NEW PEOPLES BANKSHARES INC
Form 10-K
March 16, 2011

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-K

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

For fiscal year ended December 31, 2010

Commission File Number 000-33411

New Peoples Bankshares, Inc.

(Exact name of registrant as specified in its charter)

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

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

67 Commerce Drive

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

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

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

None

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

Common Stock - $2 Par Value

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of the common stock held by non-affiliates, based on the last reported sales prices of $10.00 per share on the last business day of the second quarter of 2010 was $89,699,374.00.

The number of shares outstanding of the registrant s common stock was 10,010,178 as of March 16, 2011.

DOCUMENTS INCORPORATED BY REFERENCE:

The Proxy Statement for New Peoples   2011 Annual Meeting to Shareholders, is hereby incorporated into Items 10 through 14 of this Form 10-K.

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PART I

Item 1. Business
General

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

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

The Bank is headquartered in Honaker, Virginia and operates 27 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 enabled banking services. These services include loans that are priced on a deposit relationship basis, easy access to our decision makers, and quick and innovative action necessary to meet a customer s banking needs. Our capitalization and lending limit enable us to satisfy the credit needs of a large portion of the targeted market segment. When a customer needs a loan that exceeds our lending limit, we try to find other financial institutions to participate in the loan with us.

Our History

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

In June 2003, New Peoples formed two new wholly-owned subsidiaries, NPB Financial Services, Inc. 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.

Branch Locations

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.

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During 2001, we opened branches in Pounding Mill, Virginia and Princeton, West Virginia. In 2002, we opened branch offices in Gate City, Clintwood, Big Stone Gap, Tazewell and Davenport, Virginia. During 2003, we expanded into Grundy, Dungannon, and Bristol, Virginia. We expanded into Tennessee and opened an office in Bloomingdale, Tennessee in 2003, as well. In 2004, we opened offices in Richlands, Abingdon, and Bristol, Virginia. In 2005 full service branches were opened in Bluefield and Cleveland, Virginia. During 2006, we opened full service branches in Esserville, Pound, and Lee County, Virginia and Jonesborough, Tennessee. During 2007, we opened full service offices in Bland, and Chilhowie, Virginia; and Bramwell, West Virginia. We purchased two operating branches from another bank, including deposits and loans located in Norton and Pennington Gap, Virginia in June 2007. During 2008, we opened one full service office in Bluewell, West Virginia. During 2010, as part of an initiative by the Board and Management to reduce operating expenses, we closed our offices in Bramwell, West Virginia and Cleveland, Davenport, and Dungannon, Virginia.

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

Our Market Areas

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

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

Education is a priority in workplace preparedness and the Tri-State area places great emphasis on educating our regional workforce for today and jobs of the future. Starting in elementary school, students are exposed to technology resources, distance learning, robotics and math competitions, as well as STEM programs - Science, Technology, Engineering and Math. The Tri-State Area is home to numerous higher education institutions including East Tennessee State University, The University of Virginia s College at Wise, Bluefield State College, Appalachia School of Law, Appalachia School of Pharmacy, and various private colleges and community colleges.

Educational Highlights include:

- FastTrack software programming, IT help desk training, and advanced manufacturing technology training offered by Mountain Empire and Southwest Virginia community colleges.

- The University of Virginia s College at Wise, the only four-year branch of the University of Virginia, offers the state s only undergraduate software engineering degree, one of a handful of such programs nationally.

- IT, professional development and leadership training are offered at the Southwest Virginia Technology Development Center, also operated by The University of Virginia s College at Wise.

- Undergraduate and graduate degree programs are offered at the Southwest Virginia Higher Education Center in Abingdon.

Accessibility to Interstates I-77, I-81, I-26, I-64 and I-75 as well as major state and U.S. highways including US 19, US 23, US 58, US 460 and US 421 make the area an ideal location to serve markets in both the East and Mid-America. The area is strategically located midway between

Atlanta-Pittsburgh, Charlotte-Cincinnati, and Richmond-Louisville, and is within a day s drive of more than half of the U.S. population. A regional airport located in Bristol, Tennessee serves the area for commercial flights to and from major cities in the United States. General aviation airports accommodating small jet service include Lonesome Pine Regional Airport, Wise, VA; Lee County Airport, Jonesville, VA; Tazewell County Airport, Claypool Hill, VA; Virginia Highlands Airport, Abingdon, VA; and Mercer County Airport, Bluefield, WV. Rail service providers include CSX Transportation and Norfolk Southern Railways.

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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, 1-4 family residential mortgages and personal loans. Commercial loans include both secured and unsecured loans for working capital (including inventory and receivables), business expansion (including acquisition of real estate and improvements) and purchase of equipment and machinery. Consumer loans may include secured and unsecured loans for financing automobiles, home improvements, education, personal investments and other purposes.

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

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

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

	December 31,				
	2010	2009	2008	2007	2006
Commercial, financial and agricultural	15.39%	15.56%	15.26%	17.77%	18.34%
Real estate construction	7.91%	9.41%	8.96%	5.63%	6.63%
Real estate mortgage	68.74%	66.02%	67.04%	67.87%	65.18%
Installment loans to individuals	7.96%	9.01%	8.74%	8.73%	9.85%
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

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

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

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

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

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

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.

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

Competition

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

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

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

According to a market share report prepared by the Federal Deposit Insurance Corporation (the FDIC), as of June 30, 2010, 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 27.72%, Scott County, VA 36.77%, Dickenson County, VA 24.64%, Tazewell County, VA 9.26%, Smyth County, VA 2.84%, Lee County, VA 6.19%, Buchanan County, VA 11.45%, Wise County, VA 10.02%, city of Norton, VA 21.98%, Bland County, VA 27.86%, combined Washington County, VA and the City of Bristol, VA 5.36%, Mercer County, WV 9.92%, Sullivan County, TN 1.07%, and Washington County, TN 4.80%.

Employees

As of December 31, 2010, we had 362 total employees, of which 336 were full-time employees. None of our employees is covered by a collective bargaining agreement, and we consider relations with employees to be excellent.

Supervision and Regulation

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

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

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

- banking, managing or controlling banks;

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- furnishing services to or performing services for its subsidiaries; and

- engaging in other activities that the Federal Reserve has determined by regulation or order to be so closely related to banking as to be a proper incident to these activities.

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

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

- acquiring substantially all the assets of any bank;

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

- merging or consolidating with another bank holding company.

As a result, our ability to engage in certain strategic activities is conditioned on regulatory approval.

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

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

Payment of Dividends. New Peoples is a separate legal entity that derives the majority of its revenues from dividends paid to it by its subsidiaries. The Bank is subject to laws and regulations that limit the amount of dividends it can pay. In addition, both New Peoples and the Bank are subject to various regulatory restrictions relating to the payment of dividends, including requirements to maintain capital at or above regulatory minimums. Banking regulators have indicated that banking organizations should generally pay dividends only if the organization s net income available to common shareholders over the past year has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears consistent with the organization s capital needs, asset quality and overall financial condition. The FDIC has the general authority to limit the dividends paid by FDIC insured banks if the FDIC deems the payment to be an unsafe and unsound practice. The FDIC has indicated that paying dividends that deplete a bank s capital base to an inadequate level would be an unsound and unsafe banking practice. During the year ended December 31, 2009 the Bank declared and paid dividends to New Peoples totaling $500 thousand in order to service debt obligations. However, in October 2009, the Federal Reserve Bank of Richmond (Richmond FRB) restricted the Bank from paying dividends to the Company. It is therefore highly unlikely that the Company will pay any dividends at least until the Richmond FRB s restriction is removed.

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

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

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ratio of Tier 1 capital to adjusted average quarterly assets of between 3% and 5%, subject to federal bank regulatory evaluation of an organization s overall safety and soundness. The principal objective of the leverage ratio is to constrain the degree to which an institution may leverage its equity capital base. In sum, the capital measures used by the federal banking regulators are:

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

the Tier 1 Capital ratio; and

the leverage ratio.

Under these regulations, a bank will be:

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

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

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

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

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

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

The regulators may take various corrective actions with respect to a financial institution considered to be capital deficient. These powers include, but are not limited to, requiring the institution to be recapitalized, prohibiting asset growth, restricting interest rates paid or dividends, requiring prior approval of capital distributions by any bank holding company that controls the institution, requiring divestiture by the institution of its subsidiaries or by the holding company of the institution itself, requiring new election of directors, and requiring the dismissal of directors and officers. As discussed above, in October 2009 the Richmond FRB imposed a prohibition on the Bank paying dividends to preserve capital. Bank holding companies can be called upon to boost their subsidiary bank s capital and to partially guarantee the institution s performance under its capital restoration plan. If this occurs, capital which otherwise would be available for holding company purposes, including possible distributions to shareholders, would be required to be downstreamed to one or more subsidiary bank. In this respect, the Richmond FRB also notified New Peoples that we must defer dividends on our trust preferred issuances which we did as of October 2009. As of December 31, 2010, the Bank was well capitalized, with a Total Capital ratio of 10.91%; a Tier 1 Capital ratio of 9.63%; and a leverage ratio 6.89%.

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

In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as Basel III . Basel III, when implemented by the

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U.S. banking agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. Our Company s size and no on-balance sheet foreign exposure excludes us from the requirements of Basel III. However, we anticipate that the Dodd-Frank Act will impose higher capital standards at a future date in time.

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

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

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

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

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

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

Community Reinvestment Act. Under the Community Reinvestment Act, depository institutions have an affirmative obligation to assist in meeting the credit needs of their market areas, including low and moderate-income areas, consistent with safe and sound banking practice. The Community Reinvestment Act emphasizes the delivery of bank products and services through branch locations in its market areas and requires banks to keep data reflecting their efforts to assist in its community s credit needs. Depository institutions are periodically examined for compliance with the Community Reinvestment Act and are periodically assigned ratings in this regard. Banking regulators consider a depository institution s Community Reinvestment Act rating when reviewing applications to establish new branches, undertake new lines of business, and/or acquire part or all of another depository institution. An unsatisfactory rating can significantly delay or even prohibit regulatory approval of a proposed transaction by a bank holding company or its depository institution subsidiaries. A bank holding company will not be permitted to become a financial holding company and no new activities authorized under the GLBA (see below) may be commenced by a holding company or by a bank financial subsidiary if any of its bank subsidiaries received less than a satisfactory rating in its latest Community Reinvestment Act examination. The Bank received a rating of Satisfactory at its last Community Reinvestment Act performance evaluation, as of August 3, 2009.

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

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

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

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

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

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

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

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

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

Emergency Economic Stabilization Act of 2008. EESA was enacted in response to the financial crises affecting the banking system and financial markets. Pursuant to the EESA, the U.S. Treasury was given the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

Pursuant to EESA, the Department of the Treasury implemented the Troubled Asset Relief Program Capital Purchase Program (the TARP Capital Purchase Program) under which the Treasury agreed to make $250 billion of

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capital available to U.S. financial institutions in the form of preferred stock (from the $700 billion authorized by the EESA). Numerous requirements have been imposed on TARP participating financial institutions, particularly requirements related to executive compensation. We did not elect to apply to participate in TARP.

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

Federal Deposit Insurance Corporation. The Bank s deposits are insured by the Deposit insurance Fund, as administered by the FDIC, to the maximum amount permitted by law. In October 2008, deposits at FDIC-insured institutions temporarily became insured up to at least $250,000 per depositor. The Dodd-Frank Act passed in 2010 made this increase permanent. In addition, it provides for unlimited federal deposit insurance until December 31, 2012 for non-interest bearing transaction accounts at all insured depository institutions. Due to the increased number of bank failures resulting from the credit crisis and severe recession, FDIC premiums have materially increased and are likely to increase further. This is a significant expense for us and is likely to continue to be.

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.

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

The Dodd-Frank Act contains provisions designed to reform mortgage lending, which includes the requirement of additional disclosures for consumer mortgages. In addition, the Federal Reserve must issue new rules that will have the effect of limiting the fees charged to merchants by credit card companies for debit card transactions. The result of these rules will be to limit the amount of interchange fee income available to the Company. The Dodd-Frank Act also contains provisions that affect corporate governance and executive compensation.

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

Subsequent Events

On March 16, 2011 two of our directors, Harold Lynn Keene and B. Scott White, loaned the Company a total of $4.95 million (director loans). Subsequent to receiving regulatory approval the Company on March 16, 2011 used the proceeds of the director loans to retire the Company s existing indebtedness to the FDIC as receiver for Silverton Bank as discussed in Note 20 to the Company s consolidated financial statements included in this Annual Report on Form 10K. The director loans are unsecured and have a stated maturity of December 31, 2011 with interest payable at maturity or conversion at the variable rate equal to the Wall Street Journal prime rate which was 3.25% on March 16, 2011. The Company is obligated to convert the director loans into the Company s common stock ($2.00 par value) if, before their stated maturity, the Company conducts an offering of its common stock. If this occurs, the director loans would be converted at the same price per share at which common stock is offered. If the Company does not conduct an offering prior to the stated maturity of the director loans, the Company has the option, but not the obligation, to convert the director loans into shares of its common stock within 30 days of the stated maturity at a price per share to be established by the Company s Board of Directors. The Company believes the director loans are on more favorable terms to the Company than could be obtained from unrelated parties.

Item 1A. Risk Factors

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On July 29, 2010, we entered into a Written Agreement with the Reserve Bank and the Bureau. This is a form of regulatory enforcement. It imposes significant requirements and restrictions on us. Failure to comply could result in additional regulatory enforcement actions which would severely and adversely affect us.

We have entered into the Written Agreement with the Reserve Bank and the Bureau by which we have committed ourselves to taking specified actions within specified periods of time to improve our safety and soundness in light of our current diminished asset quality, earnings, and liquidity. The Written Agreement affects our management, operations, business and financial condition and requires us to take certain actions and achieve certain results which we may fail to do notwithstanding our best efforts. Taking these actions could materially and adversely affect shareholders as they are designed to protect depositors, not necessarily shareholders. In any event, compliance efforts will occupy significant management time and effort and distract from management s ability to carry out our regular business and impose additional costs. This could also have an adverse effect on us even if we achieve full compliance with the requirements of the Written Agreement. Failure to take actions or achieve the required results under the Written Agreement would likely lead to additional enforcement actions by the banking regulators which could materially and adversely affect us.

Difficult market conditions have adversely affected our industry and us.

Continued declines in the real estate market over the past year after the previous dramatic declines, with falling prices and increasing foreclosures, stubbornly high unemployment and under-employment, and the generally depressed economy have negatively impacted the credit performance of loans (particularly real estate related loans) and resulted in significant write-downs of asset values by financial institutions, including us. (We discuss our real estate exposure below.) These write-downs have caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced available funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting economic pressure on consumers and retailers and lack of confidence in the financial markets adversely affect our business and results of operations. Continuing market depression or stagnation may reduce yet further consumer confidence levels and may cause additional adverse changes in payment patterns, causing increases in delinquencies and default rates generally and among consumers and commercial businesses specifically, which may negatively impact our charge-offs and provision for credit losses even more. In sum, worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry.

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

A significant portion of our loan portfolio is dependent on real estate. In addition to the financial strength and cash flow characteristics of the borrower in each case, we often secure loans with real estate collateral. At December 31, 2010, approximately 76.65% of our loans has 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. As a result, the recession, particularly as it has affected the real estate market as discussed above, has impacted us very negatively. Further adverse changes in the economy affecting values of real estate generally or in our primary markets specifically could significantly impair the value of our collateral and result in further under-collateralization in our portfolio. In such a case, as discussed below, it would be likely that we would be required to increase our provision for loan losses beyond current provisions, which would negatively affect our results of operations and impact capital. Liquidation of collateral securing a loan to satisfy the debt during a period of reduced real estate values diminishes our ability to recover fully on defaulted loans by foreclosing and selling the real estate collateral and we would be more likely to suffer losses on defaulted loans. These circumstances could further adversely affect our return to profitability and financial condition.

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Additional provisions for our allowance for loan losses because of economic, regulatory or other circumstances may adversely affect our results of operations.

We maintain an allowance for loan losses that we believe is a reasonable estimate of known and inherent losses in our loan portfolio. Through a periodic review and analysis 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. As discussed above, the amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond our control, and these losses may exceed our current estimates even though we made substantial increases in our loan loss reserve in 2009 and 2010. In addition, because of the severity of recession and its ongoing effects on our loan portfolio, it is more difficult for us to adequately identify and measure risk associated with establishing the allowance for loan losses because, among other things, historical factors are not as reliable as guidelines. Thus, the identification and measurement of risk in our loan portfolio depends on our ability to establish appropriate processes and credit culture for the difficult environment we are in. We cannot assure that we can achieve this. Although we believe the allowance for loan losses is a reasonable estimate of known and inherent losses in our loan portfolio, for the reasons discussed here, we cannot fully predict such losses or that our loan loss allowance will be adequate in the future. Excessive loan losses have a material impact on our financial performance. In light of these factors we may have to make additions to our loan loss reserve levels, which may affect our short-term earnings.

Also, 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 also have a negative effect on our operating results.

In January 2011 we completed a stress test on our loan portfolio conducted by a third party. The stress test reflects the conclusion that over a two year period the Bank would remain well capitalized under bank regulatory classifications at September 30, 2012 in the medium potential loss scenario. This would not be the case (and the Bank would not be well capitalized) if credit losses exceed those projected for the medium case scenario.

We employed a third party to conduct an independent assessment of the level of risk within the Bank s credit portfolio, or a stress test. We received a draft of the stress test results in January 2011. The stress test forecasted potential credit losses for three scenarios over a two year period: Low, medium and high. In the case of both the low and medium scenarios the Bank can sustain the projected losses and remain well capitalized within the regulatory capital classifications for financial institutions, although in the medium scenario there would be shortfall if the Bank intended to maintain a cushion above the well capitalized level. In the high scenario the Bank would not be well capitalized and would have a significant shortfall to have a capital cushion above that level. Stress tests involve complicated analyses and economic and other projections and assumptions which can render conclusions which are materially different from actual results. There can be no assurance, therefore, that the results of the stress test accurately predict the actual credit losses that the Bank may incur or the effects of such losses on the Bank s capital.

Our prior growth may increase the risk of credit defaults in the future, which would adversely affect our financial condition and results of operation.

The historical growth in our loan portfolio, including past expansions into new markets and the participation in loans outside our markets, increase credit risk. Rapidly growing loan portfolios are, by their nature, less seasoned and may be more adversely affected by the economic recession. Also, estimating loan loss allowances in this type of portfolio is more difficult, and may be more susceptible to changes in estimates, and to losses exceeding estimates, than more seasoned portfolios. In addition, some of our loan participations are in markets more severely affected by the recession. Because of these factors and the slow economic recovery, the current level of delinquencies and defaults may not be representative of the level that will prevail, which may be significantly higher than current levels. As discussed below, a higher rate of delinquencies or defaults on loans than currently anticipated could cause us to increase our provision for loan losses and otherwise negatively affect our financial condition, results of operations and financial prospects.

Liquidity is important to financial institutions, and our financial condition as well as regulatory actions could adversely affect us in this respect.

The ability of a financial institution to make loans, return funds to our depositors as required and to meet our funding commitments depends to a large measure on a stable deposit base and access to other sources for borrowing such

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as advances from the Federal Home Loan Bank of Atlanta, overnight federal funds, repurchase agreements and other credit sources. The market factors discussed above, our performance in the difficult economic environment and the actions of regulatory authorities in response to these conditions, such as the Written Agreement, and including the current regulatory prohibition on the payment of dividends and incurrence of debt, have resulted and may result in further diminished access by us to these liquidity sources, in turn affecting our ability to fund our business.

Recent levels of market volatility were unprecedented and could return.

The capital and credit markets have recently experienced unusually high levels of volatility and disruption, although this appears recently to have stabilized somewhat. In 2008, the volatility and disruption reached unprecedented levels. The markets produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers underlying financial strength although it was particularly difficult for issuers lacking underlying financial strength. If these levels of market disruption and volatility return, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access additional capital, on dilution to our then existing shareholders if we require additional capital, and on 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 are a customer-focused and relationship-driven organization, and we expect to remain such. But, as we now rely less than before on character and collateral-based lending, we must infuse new credit related policies throughout the organization. This requires the leadership of our senior management team. In addition, the economic recession and associated enhanced regulatory oversight require a management team with dedication and experience to work through the issues we face as a result. We do not have employment agreements with our executives and this could increase the chance of losing some key employees. However, even if we did have such agreements this would not necessarily assure that we will be able to continue to retain the services of our key executives. The unexpected loss of any of our key employees could have a material adverse effect on our business and possibly result in reduced revenues and earnings and a reduced ability to deliver desired changes in our organization.

We depend on our ability to attract key personnel as we adjust to a changing banking environment and the way we do business.

The economic and regulatory factors we have pointed out and the resulting changes in our policies and culture also may necessitate the hiring of employees having additional expertise particularly in respect to identifying and addressing credit matters affected by the recession and our previous growth and policy changes. We may be unable to attract these persons under existing circumstances and this could impair our ability to satisfy regulatory requirements and restore our earnings to more traditional levels.

We have two trust preferred issues outstanding. We have suspended our payments on these securities to preserve capital and liquidity and comply with the Written Agreement.

In 2004, we issued $11.3 million in floating rate trust preferred securities offered by NPB Capital Trust 1, a wholly owned subsidiary. These securities have a floating rate of 3 month LIBOR plus 260 basis points which resets quarterly. The current rate at December 31, 2010 is 2.89%. In 2006 we issued an additional $5.2 million in floating rate trust preferred securities offered by NPB Capital Trust 2, a wholly owned subsidiary. Those securities have a floating rate of 3 month LIBOR plus 177 basis points which resets quarterly. The current rate at December 31, 2010 is 2.06%. These securities mature in 30 years and are redeemable in whole or part, at New Peoples option after 5 years. To preserve capital and liquidity at the Bank, in October 2009, the Reserve Bank cut off dividends by the Bank to the Company and the Company suspended payments on the trust preferred securities accordingly. The current Written Agreement contains similar dividend prohibitions. We are permitted to defer principal and interest payments on the trust preferred securities for up to 5 years without causing a default. We believe we will be able to resume principal and interest payments within this window. But if we cannot, we would probably not be able to repay the amounts owed on these securities upon acceleration of their maturity.

The soundness of other financial institutions could adversely affect us.

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

Changes in interest rates could have an adverse effect on our income, particularly if we have a period of sustained higher interest rates.

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 may not be able to raise additional capital on terms favorable to us or at all.

Changes in capital requirements arising from enhanced capital ratios imposed by regulatory authorities either upon the banking industry generally or upon us specifically due to asset quality or other factors may require us to raise additional capital. As well, we may need additional capital to support our business or to repay our obligations such as the Trust Preferred securities referred to above. We may not be able to raise additional funds through the issuance of more common stock or other securities. Even if we are able to obtain additional capital, the sale of more common stock or other securities will probably dilute our shareholders.

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

We, like all financial institutions, have an important stake in our good reputation among customers, investors and other constituencies. Damage to our reputation can occur under many circumstances. Some of these we can control and some, like litigation or regulatory actions, we cannot fully control. Should any such circumstances arise our business could be adversely affected to the extent our reputation is negatively impacted. In this respect in 2007 our former CEO and a Senior Vice President, without authority, engaged a third party to act as a middleman to buy stock from some of the shareholders who had expressed an interest in selling and to sell that stock to a purchaser who had expressed an interest in buying our stock. Some of the stock was purchased by the middleman at a price less than that paid by the buyer. Subsequently, both employees were terminated and we reimbursed the selling shareholders who did not receive the highest price paid by the buyer for the difference. Our former CEO and the Senior Vice President have pled guilty to conspiring to commit insider trading and money laundering. After concluding our investigation, we acted to protect our shareholders and our reputation in the community, but events like these can adversely affect our standing and ultimately our business.

Regulatory oversight limits our ability to grow our business and requires us to focus on protection of depositors even if it disadvantages our shareholders.

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. As a financial institution our ability to establish new banks or branches or make acquisitions is conditioned on receiving required regulatory approvals from the applicable regulators. However, we are subject to even tighter regulatory scrutiny by virtue of the Written Agreement. While the Written Agreement is in force we are not likely to be approved for any expansion and we are not likely to seek such approval given our focus on asset quality and credit related issues. In addition, regulatory examination standards - particularly in respect to loans - and capital requirements have been enhanced as a result of the severe economic downturn. This regulatory oversight is intended to protect depositors and not necessarily shareholders. Failure to comply with laws, regulations, policies or standards 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.

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The Bank s ability to pay dividends and make other payments to the Company is subject to regulatory restrictions. The Company also is restricted from taking on new debt. These restrictions impact the Company s ability to service obligations and meet operating expenses.

The Company is a separate legal entity from the Bank and our other subsidiaries and the Company does not have significant operations of its own. The Company depends on the Bank s cash and liquidity as well as dividends paid by it to pay its operating expenses and other obligations. The Written Agreement imposed restrictions which prevent the Bank from paying dividends or otherwise making payments to the Company which would reduce the Bank s capital. This adversely impacts the Company because these dividends and payments were a major source of the Company s income. Consequently, the inability to receive dividends and payments from the Bank adversely affects our financial condition and cash flows. Similarly, the Written Agreement prevents the Company from taking on new debt without prior regulatory approval. While the bank regulators did approve two new loans in December, 2010 by two of our directors to enable the Company to meet current obligations there is no assurance that such regulatory approvals will be obtainable in the future should they be needed.

The financial services industry is subject to extensive regulation, which is undergoing major changes.

The financial services industry is subject to extensive regulation, which is undergoing major changes. As a financial services firm, we are subject to financial services laws, regulations, corporate governance requirements, administrative actions and policies in each location in which we operate. Banking regulators have broad and largely discretionary powers, which include prohibiting unsafe or unsound practices; requiring affirmative actions to correct any violation or practice; issuing administrative orders that can be judicially enforced; directing increases in capital; directing the sale of subsidiaries or other assets; limiting dividends and distributions; restricting growth; assessing civil monetary penalties; removing officers and directors; and terminating deposit insurance. These actions and other regulatory requirements could have a material adverse effect on us. In 2009, as many emergency government programs slowed or wound down, global regulatory and legislative focus generally moved to a second phase of broader reform and a restructuring of financial institution regulation. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law by President Obama on July 21, 2010. The Dodd-Frank Act enacts a major overhaul of the current financial institution regulatory system. Compliance with the changes in applicable regulation as a result of the Dodd-Frank Act could materially impact the profitability of our business, the value of assets we hold or the collateral available for our loans, require changes to business practices or force us to discontinue businesses and expose us to additional costs, taxes, liabilities, enforcement actions and reputational risk. Such changes could also result in us becoming subject to stricter capital requirements and leverage limits, and could also affect the scope, coverage, or calculation of capital, all of which could require us to reduce business levels or to raise capital, including in ways that may adversely impact our creditors.

The financial services industry s profitability may be adversely affected by a market downturn and by monetary and other policies adopted by various governments and international bodies.

The profitability of the financial services industry may be adversely affected by a worsening of general economic conditions in domestic and international markets and by monetary, fiscal, regulatory or other policies that are adopted by various governmental authorities and international bodies, including the Federal Reserve, FDIC, the OCC, the OTS and state banking commissions. Monetary policies have had, and will continue to have, significant effects on the operations and results of financial services institutions. There can be no assurance that the net interest income of a particular financial services institution will not be materially and adversely affected in a changing interest rate environment. Factors such as the liquidity of the global financial markets, the level and volatility of prices of financial instruments, investor sentiment and the availability and cost of credit may significantly affect the activity levels of customers with respect to size, number and timing of transactions. A market downturn would likely lead to a decline in the volume of transactions that financial institutions execute for their customers and thus lead to a decline in revenues from fees, commissions and spreads.

Because of stresses on the FDIC s Deposit Insurance Fund, the FDIC has recently imposed, and could impose in the future, additional assessments on the banking industry.

The current financial crisis has caused the FDIC s Deposit Insurance Fund, or DIF, to fall below required minimums. Because the FDIC replenishes the DIF through assessments on the banking industry, we anticipate that the FDIC will likely maintain relatively high deposit insurance premiums for the foreseeable future. The FDIC has recently imposed a special deposit insurance assessment on the banking industry, and there can be no assurance that it will not do so again. It also required banking organizations to pre-pay deposit insurance premiums in order to replenish the liquid assets of the DIF, and may impose similar requirements in the future. High insurance premiums and special assessments will adversely affect our profitability.

The Emergency Economic Stabilization Act of 2008 and American Recovery and Reinvestment Act of 2009 may not stabilize the United States financial system.

The capital and credit markets have been experiencing volatility and disruption for more than two years, and in some cases the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers underlying financial strength.

In response to financial conditions affecting the banking system and financial markets and the potential threats to the solvency of investment banks and other financial institutions, the United States government has taken unprecedented actions. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 was enacted. The primary purpose of the law was to provide relief to the United States economy by giving the United States government the authority to develop programs to increase the supply of credit to the United States economy and to generally stabilize economic conditions. A number of programs were developed under the law, including the Troubled Asset Relief Program and the related Capital Purchase Program. In order to continue stabilizing the economy and in an effort to encourage economic growth, President Obama signed into law the American Recovery and Reinvestment Act of 2009 on February 17, 2009. This act has several provisions designed to stimulate the economy, and also contains provisions modifying or expanding upon the Emergency Economic Stabilization Act of 2008.

The Troubled Asset Relief Program and the related Capital Purchase Program are winding down and many financial institutions that participated in the Capital Purchase Program have repaid their borrowed Capital Purchase Program funds to the Treasury but many particularly community banks- have not. So-called TARP banks entering the market in the near future to obtain capital to repay the Capital Purchase Program fund may increase the cost of available capital to us should we also need to obtain capital at the same time even though we did not participate in the TARP program. We also do not know what actual impact the laws and this wind-down will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced. The failure of the laws to help stabilize or stimulate the financial markets and a continuation or worsening of current financial market conditions could materially adversely affect our business, financial condition, results of operations and prospects.

In addition, the Obama Administration issued a white paper, Financial Regulatory Reform A New Foundation: Rebuilding Financial Supervision and Regulation, that provides recommendations for overhauling the nation s financial regulatory system in the wake of the global financial crisis. The plan urged Congress and regulators to adopt sweeping changes to financial sector regulation and oversight, dramatically increasing the federal government s role in nearly every aspect of the financial markets. The Dodd-Frank Act, which was signed into law by President Obama on July 21, 2010, enacts a major overhaul of the current financial institution regulatory system. There can be no assurance that the Dodd-Frank Act or any other future legislative or regulatory initiatives will be successful at improving economic conditions globally, nationally or in our markets, or that the measures adopted will not have adverse consequences, including resulting in additional restrictions, oversight or costs that may have an adverse effect on our business, financial condition, results of operations and prospects.

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

Our banking operations are located primarily in the Virginia counties of Buchanan, Dickenson, Lee, Russell, Scott, Smyth, Tazewell, Washington, and Wise, the West Virginia county of Mercer and the Tennessee counties of Sullivan and Washington. Because our lending is concentrated in this market, we will be affected by the general economic conditions in the area. Changes in the local economy may influence the growth rate of our loans and deposits, the quality of the loan portfolio and loan and deposit pricing. We believe we have made changes to enhance our ability to reduce the effects of economic downturns in our market on future lending but there can be no assurance of this. Significant further decline in general economic conditions in our market caused by inflation, recession, unemployment or other factors beyond our control would have an additional impact on the demand for banking products and services generally, which could negatively affect our financial condition and performance and are beyond our control. 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 affects these two industries, the above-described negative effects could be exacerbated.

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Through loan participations we acquired, we also have lending exposure in the Coastal Carolina market which has been particularly impacted by the real estate recession. Although we do not intend to take on further business in this market additional market declines could adversely affect us further.

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. Many competitors offer the types of loans and banking services that we offer. These competitors include savings associations, national banks, regional banks and other community banks. Increased competition within this region may result in reduced loan originations and deposits irrespective of the recovery in the economy. Ultimately, we may not be able to compete successfully against current and future competitors. 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. These competitors include 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 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 resume the Bank s loan and deposit growth when circumstances permit and our business, financial condition and prospects may be negatively affected even if we are successful in addressing our credit related and regulatory issues.

Also, many competitors are not subject to the regulatory restrictions we currently face and may be in a stronger competitive position as a result.

Based on historical factors we believe we are well positioned to compete in our markets and return to historical levels of earnings once we weather the current recession but there can be no assurance of this.

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

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

Item 1B. Unresolved Staff Comments

As of March 16, 2011 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, 2010, the Company s net investment in premises and equipment in service was $34.1 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.

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The Bank owns all of its 27 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 owns a location in Dungannon, Virginia that half of the location was used for a branch location until its closure during 2010. The other half of the location is currently being leased. The Bank owns additional property in Princeton, West Virginia that is being developed for a future full service branch location. The Princeton location is anticipated to operate as a full service branch in the distant future.

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

Item 3. Legal Proceedings

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

Item 4. Reserved

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 and typically small volumes of stock is traded.

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

	2010		2009	
	High	Low	High	Low
1st quarter	$ 10.00	$ 6.67	$ 12.00	$ 9.00
2nd quarter	10.00	6.00	12.00	10.00
3rd quarter	10.00	6.00	12.00	6.56
4th quarter	8.00	4.00	10.00	4.66

The most recent sales price of which management is aware was $8.00 per share on February 3, 2011.

(b) Holders

On March 16, 2011, there were approximately 4,416 shareholders of record.

(c) Dividends

In order to preserve capital to support our growth in the past we have not paid cash dividends. The declaration of dividends in the future will depend on our earnings and capital requirements and compliance with regulatory mandates. We are subject to certain restrictions imposed by the reserve and capital requirements of federal and Virginia banking statutes and regulations. Moreover, the Written Agreement we have with the banking regulators prohibits the Company from paying any cash dividends and the Bank s ability to pay dividends to the Company. So long as these restrictions remain in place the Company will not pay any cash dividends. Thereafter, the Company may or may not pay cash dividends depending on various factors including capital needs, earnings, and other factors our Board of Directors deems relevant. As a result, we do not anticipate paying a dividend on our common stock in 2011. See Note 3, Note 15 and Note 22 of the Notes to the Consolidated Financial Statements for further discussion of dividend limitations and capital requirements.

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(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 31 of each year since December 31, 2005.

New Peoples Bankshares, Inc.

	Period Ending					
Index	**12/31/05**	**12/31/06**	**12/31/07**	**12/31/08**	**12/31/09**	**12/31/10**
New Peoples Bankshares, Inc.	100.00	93.33	104.00	108.33	86.67	34.67
S&P 500	100.00	115.79	122.16	76.96	97.33	111.99
NASDAQ Composite	100.00	110.39	122.15	73.32	106.57	125.91
SNL Bank and Thrift Index	100.00	116.85	89.10	51.24	50.55	56.44

Source: SNL Financial LC, Charlottesville, VA

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Item 6. Selected Financial Data

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

	At and For the Year Ended December 31,				
(Amounts in thousands, except per share data)	2010	2009	2008	2007	2006
Balance Sheet					
Total Assets	$ 857,280	$ 857,910	$ 807,898	$ 765,951	$ 635,819
Gross loans	711,804	763,570	721,174	682,260	569,198
Allowance for loan losses	(22,027)	(18,588)	(6,904)	(6,620)	(4,870)
OREO	12,785	5,643	2,496	2,051	1,181
Deposits	766,080	760,714	705,688	657,033	572,187
Total Borrowings	45,829	46,779	47,991	58,930	16,496
Shareholders equity	42,616	46,619	50,323	45,249	42,346
Summary of Operations					
Interest Income	48,169	50,378	52,317	51,447	41,280
Interest Expense	13,898	18,563	23,095	25,738	19,393
Net interest income	34,271	31,815	29,222	25,709	21,887
Provision for possible loan losses	15,631	12,841	1,500	3,840	1,277
Non-interest income	5,934	5,449	6,162	4,651	3,460
Non-interest expense	30,972	29,847	27,231	23,674	19,805
Income (Loss) Before Income Taxes	(6,398)	(5,424)	6,653	2,846	4,265
Income Tax Expense (Benefit)	(2,426)	(1,738)	1,916	(24)	1,175
Net income (Loss)	$ (3,972)	$ (3,686)	$ 4,737	$ 2,870	$ 3,090
Per Share Data (1)					
Book Value	$ 4.26	$ 4.66	$ 5.03	$ 4.54	$ 4.25
Tangible Book Value	3.82	4.21	4.56	4.06	4.25
Net Income (Loss), Basic	(0.40)	(0.37)	0.47	0.29	0.31
Net Income (Loss), Diluted	(0.40)	(0.37)	0.46	0.28	0.30
Cash Dividends	$	$	$	$	$
Basic Shares Outstanding	10,009,468	10,008,943	9,980,348	9,957,949	9,931,713
Diluted Shares Outstanding	10,009,468	10,008,943	10,234,909	10,371,577	10,384,100
Profitability Ratios					
Return (Loss) on Average Assets	(0.46%)	(0.44%)	0.61%	0.42%	0.54%
Return (Loss) on Average Equity	(8.59%)	(7.37%)	9.98%	6.60%	7.61%
Net Interest Margin (2)	4.37%	4.14%	4.13%	4.11%	4.11%
Efficiency Ratio	76.71%	80.10%	76.55%	77.98%	78.14%
Liquidity Ratios					
Total Loans to Deposits	92.92%	100.38%	102.19%	103.84%	99.48%
Noninterest Bearing Deposits to Total Deposits	11.46%	11.61%	13.53%	12.74%	12.50%
Nonbrokered Deposits to Total Deposits	97.41%	96.68%	98.96%	100.00%	100.00%
Capital Adequacy Ratios					
Total Equity to Total Assets	4.97%	5.43%	6.23%	5.91%	6.66%
Leverage Ratio	5.82%	6.14%	7.72%	7.22%	8.94%
Tier 1 Capital	8.14%	8.12%	9.50%	8.73%	10.84%
Total Risk-Based Capital	10.01%	9.83%	10.78%	10.29%	12.20%

Asset Quality Ratios					
Net Charge-Offs to Average Loans	1.64%	0.15%	0.17%	0.34%	0.07%
Nonperforming Loans to Total Loans	5.89%	3.74%	0.89%	0.47%	0.21%
Nonperforming Assets to Total Assets	6.38%	3.99%	1.11%	0.69%	0.38%
Allowance for Loan Losses to Gross Loans	3.09%	2.43%	0.96%	0.97%	0.86%
Allowance for Loan Losses to Nonperforming Loans	52.56%	65.02%	107.09%	206.04%	400.82%
Other Data					
Number of Branch Offices	27	31	31	30	25
Number of Employees	362	367	377	371	328

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

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

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

We make forward looking statements in this annual report that are subject to risks and uncertainties. These forward looking statements include statements regarding our profitability, liquidity, allowance for loan losses, interest rate sensitivity, market risk, growth strategy, and financial and other goals. The words believes, expects, may, will, should, projects, contemplates, anticipates, forecasts, intends, or other si terms are intended to identify forward looking statements. The forward-looking information is based on various factors and was derived using numerous assumptions. Important factors that may cause actual results to differ from projections include:

- the success or failure of our efforts to implement our business plan;
- achieving and maintaining compliance with the Written Agreement between us and the banking regulators;
- any required increase in our regulatory capital ratios;
- satisfying other regulatory requirements that may arise from examinations, changes in the law and other similar factors;
- any required increase to our loan loss reserve;
- the difficult market conditions in our industry;
- the unprecedented levels of market volatility;
- the effects of soundness of other financial institutions;
- the uncertain outcome of recently enacted legislation to stabilize the U.S. financial system;
- the potential impact on us of recently enacted legislation;
- the lack of a market for our common stock;
- the ability to successfully manage our growth or implement our growth strategies if we are unable to identify attractive markets, locations or opportunities to expand in the future;
- success in increasing capital to support our financial condition resulting from the recession;
- 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;
- our ability to attract additional talent we may need;
- changes in general economic and business conditions in our market area;
- risks inherent in making loans such as repayment risks and fluctuating collateral values;
- competition with other banks and financial institutions, and companies outside of the banking industry, including those companies that have substantially greater access to capital and other resources;
- demand, development and acceptance of new products and services;
- problems with technology utilized by us;
- changing trends in customer profiles and behavior;
- changes in governmental regulations, tax rates and similar matters; and
- other risks which may be described in our future filings with the SEC.

Because of these uncertainties, our actual future results may be materially different from the results indicated by these forward looking statements. In addition, our past results of operations do not necessarily indicate our future results. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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.

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General

The following commentary discusses major components of our business and presents an overview of our consolidated financial position at December 31, 2010 and 2009 as well as results of operations for the years ended December 31, 2010, 2009 and 2008. This discussion should be reviewed in conjunction with the consolidated financial statements and accompanying notes and other statistical information presented elsewhere in this Form 10-K.

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

Written Agreement

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

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

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

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

Written Agreement Progress Report

We are aggressively working to comply with the Agreement and have timely submitted each required plan by its respective deadline. We have hired an independent consultant to assist us in these efforts and the following actions have taken place:

1. With regard to corporate governance, we have established a weekly Director s Loan Committee to oversee all loan approvals and all loan renewals, extensions and approvals. This has enabled the Board to increase its oversight of the Bank s largest credit exposures and problem credits, and enhanced the monitoring and compliance with all loan policies and procedures. Secondly, we have enhanced our reporting of credit quality to the board.

2. The requirement to assess the Board and management has been completed by an independent party. A

report has been issued to the Board and recommendations are being followed. In September 2010, our President and CEO was added as a member of the Board and in November 2010, Eugene Hearl was added as a member of the Board. Mr. Hearl has over 40 years banking experience as President and CEO for two community banks and Regional President of a large regional financial institution. In addition, further training of the Board has been implemented and will be ongoing. A succession plan is also in development.

3. In the month of September 2010, a newly revised strategic plan and a capital plan were completed and submitted to our regulators. The 2011 Budget was submitted to our regulators in the fourth quarter of 2010.

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

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

6. To strengthen management of credit quality and loan production, we added a new Chief Credit Officer, Stephen Trescot, in the first quarter of 2011 who brings vast credit administration experience to our management team. Sharon Borich, our former Chief Credit Officer, assumed the role of Senior Lending Officer with oversight of loan production and business development which is her area of expertise. In addition to new lending policies and procedures, the management of all real estate development projects and draws has been centralized. The credit analysis function has been restructured. Originally a part of credit administration, it is now a part of the newly created commercial loan division. The credit analysis function lead by a seasoned lead analyst and staffed with three junior analysts, reviews new and renewed loan relationships of $250 thousand or more prior to approval and annually reviews relationships of $500 thousand or more.

7. We have retained an independent third party to perform loan reviews on a quarterly basis to complement our internal review process and have engaged them to perform this function in 2011. The third party loan review company has also conducted two loan portfolio stress tests for the Bank to obtain a better understanding of potential loan losses over a two year period.

8. To support the focus on problem credit management we hired a new Vice President to manage the Special Assets division which reports to the Chief Credit Officer. This division is organizationally structured to manage workout situations, collections, other real estate owned, nonperforming assets, watch list credits, and the Bank s legal department. New reporting and monitoring is conducted monthly by this division to the Board of any significant changes to problem assets and, quarterly, the Board receives written action plans and status updates of the Bank s twenty largest problem credits. A monthly management watch list committee has been established to actively manage and monitor these credits.

9. A new allowance for loan loss model was implemented and reviewed independently during 2010. The Board has approved a new allowance for loan loss policy. In the third quarter of 2010, we further increased the allowance for loan losses by $4.2 million specifically related to increased environmental impacts related to internal processing factors and external economic factors that have dramatically affected the loan portfolio due to the lengthened recession and very slow recovery.

10. We have significantly increased our asset based liquidity sources throughout 2010 to meet financial obligations. A new liquidity risk management policy has been adopted and a revised contingency funding plan has been created. We have lost all of our federal funds lines of credit, but we have added an internet certificate of deposit funding source to increase contingent funding sources. We believe

that we have adequate liquidity in normal and stressed situations.

11. In the fourth quarter of 2009, we ceased the declaration of dividends from the Bank to the Company. We also deferred interest payments on our trust preferred securities issuances.

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

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Overview

Total assets were $857.3 million, total loans were $711.8 million, and total deposits were $766.1 million at December 31, 2010. The Company had a total net loss after tax of $4.0 million or $0.40 per basic share and per diluted share for the year ended December 31, 2010 as compared to net loss of $3.7 million, or $0.37 per basic and per diluted share for the year ended December 31, 2009. The annualized return on average assets for the fiscal year 2010 was (0.46)% as compared to (0.44)% for the same period in 2009. The annualized return on average equity was (8.59)% for the fiscal year 2010 and (7.37)% for the same period in 2009.

The net loss for the year ending 2010 is directly related to two increased expense categories, provision for loan losses and other real estate owned related expenses. The provision for loan losses increased $2.8 million, or 21.73%, to $15.6 million in 2010 as compared to $12.8 million in 2009. We did this in light of the current economic circumstances, including the anemic recovery and continuing increases in non-performing loans. At December 31, 2010, our allowance for loan loss totaled $22.0 million, or 3.09% of total loans, as compared with $18.6 million, and 2.43% of total loans, in 2009. Net charge-offs year-to-date for 2010 as a percentage of total average loans were 1.64% as compared to 0.15% in 2009. In addition to the increase in net charge offs in 2010, we experienced an increase in impaired loans to $91.5 million with an estimated allowance of $9.5 million for potential losses at December 31, 2010 as compared to $30.1 million in impaired loans with an estimated allowance of $8.8 million at the end of 2009. These factors underlay the increase in the allowance for loan loss leading to the net loss for 2010. Given the current high level of unemployment, slow economic recovery and level of non-performing loans, we believe the increased allowance to be appropriate and adequate. The second contributing factor to the net loss for 2010 is related to a $740 thousand increase in other real estate owned property expenses which totaled $1.7 million in 2010 as compared to $1.0 million in 2009. In 2010, due to decreased real estate market values, we wrote down other real estate owned properties $987 thousand.

The Bank remains well capitalized as defined by regulatory agencies. The following ratios existed at December 31, 2010: Tier 1 leverage ratio of 6.89%; Tier 1 risk based capital ratio of 9.63%; and Total risk based capital ratio of 10.91%. We anticipate continued capital growth through retained earnings and slower asset growth in the near future.

The ratio of nonperforming assets to total assets is 6.31% at December 31, 2010 in comparison to 3.99% at December 31, 2009. Nonperforming assets, which include nonaccrual loans, other real estate owned and past due loans greater than 90 days still accruing interest, were $54.1 million at December 31, 2010 and $34.2 million at December 31, 2009. The majority of these assets are real estate development projects both inside and outside of our market area. Ones outside our market area are primarily in the coastal Carolinas. In addition, there are also some similar projects located in Northeastern Tennessee. We are undertaking aggressive efforts to work out these credits. However, this will take some time.

New Peoples Bankshares, Inc. and its subsidiary New Peoples Bank, Inc. has 27 branch locations throughout Southwest Virginia, southern West Virginia, and northeastern Tennessee providing traditional banking, investment and insurance services to its customers.

Critical Accounting Policies

Certain critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements. Our most critical accounting policy relates to our provision for loan losses, which reflects the estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our borrowers were to further deteriorate, resulting in an impairment of their ability to make payments, our estimates would be updated, and additional provisions could be required. For further discussion of the estimates used in determining the allowance for loan losses, we refer you to the section on Provision for Loan Losses in this discussion. For further discussion of our other critical accounting policies, see Note 2, Summary of Significant Accounting Policies, to our Consolidated Financial Statements, found in Item 8 to this annual report on Form 10-K.

Net Interest Income and Net Interest Margin

The Company s primary source of income, net interest income, increased $2.5 million, or 7.72% from 2009 to 2010. The increase in net interest income is due primarily to a reduction in the cost of funds. Interest expense decreased $4.7 million, or 25.13%, from $18.6 million for the year ending 2009 to $13.9 million in 2010 as a result of deposits re-pricing at lower interest rates at maturity, and a shift in the deposit mix whereby our higher cost time deposits were replaced with lower cost deposit products. The net interest margin for the year ending December 31, 2010 was 4.37% as compared to 4.14% for the same period in 2009. The net interest margin continued to trend upward during the last half of 2010.

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Net interest income for the year ended 2009 increased to $31.8 million from $29.2 million in 2008. This was an increase of $2.6 million, or 8.87%. The majority of the growth was related to the increased loan volume and a reduction in the cost of funds during the fiscal 2009. Loan income decreased to $50.2 million for 2009 from $51.9 million for 2008, which was an decrease of $1.7 million, or 3.32%. Total interest expense was $18.6 million for 2009 as compared to $23.1 million for 2008. This $4.5 million, or 19.62% decrease, was a result of historic low interest rates.

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, 2010			For the Year Ended December 31, 2009			For the Year Ended December 31, 2008		
	Average Balance	Income/ Expense	Yields/ Rates	Average Balance	Income/ Expense	Yields/ Rates	Average Balance	Income/ Expense	Yields/ Rates
ASSETS									
Loans (1), (2), (3)	$ 742,026	$ 47,916	6.46%	$ 747,971	$ 50,188	6.71%	$ 697,733	$ 51,911	7.44%
Federal funds sold	25,763	44	0.17%	10,648	26	0.24%	1,881	32	1.70%
Interest bearing deposits	8,349	12	0.14%	124		%	40	3	7.50%
Other investments (3)	7,590	197	2.61%	7,134	164	2.30%	8,525	371	4.35%
Total Earning Assets	783,728	48,169	6.15%	765,877	50,378	6.57%	708,179	52,317	7.39%
Less: Allowance for loans losses	(18,607)			(10,245)			(6,756)		
Non-earning assets	97,997			87,531			78,683		
Total Assets	$ 863,118			$ 843,163			$ 780,106		
LIABILITIES AND STOCKHOLDERS EQUITY									
Deposits									
Demand Interest bearing	$ 56,791	$ 250	0.44%	$ 39,384	$ 233	0.59%	$ 32,192	$ 240	0.75%
Savings	92,622	779	0.84%	84,215	994	1.18%	58,784	682	1.16%
Time deposits	523,990	11,112	2.12%	522,439	15,491	2.97%	489,788	19,817	4.05%
Other Borrowings	29,721	1,303	4.39%	30,937	1,312	4.24%	37,511	1,351	3.60%
Trust Preferred Securities	16,496	454	2.75%	16,496	533	3.23%	16,496	1,005	6.09%
Total interest bearing liabilities	719,620	13,898	1.93%	693,471	18,563	2.68%	634,771	23,095	3.64%
Non-interest bearing deposits	92,943			95,372			92,677		
Other liabilities	4,307			4,278			5,186		
Total Liabilities	816,870			793,121			732,634		
Stockholders Equity	46,248			50,042			47,472		
Total Liabilities and Stockholders Equity	$ 863,118			$ 843,163			$ 780,106		
Net Interest Income		$ 34,271			$ 31,815			$ 29,222	

Net Interest Margin	4.37%	4.14%	4.13%
Net Interest Spread	4.22%	3.89%	3.75%

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

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

Volume and Rate Analysis

(Dollars in thousands)

	2010 Compared to 2009 Increase (Decrease)			2009 Compared to 2008 Increase (Decrease)		
	Volume Effect	Rate Effect	Change in Interest Income/ Expense	Volume Effect	Rate Effect	Change in Interest Income/ Expense
Interest Income:						
Loans	$ (399)	$ (1,873)	$ (2,272)	$ 3,738	$ (5,461)	$ (1,723)
Federal funds sold	37	(19)	18	149	(155)	(6)
Interest bearing deposits		12	12	6	(9)	(3)
Other investments	10	23	33	(61)	(146)	(207)
Total Earning Assets	(352)	(1,857)	(2,209)	3,832	(5,771)	(1,939)
Interest Bearing Liabilities:						
Demand	103	(86)	17	54	(61)	(7)
Savings	99	(314)	(215)	295	17	312
All other time deposits	46	(4,425)	(4,379)	1,321	(5,647)	(4,326)
Other borrowings	(52)	43	(9)	(237)	198	(39)
Trust Preferred Securities		(79)	(79)		(472)	(472)
Total Interest Bearing Liabilities	196	(4,861)	(4,665)	1,433	(5,965)	(4,532)
Change in Net Interest Income	$ (548)	$ 3,004	$ 2,456	$ 2,399	$ 194	$ 2,593

Loans

Our primary source of income comes from interest earned on loans receivable. Loan production slowed in 2010 as evidenced by total loans decreasing $51.8 million, or 6.78%, including charge offs of $12.5 million. This is the result of slower loan demand, intentional shrinking of the loan portfolio to increase regulatory capital ratios, and resolution of problem loans. We continue to serve our customers, and although the total loan portfolio has shrunk, we have renewed existing credits and made new loans as well to qualified borrowers. We have also shifted our focus to increasing liquidity as evidenced by our $45.1 million increase in liquid assets during 2010. We plan to decrease the loan portfolio in the near future as we reduce our exposure to certain risks and decrease nonperforming loans. Total loans increased $42.4 million for 2009. A schedule of loans by type is set forth immediately below. Approximately 76.65% of the loan portfolio is secured by real estate at the end of 2010.

Loans receivable outstanding are summarized as follows:

Loan Portfolio

	December 31,				
(Dollars in thousands)	2010	2009	2008	2007	2006
Commercial, financial and agricultural	$ 109,551	$ 118,844	$ 110,060	$ 121,198	$ 104,372
Real estate construction	56,317	71,854	64,595	38,420	37,716
Real estate mortgage	489,314	504,071	483,471	463,079	371,021
Installment loans to individuals	56,622	68,801	63,048	59,563	56,089

Total	$ 711,804	$ 763,570	$ 721,174	$ 682,260	$ 569,198

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Our loan maturities as of December 31, 2010 are shown in the following table:

Maturities of Loans

(Dollars in thousands)	Less than One Year	One to Five Years	After Five Years	Total
Commercial, financial and agricultural	$ 43,269	$ 52,272	$ 14,010	$ 109,551
Real estate construction	23,085	25,205	8,027	56,317
Real estate mortgage	101,884	277,060	110,370	489,314
Installment loans to individuals	14,599	37,722	4,301	56,622
Total	$ 182,837	$ 392,259	$ 136,708	$ 711,804
Loans with fixed rates	$ 63,024	$ 132,230	$ 131,904	$ 327,158
Loans with variable rates	119,813	260,029	4,804	384,646
Total	$ 182,837	$ 392,259	$ 136,708	$ 711,804

This above table reflects the earlier of the maturity or re-pricing dates for loans at December 31, 2010. 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 $22.0 million at December 31, 2010 as compared to $18.6 million at December 31, 2009. The allowance for loan losses at the end of 2010 was approximately 3.09% of total loans as compared to 2.43% at the end of 2009. Net loans charged off for 2010 were $12.2 million, or 1.64% of average loans, and $1.3 million, or 0.16% of average loans, in 2009. The provision for loan losses was $15.6 million for 2010 as compared with $12.8 million for 2009 and $1.5 million in 2008.

Certain risks exist in the Bank s loan portfolio. Historically, we have experienced significant annual loan growth until the past couple of years. However, there might be loans too new to have exhibited signs of weakness. Also, recent expansions into new markets, although greatly reduced, increase potential credit risk. A majority of our loans are collateralized by real estate located in our market area. It is our policy to sufficiently collateralize loans to help minimize loss exposures in case of default. The recent negative trends in the national real estate market and economy pose threats to our portfolio. With the exception of real estate development type properties which have experienced more deterioration in market values, the local residential and commercial real estate market values have shown some deterioration but remain relatively stable. National real estate markets have experienced a more significant downturn and this has impacted our portfolio for certain out-of-market loans in the Coastal Carolina and northeastern Tennessee markets. Prior to 2008, we had purchased participation construction loans in the Coastal Carolina area. The totals of these credits were $8.9 million at December 31, 2010, and $12.7 million at December 31, 2009. At December 31, 2010 $492 thousand of the allowance for loan losses was allocated to these credits. The $3.8 million decrease in these credits was the result of a $1.1 million charge off on a commercial subdivision property that was later acquired at $2.3 million as other real estate owned. This market area poses higher risk to potential future writedowns if the real estate market conditions do not show improvements. It is uncertain as to when or if local real estate values will be more significantly impacted. We do not believe that there will be a severely negative effect in our market area, but because of the uncertainty we deem it prudent to assign more of the allowance to these types of loans. Our market area is somewhat diverse, but certain areas are more reliant upon agriculture and coal mining. As a result, increased risk of loan impairments is possible if these industries experience a significant downturn although we do not believe this to be likely at least in the near future. We consider these factors to be the primary higher risk characteristics of the loan portfolio.

An evaluation of individual loans is performed by the loan review function. Loans are initially risk rated by the originating loan officer. If deteriorations in the financial condition of the borrower and the capacity to repay the debt occur, along with other factors, the loan may be downgraded. This is typically determined by either the loan officer or loan reviewers. Guidance for the evaluation is established by the regulatory authorities who periodically review the Bank s loan portfolio for compliance. Classifications used by the Bank are exceptional, very good, standard, acceptable, transitory risk, other assets especially mentioned, substandard, doubtful and loss.

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All loans classified as other assets especially mentioned, substandard, doubtful and loss are individually reviewed for impairment. If collateral appraisals are outdated, we obtain updated appraisals. An evaluation is made to determine if the collateral is sufficient for each of these credits. If an exposure exists, a specific allowance is directly made for the amount of the potential loss in addition to estimated liquidation and disposal costs. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Impaired loans increased to $91.5 million with a valuation allowance of $9.5 million at December 31, 2010 as compared to $30.1 million with a valuation allowance of $8.8 million at December 31, 2009. Of the $91.5 million recorded as impaired loans, $41.3 million were nonperforming loans, which includes nonaccrual loans and past due 90 days or more. Impaired loans increased $61.4 million, or 203.98%, from $30.1 million recorded as impaired loans at December 31, 2009. We determined we had $38.5 million in loans that required a valuation allowance of $9.5 million at December 31, 2010. At December 31, 2009 we had $26.1 million in loans that required a valuation allowance of $8.8 million. The $12.4 million increase in loans requiring a valuation allowance was the result of $10.5 million increase in commercial loans, $8.1 million increase in real estate loans, and a decrease of $6.2 million in real estate construction loans that required a valuation allowance. Management is aggressively working to reduce the impaired credits at minimal loss.

Loans delinquent greater than 90 days still accruing interest and loans in non-accrual status present higher risks. At December 31, 2010, there were 97 loans in non-accrual status totaling $39.6 million, or 5.56% of total loans. At December 31, 2009, there were 80 loans in non-accrual status totaling $24.7 million, or 3.24% of total loans. The amounts of interest that would have been recognized on these loans were $1.1 million and $507 thousand in the years 2010 and 2009, respectively. There were 66 loans past due 90 days or greater and still accruing interest totaling $1.7 million, or 0.24% of total loans at December 31, 2010. There were 46 loans past due 90 days or greater and still accruing interest totaling $3.9 million in 2009. 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. There were $13.9 million in loans classified as troubled debt restructurings as of December 31, 2010. No loans are classified as troubled debt restructurings as of December 31, 2009. 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,		
	2010	2009	2008	2007	2006
Non-accruing loans					
Commercial, financial and agricultural	$ 5,919	$ 1,027	$ 100	$ 1,250	$ 246
Real estate construction	13,329	13,727	2,875	351	
Real estate mortgage	19,548				