, which could adversely affect our profitability and financial condition.

We will face risks with respect to future expansion.

Our current strategy is to continue growing in the southwest Virginia, southern West Virginia and northeastern Tennessee markets. Our expansion strategy will involve a number of risks such as the time and expense associated with evaluating new markets for expansion, hiring local management and opening new offices. Any future expansion efforts may entail substantial costs and may not produce the additional growth or earnings that were anticipated, which could adversely affect our results of operations. Any expansion plans we undertake may also divert the attention of our management from the operation of our current business, which could also have an adverse effect on our results of operations.

If we need additional capital in the future to continue our growth, 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.

Our business strategy calls for continued growth. We anticipate that we will be able to support this growth through retained earnings, additional trust preferred security issuances, sale of additional common stock, or other alternative capital sources. We may need to raise additional capital in the future to support our continued growth and to maintain our capital levels. Our ability to raise capital through the sale of additional securities will depend primarily upon our financial condition and the condition of financial markets at that time. We may not be able to obtain additional capital in the amounts or on terms satisfactory to us. Our growth may be constrained if we are unable to raise additional capital as needed.

The success of our growth strategy depends on our ability to identify and recruit individuals with experience and relationships in the markets in which we intend to expand.

We intend to expand our banking network over the next several years in the southwest Virginia, southern West Virginia and northeastern Tennessee markets. We believe that to expand into new markets successfully, we must identify and recruit experienced key management members with local expertise and relationships in these markets. We expect that competition for qualified management in the markets in which we expand will be intense and that there will be a limited number of qualified persons with knowledge of and experience in the community banking industry in these markets. The process of identifying and recruiting individuals with the combination of skills and attributes required to carry out our strategy is often lengthy. Even if we identify individuals that we believe could assist us in establishing a presence in a new market, we may be unable to recruit these individuals away from more established banks. Many experienced banking professionals employed by our competitors are covered by agreements not to compete or solicit their existing customers if they were to leave their current employment. These agreements make the recruitment of these professionals more difficult. Our inability to identify, recruit and retain talented personnel to manage new offices effectively and in a timely manner would limit our growth and could materially adversely affect our business, financial condition and results of operations.

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 President and Chief Executive Officer, Kenneth D. Hart, and our other executive and senior lending officers. We have entered into employment agreements with Mr. Hart and Frank Sexton, Jr., our Executive Vice President and Chief Operating Officer. The existence of such agreements, however, does not necessarily assure that we will be able to continue to retain their services. The unexpected loss of either Mr. Hart or Mr. Sexton or other key employees could have a material adverse effect on our business and possibly result in reduced revenues and earnings.

If our allowance for loan losses becomes inadequate, our results of operations may be adversely affected.

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. 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. 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. Because of our growth strategy, we expect that our earnings will be negatively impacted by loan growth, which requires additions to our allowance for loan losses. Consistent with our loan loss reserve methodology, we expect to make additions to our loan loss reserve levels as a result of our growth strategy, 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, the current level of delinquencies and defaults may not be representative of the level that will prevail when our portfolio becomes more seasoned, 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, may affect 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. No assurance can be made that in the

future the Bank will have the capacity to pay the necessary dividends and that we will not require dividends from the Bank to satisfy our obligations. Various statutes and regulations limit the availability of dividends from the Bank. It is possible, depending upon our financial condition and other factors, that federal regulators could assert that payment of dividends or other payments by the Bank are an unsafe or unsound practice. In the event the Bank is unable to pay dividends to us, we may not be able to service our obligations as they become due. Consequently, 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 could adversely impact our results of operations and financial condition.

Changes in economic conditions, particularly an economic slowdown, could hurt 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. A deterioration in economic conditions, in particular an economic slowdown within our geographic region, could result in the following consequences, any of which could hurt our business materially:

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- demand for our products and services may decline; and
- collateral for loans made by us may decline in value, 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.

A downturn in the real estate market could hurt our business. Our business activities and credit exposure are concentrated in Virginia, West Virginia and Tennessee and at December 31, 2007, approximately 73.51% of our loans have real estate as a primary or secondary component of collateral. As such, a downturn in this regional real estate market could hurt our business because of the geographic concentration within this regional area. Deterioration in real estate values in larger metropolitan areas of the country have had little impact on the markets served by the Bank, although if there is a significant 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.

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 market area.

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 decline in general economic conditions caused by inflation, recession, unemployment or other factors beyond our control would impact the demand for banking products and services generally, which could negatively affect our financial condition and performance.

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. Management has concluded that, as of December 31, 2007, our internal control over financial reporting was effective. We cannot guarantee, however, that internal or disclosure control deficiencies might not be identified or come into existence at a later date. 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 17, 2008, 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, 2007, the Company's net investment in premises and equipment in service was $34.9 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 27 of its 30 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 3 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.

We are in various stages of construction or development for branch locations in Bluewell and Princeton, West Virginia; and Duffield, Virginia which we anticipate opening subject to regulatory approval in 2008.

We will continue to investigate and consider other possible sites that will enable us to profitably serve our chosen market area. Purchases of premises and equipment in the year 2008 will depend on the decision to open additional branches.

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. Submission of Matters to a Vote of Security Holders

None

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 trade prices known to us of our common stock for each quarter in the past two years are set forth in the table below. Other transactions may have occurred at prices about which we are not aware.

	2007		2006	
	High	Low	High	Low
1st quarter	$15.00	$10.00	$15.00	$12.00
2nd quarter	21.00	10.00	16.00	12.00
3rd quarter	17.00	10.00	15.50	10.23
4th quarter	15.00	4.00	15.25	12.00

The most recent sales price of which management is aware was $13.00 per share during the first quarter of 2008.

(b) Holders

On February 28, 2008, there were approximately 4,389 shareholders of record.

(c) Dividends

On September 12, 2007, we issued a 13 for 10 stock spit 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. 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 order to promote growth and the ability to compete in our market area. As a result, we do not anticipate paying a dividend on our common stock in 2008. See Note 14 and Note 18 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.

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 31st of each year since December 31, 2002.

New Peoples Bankshares, Inc.

		Period Ending				
Index	**12/31/02**	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**
New Peoples Bankshares, Inc.	100.00	100.00	140.00	150.00	154.00	171.60
S&P 500	100.00	128.68	142.69	149.70	173.34	182.86
NASDAQ Composite	100.00	150.01	162.89	165.13	180.85	198.60
SNL Bank and Thrift Index	100.00	135.57	151.82	154.20	180.17	137.40

Source : SNL Financial LC, Charlottesville, VA 2008

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,				
(Dollars in thousands, except per share data)	2007	2006	2005	2004	2003
Income Statement Data					
Gross interest income	$ 51,447	$ 41,280	$ 30,507	$ 24,265	$ 19,956
Gross interest expense	25,738	19,393	11,279	6,471	6,332
Net interest income	25,709	21,887	19,228	17,794	13,624
Provision for possible loan losses	3,840	1,277	1,130	990	364
Net interest income after provision for loan losses	21,869	20,610	18,098	16,804	13,260
Non-interest income	4,651	3,460	2,822	2,605	1,802
Non-interest expense	23,674	19,805	16,710	14,469	10,801
Income before income taxes	2,846	4,265	4,210	4,940	4,261
Income tax expense (benefit)	(24)	1,175	1,487	1,682	1,447
Net income	2,870	3,090	2,723	3,258	2,814
Per Share Data and Shares Outstanding (1)(2)					
Net income, basic	0.29	0.31	0.27	0.33	0.29
Net income, diluted	0.28	0.30	0.26	0.32	0.28
Cash dividends	-	-	-	-	-
Book value at end of period	4.54	4.25	3.93	4.02	3.66
Tangible book value at period end	4.06	4.25	3.93	4.02	3.66
Weighted average shares outstanding, basic	9,958	9,940	9,886	9,880	9,832
Weighted average shares outstanding, diluted	10,372	10,345	10,282	10,056	9,920
Shares outstanding at period end	9,959	9,954	9,905	8,983	8,974
Period-End Balance Sheet Data					
Total assets	765,951	635,819	527,770	437,751	342,508
Total loans	682,260	569,198	468,045	383,567	295,438
Total allowance for loan losses	(6,620)	(4,870)	(3,943)	(3,090)	(2,432)
Total deposits	657,033	572,187	462,692	388,120	308,221
Shareholders' equity	45,249	42,346	38,964	36,098	32,805
Performance Ratios					
Return on average assets	0.42%	0.54%	0.56%	0.83%	0.86%
Return on average shareholders' equity	6.60%	7.61%	7.28%	9.58%	9.46%
Average shareholders' equity to average assets	6.34%	7.06%	7.72%	8.64%	9.09%
Net interest margin (2)	4.11%	4.11%	4.38%	5.00%	4.58%
Asset Quality Ratios					
Net charge-offs to average loans	0.34%	0.07%	0.07%	0.10%	0.06%
Allowance to period-end gross loans	0.97%	0.86%	0.84%	0.81%	0.82%

Nonperforming loans to gross loans	0.47%	0.21%	0.12%	0.23%	0.19%
Capital and Liquidity Ratios					
Risk-based:					
Tier 1 capital	8.73%	10.81%	11.78%	12.88%	12.20%
Total capital	10.29%	12.20%	12.71%	13.72%	13.10%
Leverage capital ratio	7.22%	8.94%	9.63%	10.64%	9.29%
Total equity to total assets	5.91%	6.66%	7.38%	8.25%	9.58%

(1) We have adjusted all share amounts and per share data to reflect a two-for-one stock split of our common stock in January 2002, 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.

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 similar words or 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 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, 2007 and 2006 as well as results of operations for the years ended December 31, 2007, 2006 and 2005. 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.

We are not aware of any current recommendations by any regulatory authorities that, if they were implemented, would have a material effect on our liquidity, capital resources or results of operations.

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.

Overview

New Peoples continued expanding in the year 2007 through new branches in Chilhowie and Bland, Virginia and Bramwell, West Virginia. In addition, the Bank completed its first acquisition of two branches in Norton and Pennington Gap, Virginia. At the end of 2007, we have 30 offices throughout southwest Virginia, southern West Virginia and northeastern Tennessee.

The continued growth of branches resulted in another year of growth in assets, loans and deposits. Total assets grew to $765.9 million at year-end 2007. This represents a $130.1 million, or 20.47% growth from 2006. Total loans also grew at 19.86%, or $113.1 million, to $682.3 million at December 31, 2007. Total deposits increased 14.83%, or $84.8 million, to $657.0 million from $572.2 million at the end of 2006.

In the year 2007, the economy started to show some downturn on a national level. This has not greatly affected the markets that we serve, but it may in the future. Nonperforming loans has increased from $1.2 million at the end of 2006 to $3.2 million at the end of 2007. Management has taken the erosion of the economy and the increase in nonperforming loans into consideration and has taken steps to prepare for a recessionary period. During the year 2007, we made significant provisions to the allowance for loan loss totaling $3.8 million as compared to $1.3 million in 2006. We have enhanced the methodology of calculating the allowance for loan losses. In addition, we are tightening credit standards to minimize risk exposure. The allowance for loan loss at the end of 2007 was $6.6 million, or 0.97% of total assets, as compared to $4.9 million, or 0.84% of total loans at the end of 2006. We experienced a large loss of $1.5 million that was discovered subsequent to year end 2007, but was determined to exist at the end of the period. We are aggressively pursuing recovery on these credits. Net charge-offs to average loans at the end of 2007 was 0.34% as compared to 0.07% in 2006. As deemed necessary, we will continue to make provisions to the allowance for loan losses.

As a result of the large provisions to the allowance for loan loss, we experienced a decrease in net income for the year ending 2007 to $2.9 million from $3.1 million in 2006. Net interest income grew significantly to $25.7 million in 2007 from $19.4 million in 2006. The net interest margin remained the same at 4.11%. Noninterest income grew to $4.7 million in 2007 from $3.5 million in 2006 primarily from increased volume in deposit related fees. Noninterest expense also grew from $19.8 million to $23.7 million in 2007. The largest area of increase was in salary and benefits from new employees at the new branches. We also recorded a change of accounting estimate related to bank owned life insurance of $638 thousand resulting in a decrease the income tax expense in 2007.

We anticipate growth to slow down in the coming years. However, there are still some markets we anticipate entering. To accommodate future growth plans, we may need to raise additional capital.

The return on average assets was 0.42%, 0.54%, and 0.56%, for the periods ending December 31, 2007, 2006, and 2005, respectively. The return on average equity was 6.60%, 7.61%, and 7.28%, for the same periods ending December 31, 2007, 2006, and 2005, respectively.

We remain focused on being a community bank that strives to meet the financial service needs of our customers throughout southwest Virginia, southern West Virginia, and eastern Tennessee.

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.

Net Interest Income and Net Interest Margin

Net interest income for the year ended 2007 increased to $25.7 million from $21.9 million in 2006. This is an increase of $3.8 million, or 17.35%. The majority of the growth is related to the increased loan volume during the year. Loan income increased to $50.9 million for 2007

from $40.8 million for 2006, which is an increase of $10.1 million, or 24.83%. Total interest expense was $25.7 million for 2007 as compared to $19.4 million for 2006. This $6.3 million, or 32.47%, increase results mainly from an increase in volume of time deposits with a premium interest rate originating at the newer branch locations. See the Volume and Rate Analysis table below.

Net interest income for the year ended December 31, 2006 was $21.9 million, an increase of $2.7 million, or 13.83%, compared to the same period in 2005. The increase in net interest income was primarily the result of increases in interest income from loans, offset by an increase in interest expense on deposits, short term borrowings, and trust preferred securities. During 2006, interest income increased $10.8 million, or 35.31%, as a result of increased loan volume and interest rates. Total interest expense increased $8.1 million, or 71.94%, during 2006. During 2006, short-term time deposits, borrowings and trust preferred securities repriced at a faster pace than earning assets. As a result, the interest expense increased significantly. In addition, deposits gathered at the new offices opened in 2006 were obtained at a premium contributing to an increase in interest expense over the previous year. Pressure to fund loan growth and increased competition were also factors in the increase in our cost of funds.

Despite Federal Reserve Bank interest rate cuts 2007, we were able to maintain a net interest margin of 4.11% for the year ending December 31, 2007 and 2006. The net interest margin is defined as net interest income divided by total interest earning assets. The net interest margin in 2005 was 4.38%. We are closely monitoring our net interest margin and taking steps to maximize our net interest margin in a declining interest rate environment.

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, 2007			For the Year Ended December 31, 2006			For the Year Ended December 31, 2005		
	Average Balance	Income/ Expense	Yields/ Rates	Average Balance	Income/ Expense	Yields/ Rates	Average Balance	Income/ Expense	Yields/ Rates
ASSETS									
Loans (1), (2), (3)	$ 611,101	$ 50,884	8.33%	$ 521,629	$ 40,762	7.81%	$ 424,419	$ 30,006	7.07%
Federal funds sold	2,779	129	4.64%	3,926	191	4.87%	7,593	256	3.37%
Other investments (3)	7,421	254	3.42%	6,524	327	5.01%	7,359	245	3.33%
Total Earning Assets	621,301	51,267	8.25%	532,079	41,280	7.76%	439,371	30,507	6.94%
Less: Allowance for loans losses	(5,280)			(4,509)			(3,516)		
Non-earning assets	69,372			56,988			48,947		
Total Assets	$ 685,393			$ 584,558			$ 484,802		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Deposits									
Demand - Interest bearing	$ 20,957	$ 164	0.78%	$ 18,907	$ 142	0.75%	$ 23.160	$ 164	0.71%
Savings	45,135	485	1.07%	43,637	489	1.12%	44,686	468	1.05%
Time deposits	458,369	22,949	5.01%	380,658	17,004	4.47%	310,305	9,935	3.20%
Other Borrowings	15,820	857	5.42%	14,534	754	5.19%	1,281	43	3.36%
Trust Preferred Securities	16,496	1,283	7.78%	12,683	1,004	7.92%	11,341	669	5.90%
Total interest bearing liabilities	556,777	25,738	4.62%	470,419	19,393	4.12%	390.773	11,279	2.89%
Non-interest bearing deposits	79,932			69,267			54,218		
Other liabilities	5,206			4,264			2,395		
Total Liabilities	641,915			543,950			447,386		
Stockholders' Equity	43,477			40,608			37,416		
Total Liabilities and Stockholders' Equity	$ 685,393			$ 584,558			$ 484,802		
Net Interest Income		$ 25,529			$ 21,887			$ 19,228	
Net Interest Margin			4.11%			4.11%			4.38%
Net Interest Spread			3.63%			3.64%			4.05%

(1) Non-accrual loans are not significant and have been included in the average balance of loans outstanding.
(2) Loan fees are not material and 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.

Volume and Rate Analysis
(Dollars in thousands)

	2007 Compared to 2006 Increase (Decrease)			2006 Compared to 2005 Increase (Decrease)		
	Volume Effect	Rate Effect	Change in Interest Income/ Expense	Volume Effect	Rate Effect	Change in Interest Income/ Expense
Interest Income:						
Loans	$ 6,992	$ 3,130	$ 10,122	$ 6,873	$ 3,883	$ 10,756
Federal funds sold	(56)	(6)	(62)	(124)	59	(65)
Other investments	45	(118)	(73)	(28)	110	82
Total Earning Assets	6,981	3,006	9,987	6,721	4,051	10,773
Interest Bearing Liabilities:						
Demand	15	7	22	(30)	8	(22)
Savings	18	(21)	(3)	(10)	31	21
All other time deposits	3,471	2,474	5,945	2,251	4,823	7,074
Other borrowings	67	32	99	445	261	706
Trust Preferred Securities	302	(23)	279	79	256	335
Total Interest Bearing Liabilities	3,873	2,469	6,342	2,736	5,378	8,114
Change in Net Interest Income	$ 3,108	$ 537	$ 3,645	$ 3,986	$ (1,327)	$ 2,659

Loans

Our primary source of income comes from interest earned on loans receivable. We have continued to have strong loan demand as evidenced by annual increases of $113.1 million, $101.2 million, and $84.5 million for the years 2007, 2006, and 2005, respectively. A schedule of loans by type is set forth immediately below. Approximately 73.51% of the loan portfolio is secured by real estate at the end of 2007.

Loans receivable outstanding are summarized as follows:

Loan Portfolio

	December 31,				
(Dollars in thousands)	2007	2006	2005	2004	2003
Commercial, financial and agricultural	$ 121,198	$ 104,372	$ 93,987	$ 70,915	$ 58,593
Real estate - construction	38,420	37,716	26,267	11,332	7,258
Real estate - mortgage	463,079	371,021	301,740	255,925	185,191
Installment loans to individuals	59,563	56,089	46,051	45,395	44,396
Total	$ 682,260	$ 569,198	$ 468,045	$ 383,567	$ 295,438

Our loan maturities as of December 31, 2007 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 and agriculture	$ 68,861	$ 35,663	$ 13,098	$ 117,622
Real estate	195,459	185,246	112,655	493,360
Consumer- installment/ other	9,741	47,360	4,559	61,660
Total	$ 274,061	$ 268,269	$ 130,311	$ 672,642
Loans with fixed rates	$ 55,027	$ 129,481	$ 126,233	$ 310,741
Loans with variable rates	219,034	138,788	4,079	361,901
Total	$ 274,061	$ 268,269	$ 130,312	$ 672,642

This above table reflects the earlier of the maturity or re-pricing dates for loans at December 31, 2007. 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 $6.6 million at December 31, 2007 as compared to $4.9 million at December 31, 2006. The allowance for loan losses at the end of 2007 was approximately 0.97% of total loans as compared to 0.84% at the end of 2006. Net loans charged off for 2007 were $2.1 million, or 0.34% of average loans, and $350 thousand, or 0.07% of average loans, at the end of 2006. The provision for loan losses was $3.8 million for 2007 as compared with $1.3 million for 2006 and $1.1 million in 2005.

Certain risks exist in the Bank's loan portfolio. Since the Bank began in 1998, we have experienced significant loan growth each year. 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 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 been and remain stable, while national real estate markets have experienced a downturn. It is uncertain as to when or if current real estate values will be impacted. We do not believe that there will be a severely negative effect in our market area, but we deem it prudent to assign more of the allowance to these types of loans. The 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. However, we do not foresee this happening in the near future. We consider these factors to be the primary higher risk characteristics of the loan portfolio.

Given the current market environment and the risks in the Bank's loan portfolio, we are addressing them by making the following improvements to the credit administration process. In January 2008, we hired a Chief Credit Officer to oversee the credit administration function of the Bank. We also have further evaluated our loan portfolio by engaging a third party loan review company who conducted a loan review in January 2008. We are currently reorganizing the credit administration area to create greater efficiency and to enhance the credit underwriting process. In addition, a new loan policy is being developed better addressing the risk factors.

All internal and external factors are considered in determining the adequacy of the allowance for loan losses. We have enhanced the methodology of the calculation of the allowance for loan losses during 2007. As the loan portfolio becomes more mature, we have identified where more of our risks lie from a historical loss perspective. As a result, we have modified our loss analysis portion of the allowance to be the average of the past three years' losses. In addition, we are identifying where concentrations in specific industries exist. We have also enhanced our impairment analysis of watch list credits by more conservatively estimating liquidation costs. As economic conditions and performance of our loans change, it is possible that future increases may need to be made to the allowance for loan losses.

An evaluation of individual loans is performed by the internal loan review department. 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 review personnel. 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.

Due to the risk factors previously mentioned, all loans classified as other assets especially mentioned, substandard, doubtful and loss are individually reviewed for impairment. 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. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Impaired loans increased to $9.6 million with a valuation allowance of $1.2 million at December 31, 2007 as compared to $1.4 million with a valuation allowance of $82 thousand at

December 31, 2006. The increase in the valuation allowance is primarily attributed to the following credits: a hotel credit totaling $3.3 million with an estimated exposure of $315 thousand, an auto dealer credit relationship of $876 thousand with an estimated $150 thousand exposure, a small business loan of $411 thousand with an estimated exposure of $332 thousand, a $114 small business loan with a $102 thousand exposure, and a $1.4 million commercial real estate loan with an estimated exposure of $103 thousand. These impaired loans totaling $6.0 million comprise 62.73% of the total impaired loans. The respective valuation allowance for these credits totals $1.0 million, or 78.71% of the total valuation allowance. Great efforts are being made to minimize future losses on these credits. As economic conditions and performance of our loans 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.

Analysis of the Allowance for Loan Losses

(Dollars in thousands)

For the Years Ended December 31,

Activity	2007	2006	2005	2004	2003
Beginning Balance	$ 4,870	$ 3,943	$ 3,090	$ 2,432	$ 2,224
Provision charged to expense	3,840	1,277	1,130	990	364
Loan Losses:					
Installment loans to individuals	(284)	(223)	(266)	(285)	(180)
Real estate mortgage	(181)	(148)	(28)	(8)	-
Commercial loans	(1,701)	(52)	(4)	(59)	(7)
Recoveries:					
Installment loans to individuals	50	29	19	20	31
Real estate mortgage	6	44	2	-	-
Commercial loans	20	-	-	-	-
Net charge offs	(2,090)	(350)	(277)	(332)	(156)
Balance at End of Period	$ 6,620	$ 4,870	$ 3,943	$ 3,090	$ 2,432
Net charge offs as a % of average loans	0.34%	0.07%	0.07%	0.10%	0.06%

Loans delinquent greater than 90 days still accruing interest and loans in non-accrual status present a higher risks. As of December 31, 2007, there were 57 loans in non-accrual status totaling $2.9 million, or 0.43% of total loans. The amount of interest that would have been recognized on these loans in the year 2007 was $227 thousand. There were 13 loans greater than 90 days past due and still accruing interest totaling $267 thousand, or 0.04% of total loans. 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 as defined by Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 15, "Accounting by Debtors and Creditors for 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,				
	2007	2006	2005	2004	2003
Non-accruing loans	$ 2,946	$ 1,206	$ 446	$ 773	$ 539

Loans past due 90 days or more and still accruing	267	9	116	115	26
Total	$ 3,213	$ 1,215	$ 562	$ 888	$ 565
Percent of total loans	0.47%	0.21%	0.12%	0.23%	0.19%

Loss experience in the loan portfolio increased at the end of 2007. Subsequent to December 31, 2007, we became aware of two credits totaling $1.5 million that were not able to repay and determined that the impairment existed as of December 31, 2007 and were losses; consequently, we charged off these credits. This $1.5 million charge off was 71.43% of the total charge off for 2007. Extensive efforts are underway to recover this loss. Otherwise, historical losses have been minimal.

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 21.14% of the allowance to cover real estate loans, which constituted 73.51% of our loan portfolio at December 31, 2007. The allocation reflects their lower risk. Residential 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 49.14% of the allowance to commercial loans, which constituted 17.76% of our loan portfolio at December 31, 2007. This allocation is due to the fact that commercial loans have more risk than residential real estate loans. 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.

We have allocated 29.72% of the allowance to consumer installment loans, which constituted 8.73% of our loan portfolio at December 31, 2007. 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.

In 2007, we changed the allocations to assign greater risk to real estate loans and commercial loans. The reason for the changes to these two categories is the increased growth in these areas over the past years versus the growth in consumer loans. We are not aware of any significant changes in the composition of the loan portfolio or known risk factors that would result in a change to the allocation of the allowance for loan losses during the periods presented other than those mentioned above.

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

Allocation of the Allowance for Loan Losses

December 31, 2003 through December 31, 2007

(Dollars in thousands)

	December 31, 2007			December 31, 2006			December 31, 2005		
	Amount	% of ALLL	%of Loans	Amount	% of ALLL	%of Loans	Amount	% of ALLL	% of Loans
Commercial	$ 3,254	49%	17.76%	$ 1,704	35%	18.34%	$ 1,380	35%	20.08%
Real estate mortgage	1,399	21%	73.51%	974	20%	71.81%	789	20%	70.08%
Installment	1,967	30%	8.73%	2,192	45%	9.85%	1,774	45%	9.84%

Total	$	6,620	100%	100.00%	$	4,870	100%	100.00%	$	3943	100%	100%

		December 31, 2004				December 31. 2003		
		Amount	% of ALLL	% of Loans		Amount	% of ALLL	% of Loans
Commercial	$	1,081	35%	18.49%	$	851	35%	19.83%
Real estate mortgage		618	20%	69.67%		486	20%	65.14%
Installment		1,391	45%	11.83%		1095	45%	15.03%
Unallocated		-	-%			-	-%	
Total	$	3,090	100%	100.00%		2,432	100%	100.00%

Investment Securities

Total investment securities increased to $5.0 million at December 31, 2007 from $3.5 million at December 31, 2006. The portfolio is made up mainly of U. S. Government Agency securities with fairly short maturities and one mortgage backed security. All securities are classified as available for sale for liquidity purposes. The carrying amount of certain securities totaling $3.5 million are pledged by us to secure public deposits at December 31, 2007.

The Bank, as a member of the Federal Reserve Bank and the Federal Home Loan Bank, is required to hold stock in each. These equity securities are restricted from trading and are recorded at a cost of $4.3 million and $2.2 million as of December 31, 2007 and 2006, respectively.

The carrying values of investment securities are shown in the following table:

Investment Securities Portfolio

(Dollars in thousands)

December 31,	2007		2006		2005	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for Sale						
U.S. Government Agencies	$ 4,495	$ 4,502	$ 3,490	$ 3,493	$ 6,185	$ 6,163
Mortgage backed securities	467	472	-	-	-	-
Total Securities AFS	$ 4,962	$ 4,974	$ 3,490	$ 3,493	$ 6,185	$ 6,163

The amortized cost, fair value and weighted average yield of investment securities at December 31, 2007, 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.

Maturities of Securities

(Dollars in thousands)

Securities Available for Sale	Amortized Cost	Fair Value	Weighted Average Yield
Due in one year or less	$ 1,994	$ 1,997	4.64%
Due after one year through five years	2,968	2,977	5.29%
Total	$ 4,962	$ 4,974	5.02%

Deposits

Total deposits as of December 31, 2007 were $657.0 million as compared to $572.2 million at December 31, 2006. This is an increase of $84.8 million, or 14.83%. This growth is attributed to the branches purchased in Norton and Pennington Gap, Virginia along with the new branches that were opened in 2007.

The largest areas of growth were in non-interest demand and time deposits. Noninterest bearing demand deposits increased $12.1 million, or 16.97%, to $83.7 million in 2007 from $71.5 million in 2006. Interest-bearing demand deposits increased by $7.6 million, or 39.23%, to $26.9 million in 2007 from $19.3 million in 2006. Savings deposits increased $1.8 million, or 4.26%, to $44.7 million in 2007 from $42.9 million in 2006. Time deposits increased by $63.3 million, or 14.44%, from $438.5 million in 2006 to $501.8 million in 2007.

Time deposits of $100,000 or more equaled approximately 26.65% of deposits at the end of 2007 and 26.08% of deposits at the end of 2006. We do not have brokered deposits and 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, 2007		
Three months or less	**$**	47,938
Over three months through six months		57,373
Over six months through twelve months		27,912
Over one year		41,859
Total	**$**	175,082

Noninterest Income

Noninterest income increased from $3.5 million in 2006 to $4.7 million in 2007. This is an increase of $1.2 million for the year, or 34.41%. Service charges, including overdraft fees, increased from $2.0 million for 2006 to $2.4 million for 2007, an increase of $423 thousand, or 20.81%. This increase is due to increased volume in demand deposit accounts. Fees increased to $994 thousand in 2007 from $414 thousand in 2006, an increase of $580 thousand, or 140.05%. This is largely due to reclassifying ATM service fees from net fees to gross fees. Noninterest expenses are adjusted accordingly. Insurance and investment fees are fees generated primarily from the sale of life insurance, annuities, mutual funds, health insurance and other investments. Insurance and investment commissions continued to increase from $606 thousand in 2006 to $769 thousand in 2007.

In 2006, noninterest income increased $638 thousand, or 22.59%, to $3.5 million from $2.8 million in 2005. The major sources of noninterest income include service charges on deposit accounts and insurance and investment fees. Service charges increased to $2.0 million in 2006 from $1.7 million in 2005. This $325 thousand, or 19.04%, increase is primarily attributed to overdraft fees generated by increased volume of deposit accounts. Insurance and investment commissions grew by $225 thousand, or 59.03%, from $381 thousand in 2005 to $606 thousand in 2006.

Noninterest income as a percentage of average assets increased to 0.68% in 2007 from 0.59% in 2006 and from 0.57% in 2005. We anticipate this percentage to increase in 2008 as we increase noninterest income from our nonbank subsidiaries and from increased service charges.

Noninterest Expense

Noninterest expenses totaled $23.7 million in 2007 as compared to $19.8 million in 2006, an increase of $3.9 million, or 19.53%. The increase in noninterest expense directly relates to the new branches opened. We are continuing to build our branch network in the market areas we serve and contiguous markets. As we grow the branch network, additional staffing is needed. As a result, we expect noninterest expenses to continue to increase in coming years, but we anticipate it to be at a lower pace.

Noninterest expense increased $3.1 million, or 18.52%, from $16.7 million in 2005 to $19.8 million in 2006. The majority of the increase is related to the expenses associated with the new branches. During 2006, we added four new branch locations. At the end of 2006, we had 25 full service branch locations.

Salaries and benefits expense are our highest noninterest expenses. In the year 2007, salaries and benefits were $14.0 million as compared to $11.8 million in 2006. This $2.2 million increase, or 17.98%, is related to the new branches opened and a full recognition of salaries and benefits of employees added in 2006. This expense was $10.0 million in 2005, or an increase of $1.8 million, or 18.11% to 2006. This increase also is related to the new branches opened during the period and a full recognition of salaries and benefits added in 2005.

Occupancy and equipment expenses directly correlate with branch expansion. Occupancy expense increased $347 thousand, or 24.28%, to $1.8 million for 2007 as compared to $1.4 million for 2006. An increase of $307 thousand, or 27.36% occurred in 2006 from $1.1 million in 2005. Equipment expense for the year 2007 was $2.3 million as compared to $2.0 million in 2006. Equipment expense for the period of 2006 increased $248 thousand, or 14.39% from $1.7 million in 2005. Other expenses increased from $3.9 million for 2006 to $4.9 million in 2007. An increase of FDIC assessment fees of $307 thousand for the period of 2007 to $367 thousand from $$60 thousand was incurred under the new regulation. We anticipate this expense to continue to increase.

The ratio of noninterest expense as a percentage of average assets slightly increased in 2007 to 3.45% from 3.39% in 2006. The prior period for the year ending 2006 decreased from 3.44% in 2005. We expect greater efficiencies to result as we maximize the performance of our branches. Our efficiency ratio, which is defined as noninterest expense divided by the sum of net interest income plus noninterest income, was 77.98% for 2007 as compared to 78.14% for 2006 and 75.74% for 2005.

Goodwill and Other Intangible Assets

At the end of the second quarter 2007, we purchased two offices in Norton and Pennington Gap, Virginia from FNB Southeast. As a result of the branches acquired, the Bank recorded an asset of goodwill totaling $4.1 million and a core deposit intangible of $810 thousand. The core deposit intangible will be amortized using the sum-of-the-years-digits method over its estimated economic life of 6.84 years. During 2007, $103 thousand was amortized, resulting in a net core deposit intangible of $707 thousand.

Life Insurance and Related Change of Accounting Estimate

We have life insurance policies with three insurance companies on the lives of four key officers. The Bank is the beneficiary under each policy. The total cash surrender value of the policies was $9.7 million and $9.4 million at December 31, 2007 and December 31, 2006, respectively. Total income for the policies during 2007 was $433 thousand as compared to $408 thousand and $393 thousand for the years ending 2006 and 2005, respectively. The minimum guaranteed rate on each of the policies is 4.00%.

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 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 choices 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 now since the Company has experienced asset and capital growth, the option to purchase and like-kind exchange, or 1035 exchange, the existing policies of $9.7 million became availalble. 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 BOLI 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 $1.1 million existed at December 31, 2007 as compared to a deferred tax liability of $248 thousand at December 31, 2006. The deferred tax asset represents decreases to future income tax liabilities from future increased deductions for allowance for loan losses. The deferred tax liability represents increases to future income tax liabilities from future decreased deductions for depreciation, increases to income from unrealized accretion, and increases to deductions related to the 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

Total capital at the end of 2007 was $45.2 million compared to $42.3 million in 2006. The increase was $2.9 million, or 6.86%. We remain well-capitalized at the end of 2007, as defined by the capital guidelines of regulatory agencies. Capital as a percentage of total assets was 5.91% at December 31, 2007 compared to 6.66% at December 31, 2006.

We anticipate total asset growth to slow down in the near future. With the high amount of growth we have experienced historically and with the purchase of the two branches in June 2007, we have rapidly utilized the capital of the Company to expand throughout Southwest Virginia, southern West Virginia, and eastern Tennessee. We still have targeted markets that we plan to enter and, as a result, may need to raise additional capital to meet these strategic plans.

During the third quarter of 2007, the board of directors approved a 13 for 10 stock split effected in the form of a stock dividend to shareholders of record on September 4, 2007 and paid on September 12, 2007.

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 until the board of directors considers it prudent to pay cash dividends.

Trust Preferred Securities

At December 31, 2007, trust preferred securities totaled $16.5 million with related interest expense for the year ending 2007 of $1.3 million. Of the total trust preferred securities, $13.5 million is considered Tier 1 capital. The remaining $3.0 million is considered Tier 2 capital and will be transferred to Tier 1 capital over time as capital levels increase from retained earnings.

Liquidity

At December 31, 2007 and 2006, liquid assets in the form of cash, due from banks and federal funds sold were approximately $22.3 million and $19.9 million, respectively. At December 31, 2007 and 2006 all of our investments are classified as available-for-sale providing an additional source of liquidity. At the end of 2007, $3.5 million of the $5.0 million investment portfolio is pledged as collateral for public funds. We believe that our liquid assets were adequate at both dates.

In the event we need additional funds, we have the ability to purchase federal funds under established lines of credit totaling $20.4 million. We may also borrow up to $111.7 million from the Federal Home Loan Bank under a line of credit that is secured by a blanket lien on residential real estate loans. Additional liquidity is expected to be provided by the future growth that management expects in deposit accounts and loan repayments. We believe that this future growth will result from an increase in market share in our targeted trade areas. In 2007, we opened three new branches and purchased two offices. We plan to open additional branches during 2008.

In addition we have a line of credit with Silverton Bank for $1.5 million for operating expenses.

At December 31, 2007, we had outstanding borrowings from the Federal Home Loan Bank totaling $42.4 million as compared to no borrowings at the end of 2006. Most of the borrowings are overnight funds totaling $32.2 million and $10.2 million in term notes maturing during 2012. During 2007 and 2006, we utilized the lines of credit on short term arrangements to fund loan growth until deposits grew at the new branch locations.

As of December 31, 2007, time deposits of $402.8 million mature within one year. Historically, we have been able to retain a majority of maturing deposits by establishing customer relationships. We continue to offer premium rates at our new branches to attract new customers and deposits.

Our loan to deposit ratio at year end 2007 was 103.84% as compared to 99.48% at the end of 2006. We have continued to experience strong loan demand and deposit growth. As we continue to open new branches, we anticipate the growth trends to continue but at a much lower pace. We can lower this ratio as management deems appropriate by managing the rate of growth in our loan portfolio. This can be done by changing interest rates charged or limiting the amount of new loans approved.

Growth in loans and deposits does not always occur in the same time period. An excess or deficit of funds provided affects the amount that we retain in cash or invest in federal funds or short-term investments. Our practice has been to invest available funds in short-term U.S. Government Agency securities or federal funds sold in order to provide liquidity and to provide income until the funds are needed for new loans.

We have primarily used the funds provided by trust preferred securities issued and deposits to fund the purchase of banking facilities and the loan portfolio.

We believe future deposit growth from our branches, along with available lines of credit, the ability to sell securities in our available for sale investment portfolio, and the control we may exercise over loan growth will provide sufficient liquidity to meet future cash demands.

Financial Instruments with Off-Balance-Sheet Risk and Credit Risk and Contractual Obligations

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, 2007 and 2006, is as follows:

(Dollars in thousands)	2007	2006
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 57,032	$ 51,131
Standby letters of credit	3,150	4,942

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.

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

Contractual Obligations

(Dollars in thousands)	Payments Due by Period				
	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	42,434	32,209	-	10,225	-
Operating Lease Obligations	245	27	54	54	110
Total	$ 59,175	$ 32,236	$ 54	$ 10,279	$ 16,606

Interest Sensitivity

At December 31, 2007, we had a negative cumulative gap rate sensitivity ratio of 32.86% for the one year re-pricing period, compared to 32.66% at December 31, 2006. 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. Net interest income would probably decrease in periods during which interest rates are increasing. We are closely

monitoring our position and make adjustments periodically to strategically position ourselves for the interest rate environment that will enhance earnings. 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, 2007
(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	$ 191,646	$ 83,527	$ 106,352	$ 166,315	$ 91,658	$ 42,762	$ 682,260
Federal funds sold	2,062	-	-	-	-	-	2,062
Investments	4,049	1,000	2,977	-	-	1,206	9,232
Bank owned life insurance	9,745	-,	-	-	-	-	9,745
Total earning assets	$ 207,502	$ 84,527	$ 109,329	$ 166,315	$ 91,658	$ 43,968	$ 703,299
Sources of funds:							
Interest Bearing DDA	$ 26,857	$ -	$ -	$ -	$ -	$ -	$ 26,857
Savings & MMDA	44,721	-	-	-	-	-	44,721
Time Deposits	154,159	248,672	71,647	27,297	-	-	501,775
Trust preferred securities	16,496	-	-	-	-	-	16,496
Other borrowings	32,209	-	-	10,225	-	-	42,434
Total interest bearing liabilities	$ 274,442	$ 248,672	$ 71,647	$ 37,522	$ -	$ -	$ 632,283
Discrete Gap	$ (66,940)	$ (164,145)	$ 37,682	$ 128,793	$ 91,658	$ 43,968	$ 71,016
Cumulative Gap	$ (66,940)	$ (231,085)	$ (193,403)	$ (64,610)	$ 27,048	$ 71,016	
Cumulative Gap as % of Total Earning Assets	(9.50%)	(32.86%)	(27.50%)	(9.19%)	3.85%		

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 table summarizes 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, 2007. At this date, our interest rate risk is within the established limitations.

Immediate Estimated Increase Basis Point Change In Interest Rates	% Increase (Decrease) in Net Interest Income	Established Limitation
+300	16.15%	(20.00)%
+200	11.17%	(15.00)%
+100	5.53%	(7.00)%
-100	(5.31)%	(7.00)%
-200	(10.42)%	(15.00)%
-300	(13.25)%	(20.00)%

The type of modeling used to generate the above table 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 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.

Item 8. Financial Statements and Supplementary Data

FINANCIAL STATEMENTS

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R EPORT 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. and Subsidiaries as of December 31, 2007 and 2006, 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, 2007. We also have audited New Peoples Bankshares, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2007, 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. and Subsidiaries' management is responsible for these consolidated financial statements, 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 Form 10-K. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the company's internal control over financial reporting 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. 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 audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 misstatement. 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New Peoples Bankshares, Inc. and Subsidiaries as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, New Peoples Bankshares, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/S/ BROWN, EDWARDS AND COMPANY, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

Bluefield, West Virginia
March 12, 2008

Management's Annual Report on Internal Control over Financial Reporting

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

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

Management assessed the effectiveness of New Peoples' internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control - Integrated Framework". Based on our assessment, we believe that, as of December 31, 2007, New Peoples' internal control over financial reporting was effective based on those criteria.

The effectiveness of internal control over financial reporting as of December 31, 2007, has been audited by Brown, Edwards & Company, L.L.P., the independent registered public accounting firm which also audited the Company's consolidated financial statements. Brown, Edwards & Company's attestation report of internal control over financial reporting is included elsewhere in this annual report.

March 12, 2008

/S/ KENNETH D. HART

Kenneth D. Hart

President and Chief Executive Officer

/S/ C. TODD ASBURY

C. Todd Asbury

Senior Vice-President and Chief Financial Officer

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2007 AND 2006

(IN THOUSANDS EXCEPT SHARE DATA)

ASSETS	2007	2006
Cash and due from banks (Note 3)	$ 20,195	$ 18,451
Federal funds sold (Note 3)	2,062	1,430
Total Cash and Cash Equivalents	22,257	19,881
Investment Securities		
Available-for-sale (Note 4)	4,974	3,493
Loans receivable (Note 5)	682,260	569,198
Allowance for loan losses (Note 6)	(6,620)	(4,870)
Net Loans	675,640	564,328
Bank premises and equipment, net (Note 7)	34,892	29,438
Equity securities (restricted) (Note 4)	4,258	2,152
Other real estate owned	2,051	1,181
Accrued interest receivable	4,969	4,140
Life insurance investments	9,745	9.377
Goodwill and other intangibles (Note 12)	4,829	-
Other assets	2,336	1,829
Total Assets	$ 765,951	$ 635,819
LIABILITIES		
Deposits		
Demand deposits		
Noninterest bearing	$ 83,680	$ 71,538
Interest-bearing	26,857	19,290
Savings deposits	44,721	42,894
Time deposits (Note 8)	501,775	438,465
Total Deposits	657,033	572,187
FHLB advances (Note 18)	42,434	-
Accrued interest payable	2,822	2,783
Accrued expenses and other liabilities	1,917	2,007
Trust preferred securities (Note 22)	16,496	16,496
Total Liabilities	720,702	593,473
STOCKHOLDERS' EQUITY (Notes 15 & 17)		
Common stock - $2.00 par value; 12,000,000 shares authorized;	19,919	15,314
9,959,477 and 9,954,178 shares issued and outstanding for 2007 and 2006, respectively		
Additional paid-in-capital	21,484	21,465
Retained earnings	3,839	5,565
Accumulated other comprehensive income (loss)	7	2

Total Stockholders' Equity		45,249		42,346
Total Liabilities and Stockholders' Equity	$	765,951	$	635,819

The accompanying notes are an integral part of this statement.

NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

	2007	2006	2005
INTEREST AND DIVIDEND INCOME			
Loans including fees	$ 50,884	$ 40,762	$ 30,006
Federal funds sold	129	191	256
Investments	254	172	161
Dividends on equity securities (restricted)	180	155	84
Total Interest and Dividend Income	51,447	41,280	30,507
INTEREST EXPENSE			
Deposits			
Demand	164	142	164
Savings	485	489	468
Time deposits below $100,000	14,851	11,295	6,917
Time deposits above $100,000	8,098	5,709	3,018
FHLB advances	857	754	43
Trust Preferred Securities	1,283	1,004	669
Total Interest Expense	25,738	19,393	11,279
NET INTEREST INCOME	25,709	21,887	19,228
PROVISION FOR LOAN LOSSES (Note 6)	3,840	1,277	1,130
Net Interest Income after			
Provision for Loan Losses	21,869	20,610	18,098
NONINTEREST INCOME			
Service charges	2,455	2,032	1,707
Fees, commissions and other income	994	414	341
Insurance and investment fees	769	606	381
Life insurance investment income	433	408	393
Total Noninterest Income	4,651	3,460	2,822
NONINTEREST EXPENSES			
Salaries and employee benefits (Note 14)	13,978	11,848	10,031
Occupancy expense	1,776	1,429	1,122
Equipment expense	2,254	1,971	1,723
Advertising and public relations	437	381	352
Stationery and supplies	316	293	245
Loss on sale of other real estate owned	-	30	38
Other operating expenses	4,913	3,853	3,199
Total Noninterest Expenses	23,674	19,805	16,710

INCOME BEFORE INCOME TAXES	2,846	4,265	4,210
INCOME TAX EXPENSE (Note 9)			
Current income tax expense	614	1,175	1,487
Change of accounting estimate	(638)	-	-
Total Income Tax Expense (benefit)	(24)	1,175	1,487
NET INCOME	$ 2,870	$ 3,090	$ 2,723
Earnings Per Share			
Basic	$ 0.29	$ 0.31	$ 0.28
Fully Diluted	$ 0.28	$ 0.30	$ 0.26
Average Weighted Shares of Common Stock			
Basic	9,957,949	9,931,713	9,885,877
Fully Diluted	10,371,577	10,384,100	10,281,640

The accompanying notes are an integral part of this statement.

NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(IN THOUSANDS INCLUDING SHARE DATA)

	Shares of Common Stock	Common Stock	Additional Paid in Capital	Retained Earnings	Accumu-lated Other Compre-hensive Income (Loss)	Total Stockholders' Equity	Compre-hensiv Income
Balance, December 31, 2004	6,910	$ 13,820	$ 13,118	$ 9,177	$ (17)	$ 36,098	
Net Income				2,723		2,723	2,723
Unrealized gain (net of deferred tax of $1) on available-for-sale securities					2	2	2
10% Stock Dividend, June 7, 2005	691	1,382	8,043	(9,425)		-	
Stock Options Exercised	18	37	104			141	
Balance, December 31, 2005	7,619	$ 15,239	$ 21,265	$ 2,475	$ (15)	$ 38,964	$ 2,725
Net Income				3,090		3,090	3,090
Unrealized gain (net of deferred tax of $8) on available-for-sale securities					17	17	17
Stock Options Exercised	38	75	200			275	
Balance, December 31, 2006	7,657	$ 15,314	$ 21,465	$ 5,565	$ 2	$ 42,346	$ 3,107
Net Income				2,870		2,870	2,870
13-for-10 stock split, September 12, 2007	2,298	$ 4,596		(4,596)			
Unrealized gain(net of deferred tax of $4) on available-for-sale securities					5	5	5
Stock Options Exercised	4	9	19			28	
Balance, December 31, 2007	9,959	$ 19,919	$ 21,484	$ 3,839	$ 7	$ 45,249	$ 2,875

The accompanying notes are an integral part of this statement.

NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(IN THOUSANDS)

CASH FLOWS FROM OPERATING ACTIVITIES	2007	2006	2005
Net Income	$ 2,870	$ 3,090	$ 2,723
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	2,598	2,300	1,922
Provision for Loan Losses	3,840	1,277	1,130
Income (less expenses) on Life Insurance	(368)	(346)	(337)
(Gain) loss on sale of fixed assets	-	-	27
Loss on sale of foreclosed real estate	-	30	38
Amortization (accretion) of bond premiums/discounts	(19)	(29)	(13)
Deferred tax expense (benefit)	(1,375)	(267)	(241)
Net change in:			
Interest receivable	(829)	(1,135)	(733)
Other Assets	867	(725)	(6)
Accrued interest payable	39	1,225	667
Accrued expense and other liabilities	(90)	630	586
Net Cash Provided by Operating Activities	7,533	6,050	5,763
CASH FLOWS FROM INVESTING ACTIVITIES			
Net increase in loans	(101,461)	(101,503)	(84,755)
Purchase of securities available for sale	(4,990)	(2,985)	(2,972)
Proceeds from sale and maturities of securities available-for-sale available-for-sale	3,533	5,700	2 ,600
Purchase of Federal Reserve Bank stock	(128)	(76)	-
(Purchase) sale of Federal Home Loan Bank stock	(1,978)	197	(832)
Acquisition of branches			
Loans acquired	(13,691)	-	-
Deposits assumed	60,380	-	-
Bank premises	(1,178)	-	-
Goodwill and other intangibles	(4,829)	-	-
Payments for the purchase of property	(6,874)	(9,692)	(4,592)
Net change in other real estate owned	(870)	185	(248)
	(72,086)	(108,174)	(90,800)
CASH FLOW FROM FINANCING ACTIVITIES			
Common stock options exercised	28	275	141
Trust preferred securities borrowing	-	5,155	-