NEW PEOPLES BANKSHARES INC
Form 10-Q
August 09, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2007

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

For the transition period from ____________ to _____________

Commission file number: 000-33411

NEW PEOPLES BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

Virginia	**31-1804543**
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
67 Commerce Drive	
Honaker, Virginia	**24260**
(Address of principal executive offices)	(Zip Code)

(276) 873-7000

(Registrant s telephone number, including area code)

n/a

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

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

Yes X No

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

Large accelerated filer ____ Accelerated filer __X__ Non accelerated filer ____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

7,660,210 shares of common stock, par value $2.00 per share, outstanding as of August 3, 2007.

NEW PEOPLES BANKSHARES, INC.

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Part I Financial Information

Item 1 Financial Statements

NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

(UNAUDITED)

	2007	2006
INTEREST AND DIVIDEND INCOME		
Loans including fees	$ 23,902	$ 18,767
Federal funds sold	76	45
Investments	196	159
Total Interest and Dividend Income	24,174	18,971
INTEREST EXPENSE		
Deposits		
Demand	72	71
Savings	228	246
Time deposits	10,726	7,103
Interest on FHLB Advances	469	371
Interest on Trust Preferred Securities	638	441
Total Interest Expense	12,133	8,232
NET INTEREST INCOME	12,041	10,739
PROVISION FOR LOAN LOSSES	740	705
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	11,301	10,034
NONINTEREST INCOME		
Service charges	1,167	962
Fees, commissions and other income	667	477
Life insurance investment income	214	200
Total Noninterest Income	2,048	1,639
NONINTEREST EXPENSES		
Salaries and employee benefits	6,552	5,578
Occupancy expense	1,699	1,377
Other real estate	-	31
Other operating expenses	2,712	2,384
Total Noninterest Expenses	10,963	9,370
INCOME BEFORE INCOME TAXES	2,386	2,303
INCOME TAX EXPENSE	683	667
NET INCOME	$ 1,703	$ 1,636

Earnings Per Share

Basic	$ 0.22	$ 0.21
Fully Diluted	$ 0.22	$ 0.21
Average Weighted Shares of Common Stock		
Basic	7,658,982	7,636,068
Fully Diluted	7,847,005	7,847,913

The accompanying notes are an integral part of this statement.

NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED JUNE 30, 2007 AND 2006

(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

(UNAUDITED)

INTEREST AND DIVIDEND INCOME		**2007**		**2006**
Loans including fees	$	12,352	$	9,852
Federal funds sold		7		19
Investments		111		94
Total Interest and Dividend Income		12,470		9,965
INTEREST EXPENSE				
Deposits				
Demand		36		35
Savings		116		122
Time deposits		5,282		3,794
Interest on FHLB Advances		457		236
Interest on Trust Preferred Securities		319		219
Total Interest Expense		6,210		4,406
NET INTEREST INCOME		6,260		5,559
PROVISION FOR LOAN LOSSES		440		393
NET INTEREST INCOME AFTER		5,820		5,166
PROVISION FOR LOAN LOSSES				
NONINTEREST INCOME				
Service charges		604		510
Fees, commissions and other income		335		254
Life insurance investment income		108		101
Total Noninterest Income		1,047		865
NONINTEREST EXPENSES				
Salaries and employee benefits		3,297		2,897
Occupancy expense		862		710
Other real estate		-		28
Other operating expenses		1,443		1,216
Total Noninterest Expenses		5,602		4,851
INCOME BEFORE INCOME TAXES		1,265		1,180
INCOME TAX EXPENSE		364		360
NET INCOME	$	901	$	820
Earnings Per Share				
Basic	$	0.12	$	0.11
Fully Diluted	$	0.12	$	0.10
Average Weighted Shares of Common Stock				
Basic		7,659,638		7,648,597

Fully Diluted	7,776,527	7,857,647

The accompanying notes are an integral part of this statement.

NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS EXCEPT PER SHARE AND SHARE DATA)

ASSETS	June 30, 2007 (Unaudited)	December 31, 2006 (Audited)
Cash and due from banks	$ 25,057	$ 18,451
Federal funds sold	20,435	1,430
Total Cash and Cash Equivalents	45,492	19,881
Investment securities		
Available-for-sale	3,986	3,493
Loans receivable	635,362	569,198
Allowance for loan losses	(5,364)	(4,870)
Net Loans	629,998	564,328
Bank premises and equipment, net	32,678	29,438
Equity securities (restricted)	4,585	2,152
Other real estate owned	1,661	1,181
Accrued interest receivable	5,140	4,140
Life insurance investments	9,559	9,377
Goodwill and other intangibles	4,801	-
Other assets	2,574	1,829
Total Assets	$ 740,474	$ 635,819
LIABILITIES		
Deposits:		
Demand deposits:		
Noninterest bearing	$ 80,018	$ 71,538
Interest-bearing	21,627	19,290
Savings deposits	50,306	42,894
Time deposits	483,749	438,465
Total Deposits	635,700	572,187
Federal Home Loan Bank advances	38,960	-
Accrued interest payable	2,552	2,783
Accrued expenses and other liabilities	2,700	2,007
Trust preferred securities	16,496	16,496
Total Liabilities	696,408	593,473
STOCKHOLDERS EQUITY		
Common stock - $2.00 par value; 12,000,000 shares authorized;		
7,660,110 and 7,657,060 shares issued and outstanding		
at June 30, 2007 and December 31, 2006, respectively	15,320	15,314

Additional paid-in-capital	21,481	21,465
Retained earnings	7,268	5,565
Accumulated other comprehensive income	(3)	2
Total Stockholders Equity	44,066	42,346
Total Liabilities and Stockholders Equity	$ 740,474	$ 635,819

The accompanying notes are an integral part of this statement.

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NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

(IN THOUSANDS INCLUDING SHARE DATA)

(UNAUDITED)

	Shares of Common Stock	Common Stock	Additional Paid in Capital	Retained Earnings	Accum-ulated Other Compre-hensive Income (Loss)
Balance, December 31, 2005	7,619	$15,239	$ 21,265	$ 2,475	$ (15)
Net Income				1,637	
Unrealized gain on available-for-sale securities, net of tax of $1					3
Stock Options Exercised	35	70	183		
Balance, June 30, 2006	7,631	$15,309	$ 21,448	$ 4,112	$ (12)
Balance, December 31, 2006	7,657	$15,314	$ 21,465	$ 5,565	$ 2
Net Income				1,703	
Unrealized loss on available-for-sale securities, net of tax of $2					(5)
Stock Options Exercised	3	6	16		
Balance, June 30, 2007	7,660	$15,320	$ 21,481	$ 7,268	$ (3)

The accompanying notes are an integral part of this statement.

NEW PEOPLES BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

(IN THOUSANDS)

(UNAUDITED)

		2007			2006	
CASH FLOWS FROM OPERATING ACTIVITIES						
Net income	$	1,703		$	1,637	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation		1,444			1,109	
Provision for loan losses		740			705	
Income on life insurance, net		(182)			(169)	
Loss on sale of foreclosed real estate		-			31	
Amortization (Accretion) of bond premiums		(11)			(18)	
Net change in:						
Interest receivable		(1,000)			(615)	
Other assets		(745)			(727)	
Accrued expenses and other liabilities		462			758	
Net Cash Provided by (Used in) Operating Activities		2,411			2,711	
CASH FLOWS FROM INVESTING ACTIVITIES						
Net increase in loans			(52,719)			(55,863)
Proceeds from sale and maturities of securities available-for-sale		1,000			5,700	
Purchase of securities available for sale		(1,487)			(2,978)	
Purchase of Federal Reserve Bank stock		-			(76)	
Purchase of Federal Home Loan Bank stock		(2,433)			(452)	
Acquisition of branches						
Loans acquired		(13,691)			-	
Deposits assumed		60,380			-	
Bank premises		(1,178)			-	
Goodwill and other intangibles		(4,801)			-	
Payments for the purchase of property			(3,506)			(3,626)
Net change in other real estate owned		(480)			208	
Net Cash Provided by (Used in) Investing Activities		(18,915)			(57,087)	
CASH FLOWS FROM FINANCING ACTIVITIES						
Common stock options exercised			22			253
Proceeds from Federal Home Loan Bank advances			38,960			4,620
Net change in:						
Demand and savings deposits			5,849			3,594
Time deposits		(2,716)			45,029	
Net Cash Provided by (Used in) Financing Activities		42,115			53,496	
Net increase (decrease) in cash and cash equivalents		25,611			(880)	
Cash and Cash Equivalents, Beginning of Period		19,881			18,650	
Cash and Cash Equivalents, End of Period	$	45,492		$	17,770	

Supplemental Disclosure of Cash Paid During the Period for:		
Interest	$ 11,902	$ 8,592
Tax payments	$ 758	$ 840

The accompanying notes are an integral part of this statement.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 NATURE OF OPERATIONS:
New Peoples Bankshares, Inc. (the Company) is a financial holding company whose principal activity is the ownership and management of a community bank. New Peoples Bank, Inc. (the Bank) was organized and incorporated under the laws of the Commonwealth of Virginia on December 9, 1997. The Bank commenced operations on October 28, 1998, after receiving regulatory approval. As a state chartered bank, the Bank is subject to regulation by the Virginia Bureau of Financial Institutions and the Federal Deposit Insurance Corporation. In addition, as a member of the Federal Reserve System, the Bank is also subject to regulation by the Board of Governors of the Federal Reserve System. The Bank provides general banking services to individuals, small and medium size businesses and the professional community of southwestern Virginia, southern West Virginia, and eastern Tennessee. On June 9, 2003, the Company formed two wholly owned subsidiaries, NPB Financial Services, Inc. and NPB Web Services, Inc. On July 7, 2004 the Company established NPB Capital Trust I for the purpose of issuing trust preferred securities. On September 27, 2006, the Company established NPB Capital Trust 2 for the purpose of issuing trust preferred securities.

NOTE 2 ACCOUNTING PRINCIPLES:
The financial statements conform to U. S. generally accepted accounting principles and to general industry practices. In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position at June 30, 2007, and the results of operations for the six month and three month periods ended June 30, 2007 and 2006. The notes included herein should be read in conjunction with the notes to financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006. The results of operations for the six month and three month periods ended June 30, 2007 and 2006 are not necessarily indicative of the results to be expected for the full year.

Business Combinations

For purchase acquisitions accounted for as a business combination, the Company is required to record the assets acquired, including identified intangible assets and liabilities assumed at their fair value, which in many instances involves estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques. The determination of the useful lives of intangible assets is subjective, as is the appropriate amortization method for such intangible assets. In addition, purchase acquisitions may result in goodwill, which is subject to ongoing periodic impairment testing based on the fair value of net assets acquired compared to the carrying value of goodwill. Changes in acquisition multiples, the overall interest rate environment, or the continuing operations of the assets acquired could have a significant impact on the periodic impairment testing. For additional discussion concerning our valuation of intangible assets, see Note 9, Intangible Assets.

NOTE 3 INVESTMENT SECURITIES:
The amortized cost and estimated fair value of securities at the dates indicated are as follows:

(Dollars are in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2007				
Available for Sale				
U.S. Government Agencies	$ 3,991	$ -	$ 5	$ 3,986
Total Securities AFS	$ 3,991	$ -	$ 5	$ 3,986
December 31, 2006				
Available for Sale				
U.S. Government Agencies	$ 3,490	$ 3	$ -	$ 3,493
Total Securities AFS	$ 3,490	$ 3	$ -	$ 3,493

At June 30, 2007 and December 31, 2006, all securities were classified as available for sale.

The Bank, as a member of the Federal Reserve Bank and the Federal Home Loan Bank, is required to hold stock in each. These equity securities are restricted from trading and are recorded at a cost of $4.6 million and $2.2 million at June 30, 2007 and December 31, 2006, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 INVESTMENT SECURITIES (Continued):
The amortized cost and fair value of investment securities at June 30, 2007, by contractual maturity, are shown in the following schedule. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars are in thousands) Securities Available for Sale		Amortized Cost		Fair Value	Weighted Average Yield
Due in one year or less	$	2,991	$	2,989	5.29%
Due after one year through five years		1,000		997	4.99%
Total	$	3,991	$	3,986	5.20%

Investment securities with a carrying value of $3.7 million and $3.2 million at June 30, 2007 and December 31, 2006, respectively, were pledged to secure public deposits and for other purposes required by law.

NOTE 4 LOANS:
Loans receivable outstanding are summarized as follows:

(Dollars are in thousands)		June 30, 2007		December 31, 2006
Commercial, financial and agricultural	$	122,849	$	104,372
Real estate - construction		40,355		37,716
Real estate - mortgages		409,974		371,021
Installment loans to individuals		62,184		56,089
Total Loans	$	635,362	$	569,198

The following is a summary of information at June 30, 2007 and December 31, 2006 pertaining to nonperforming assets:

(Dollars are in thousands)		June 30, 2007		December 31, 2006
Principal:				
Nonaccrual loans	$	852	$	1,206
Other real estate owned		1,661		1,181
Loans past due 90 days or more still accruing interest		190		9
Total nonperforming assets	$	2,703	$	2,396

NOTE 5 ALLOWANCE FOR LOAN LOSSES:
A summary of transactions in the allowance for loan losses is as follows:

		For the Six Months Ended		
(Dollars are in thousands)		June 30, 2007		June 30, 2006
Balance, Beginning of Period	$	4,870	$	3,943
Provision for loan losses		740		1,277

Recoveries of loans charged off	44	73
Loans charged off	(290)	(423)
Balance, End of Period	$ 5,364	$ 4,870
Percentage of Loans	0.84%	0.86%

NOTE 6 EARNINGS PER SHARE:

Basic earnings per share computations are based on the weighted average number of shares outstanding during each year. Dilutive earnings per share reflects the additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued relate to outstanding options and are determined by the treasury method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 COMMON STOCK:
During the second quarter of 2007, 850 stock options were exercised resulting in a $5 thousand increase to capital. A total of 3,050 options to purchase shares of common stock have been exercised in the first six months of 2007 resulting in a $22 thousand increase to capital. No additional stock options have been granted.

NOTE 8 RECENT ACCOUNTING DEVELOPMENTS:
In February 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 159 The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 . SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the effect that adoption of this statement will have on the Company s consolidated financial position and results of operations when it becomes effective in 2008.

NOTE 9 SIGNIFICANTACQUISITION:
On June 29, 2007, the Bank finalized the purchase of assets and assumption of liabilities of two branches of FNB Southeast. The acquisition of the branches was accounted for as a business combination and, as the purchase price exceeded the value of the net identified tangible and intangible assets acquired, resulted in $4.0 million of goodwill being recorded as an intangible asset on the accompanying balance sheet. The acquisition provides, in addition to other factors, a strategic opportunity to acquire the opportunity to expand into these markets without the delay normally experienced in building a branch and future growth.

The acquisition transaction resulted in an estimated fair value of $13.7 million in loans acquired and $60.4 million in deposits assumed. The resulting goodwill was $4.0 million. The estimated core deposit premium is $810 thousand and shall be amortized over 6.84 years.

The Company is continuing to evaluate the initial purchase price allocations for the branch acquisitions completed during the quarter ended June 30, 2007 that were accounted for as business combinations and will adjust the allocations as additional information relative to the fair market values of the assets and liabilities of the businesses become known or other information related to the fair value of purchased intangibles is received.

The transaction included the acquisition of two branches. Unaudited pro forma information of prior periods is not presented as it would not differ materially from the historic operations.

NOTE 10 INTANGIBLE ASSETS:
On June 29, 2007, the Bank completed the acquisition of two branches in which certain intangible assets were identified related to the value of core deposits. The estimated fair value of the core deposits was determined based on the present value of future cash flow related to those deposits considering the industry standard financial instrument type present value methodology. All-in costs and runoff balances by year are discounted by term specific Federal Home Loan Bank advance rates, used as a measure of the best available approximate alternative costs of funds. The estimated economic advantage embedded in the acquired deposits as compared to alternative values is the core deposit intangible.

	As of June 30, 2007 (In thousands) (Unaudited) Gross Carrying Amount	Accumulated Amortization
Finite-lived intangible assets		
Core deposit intangibles	$ 810	$ -
	$ 810	$ -
Indefinite-lived intangible assets		
Goodwill	$ 3,991	-
Aggregate amortization expense		
For the three months ended June 30, 2007	$ -	-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 INTANGIBLE ASSETS (Continued):

Amortization expense related to these contract intangibles is based upon the average economic life of the core deposits. The estimates of expense for the periods are as indicated below using the straight line method of amortization.

Estimated amortization expense		
For remainder of year ended December 31, 2007	$	59
For year ended December 31, 2008		118
For year ended December 31, 2009		118
For year ended December 31, 2010		118
For year ended December 31, 2011		118
For year ended December 31, 2012		118
For year ended December 31, 2013		118
For year ended December 31, 2014		43
Total	$	810

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

Caution About Forward Looking Statements

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

These forward looking statements are subject to significant uncertainties because they are based upon or are affected by factors including the following: the ability to successfully manage our growth or implement our growth strategies if we are unable to identify attractive markets, locations or opportunities to expand in the future; maintaining capital and liquidity levels adequate to support our growth; maintaining cost controls and asset quality as we open or acquire new branches; reliance on our management team, including our ability to attract and retain key personnel; the successful management of interest rate risk; changes in general economic and business conditions in our market area; changes in interest rates and interest rate policies; risks inherent in making loans such as repayment risks and fluctuating collateral values; competition with other banks and financial institutions, and companies outside of the banking industry, including those companies that have substantially greater access to capital and other resources; demand, development and acceptance of new products and services; problems with technology utilized by us; changing trends in customer profiles and behavior; and changes in banking and other laws and regulations applicable to us.

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

Overview

During the second quarter of 2007, the Company, which is the parent company of the Bank, grew to $740.5 million in total assets. On June 29, 2007, two branches were acquired from FNB Southeast resulting in a $60.4 million increase in deposits and $13.7 million growth in loans. Total deposits have grown to $635.7 million, an increase of $63.5 million in total deposits since December 31, 2006. Total loans have increased to $635.4 million, or $66.2 million, since year end.

A new branch location was opened in June 2007 in Chilhowie, Virginia. The Bank has 29 branch locations throughout Southwest Virginia, southern West Virginia, and northeastern Tennessee as of the end of the second quarter. Additional locations are under construction and are expected to open in the second half of 2007 in Bland, Virginia and Bluewell, West Virginia subject to regulatory approval.

Net income for the second quarter was $901 thousand as compared to $820 thousand for the same period in 2006. Net income for the first six months of 2007 was $1.7 million as compared to $1.6 million in 2006.

Critical Accounting Policies

Certain critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements. The most critical accounting policy relates to our provision for loan losses, which reflects the estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our borrowers were to deteriorate, resulting in an impairment of their ability to make payments, our estimates would be updated, and additional provisions could be required. For further discussion of the estimates used in determining the allowance for loan losses, we refer you to the section on Provision for Loan Losses below.

Balance Sheet Changes

At June 30, 2007, total assets were $740.5 million, an increase of $104.7 million, or 16.46%, over December 31, 2006. This growth is the result of branch openings and the two branches acquired.

Loan growth continues to be strong. Total loans were $635.4 million at June 30, 2007, an increase of $66.2 million, or 11.62%, from $569.2 million at December 31, 2006. Loans increased $13.7 million as a result of the branch acquisition.

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Deposits have grown during the first six months of 2007. Total deposits were $635.7 million at June 30, 2007, an increase of $63.5 million, or 11.10%, from $572.2 million at December 31, 2006. The largest area of deposit growth was in time deposits, which increased $45.3 million, or 10.33%. This is attributed to the two branches acquired at the end of the second quarter 2007. We have allowed some higher priced deposits to runoff in anticipation of the branches being acquired; thus, reducing our cost of funds. We anticipate deposit growth to continue.

Borrowings from the Federal Home Loan Bank increased $39.0 million, or 100.00%, from no borrowings at year-end 2006. These advances on our line of credit have been made to temporarily fund loan growth. We anticipate these borrowings to remain around the same levels over the remainder of the year.

Goodwill and Other Intangible Assets

At the end of the second quarter 2007, as a result of the branches acquired, the Bank recorded an asset of goodwill totaling $4.0 million and a core deposit intangible of $810 thousand. The core deposit intangible will be amortized over its estimated economic life of 6.84 years.

Net Interest Income, Net Interest Margin, and Interest Sensitivity

The net interest income for the second quarter 2007 was $6.3 million, an increase of $701 thousand, or 12.61% from the same period in 2006. For the first six months of 2007, the net interest income was $12.0 million, an increase of $1.3 million, or 12.12% for the same period in 2006. The primary reason for the growth in net interest income is due to the increased loan interest income resulting from an increased loan portfolio. Interest expense increased also due to premium rates paid on deposits at new branches, increased volume in deposits, increased borrowings with the Federal Home Loan Bank, additional trust preferred securities, and competition. The increase in interest expense has been mitigated, however, by the replacement of premium rate deposits with those acquired in the acquisition. This should result in a lower cost of funds.

The net interest margin has slightly improved as the year has progressed in 2007. The net interest margin for the first six months increased to 3.99% from 3.93% in the first quarter of 2007. Competition for deposits continues to be strong and consequently increases interest expense. The net interest margin should continue to slightly improve as the loan growth continues and we closely manage funding costs.

At June 30, 2007, we had a negative cumulative gap rate sensitivity ratio of 34.73% for the one year re-pricing period compared to a negative cumulative gap of 32.66% at December 31, 2006. This generally indicates that earnings would improve in a declining interest rate environment as liabilities re-price more quickly than assets. Conversely, earnings would probably decrease in periods during which interest rates are increasing. Interest rates continued to increase more quickly on our liabilities than our earning assets; consequently, the cost of funds increased at a faster pace than the yields on earning assets. Management deems this acceptable.

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.

It is our policy to stop accruing interest on a loan, and classify that loan as non-accrual under the following circumstances: (a) whenever we are advised by the borrower that scheduled principal payments 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 loan or obligation becomes delinquent for 90 days unless it is both well secured and in the process of collection. Non-accrual loans did not have a significant impact on interest income in any of the periods presented. No loans are classified as troubled debt restructurings as defined by the Financial Accounting Standards Board s (FASB) Statement of Financial Accounting Standards (SFAS) No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings. There are also no loans identified as potential problem loans. We do not have any commitments to lend additional funds to non-performing debtors.

A majority of our loans are collateralized by real estate located in our market area. Market values have been and remain stable. It is our policy to sufficiently collateralize loans to minimize loss exposures in case of default. The market area is somewhat diverse, but certain areas are more reliant upon agriculture and coal mining. As a result, increased risk of loan impairments is possible if these industries experience a significant downturn. However, we do not foresee this happening in the near future.

All internal and external factors are considered in determining the adequacy of the allowance for loan losses. We believe that the methodology used to calculate the allowance provides sufficiently for potential losses present at the end of the period. The evaluation of individual loans is performed by the internal loan review department. Loans are initially risk rated by the originating loan officer. If deteriorations in the financial condition of the borrower and the capacity to repay the debt occur, along with other factors, the loan may be downgraded. This is typically determined by either the loan officer or loan review personnel. Guidance for the evaluation is established by the regulatory authorities who periodically review the Bank s loan portfolio for compliance.

Due to the risk factors previously mentioned, all loans are individually reviewed for impairment. An evaluation is made to determine if the collateral is sufficient for each of these credits. If an exposure exists, a specific allowance is made for the amount of the potential loss. Such specific allowances totaled $48 thousand at June 30, 2007 as compared to $82 thousand at December 31, 2006. In addition, for classified credits that are adequately secured by collateral, a general allocation is also made to allow for any inherent risks. As we continue to evaluate the loan portfolio and the risk factors present, we will continue to designate pools as deemed appropriate. We calculate an allowance for the remaining loan portfolio based upon an estimated loan loss percentage. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. As economic conditions and performance of our loans change, it is possible that future increases may need to be made to the allowance for loan losses.

Noninterest Income

Noninterest income increased to $1.0 million in the second quarter of 2007 from $865 thousand in 2006. The $182 thousand, or 21.01%, increase is primarily related to service charges from deposit accounts driven by increased volume and commissions generated through investment and insurance sales by our financial services division.

Noninterest income for the first six months of 2007 was $2.0 million as compared to $1.6 million for the same period in 2006 largely due to the increased volume of demand deposit accounts and a price increase on overdraft fees.

Noninterest Expense

The major contributing factors to the increase in noninterest expenses relate to additional staffing and expenses associated with the new branches opened and the general growth in operations. We expect noninterest expense to continue to increase, on a year-over-year basis, for the remainder of 2007 as we realize a full-year s effect of staffing for the new branches opened and acquired during 2006 and 2007. Noninterest expense in the future will depend on our growth and the number of new branch locations.

Our efficiency ratio, which is defined as noninterest expense divided by the sum of net interest income plus noninterest income, was 76.67% for the second quarter of 2007 as compared to 75.51% for the same period in 2006, remaining almost the same.

Capital

Total capital at the end of the second quarter of 2007 was $44.1 million as compared to $42.3 million at the end of December 31, 2006. The $1.7 million increase is primarily the result of retained earnings for the first six months of 2007 and stock options exercised.

No cash dividends have been paid historically and none are anticipated in the foreseeable future. The Company s strategic plan is to continue growing. To accommodate this growth and have sufficient capital, earnings will need to be retained.

Liquidity

At June 30, 2007 and December 31, 2006, we had liquid assets in the form of cash, due from banks and federal funds sold of approximately $45.5 million and $19.9 million, respectively. The increase is largely attributable to funds received from the branch acquisitions. Subsequent to quarter end, the proceeds were used to reduce borrowings with the Federal Home Loan Bank.

Our loan to deposit ratio was 99.95% at June 30, 2007 and 99.48% at year end 2006. We anticipate this ratio to remain about the same as loan volume continues to increase along with branch growth. We can lower the ratio as management deems appropriate by managing the rate of growth in our loan portfolio.

At June 30, 2007, we had borrowings from the Federal Home Loan Bank totaling $39.0 million as compared to no borrowings at December 31, 2006. These borrowings are short-term. These borrowings are advanced from an $95.6 million line of credit which is secured by a blanket lien on residential real estate loans.

In the event we need additional funds, we have the ability to purchase federal funds under established lines of credit totaling $20.4 million.

Additional liquidity is expected to be provided by the future growth that management expects in deposit accounts and from loan repayments. We believe that this future growth will result from an increase in market share in our targeted trade areas and from new branches being opened in new markets. Borrowings from the Federal Home Loan Bank will continue to be a source of funding that will be relied upon to meet liquidity needs.

With the lines of credit available and the anticipated deposit growth from new and existing branches, we believe we have adequate liquidity to meet our requirements and needs for the foreseeable future.

Off Balance Sheet Items

There have been no material changes to the off-balance sheet items disclosed in our annual report on Form 10-K for the fiscal year ended December 31, 2006.

Contractual Obligations

There have been no other material changes to the contractual obligations disclosed in our annual report on Form 10-K for the fiscal year ended December 31, 2006.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in market risks faced by the Company since December 31, 2006. For information regarding the Company s market risk, refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

Item 4. Controls and Procedures

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

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that our disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Company to disclose material information otherwise required to be set forth in our periodic reports.

Our management is also responsible for establishing and maintaining adequate internal controls over financial reporting which provide reasonable assurance regarding (i) the reliability of financial reporting, (ii) and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and (iii) the timely detection or prevention of unauthorized use of the Company s assets. No changes in our internal control over financial reporting occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting or control over our assets.

Part II Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in the risk factors faced by the Company from those disclosed in the Company s Form 10-K for the year ended December 31, 2006.

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

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders

The Company held its Annual Meeting of Shareholders on May 17, 2007. A quorum was present, consisting of a total of 4,185,673 shares, represented in person or by proxy. At the Annual Meeting, the shareholders elected directors to serve until the 2010 Annual Meeting, as follows:

Directors elected to serve until the 2010 Annual Meeting were:

	For	Withheld
Tim W. Ball	3,983,478	35,933
Michael G. McGlothlin	3,981,718	37,693
Bill Ed Sample	3,976,684	42,727
Paul R. Vencill, Jr.	3,970,478	48,033
B. Scott White	3,978,722	37,809

Directors continuing to serve until the 2008 Annual Meeting include:

John D. Cox
Charles H. Gent, Jr.
A. Frank Kilgore
Stephen H. Starnes

Directors continuing to serve until the 2009 Annual Meeting include:

Joe M. Carter
Harold Lynn Keene
John D. Maxfield
Fred W. Meade
William Wampler, Jr.

No other matters were voted on at the Annual Meeting.

Item 5. Other Information

Not Applicable

Item 6. Exhibits

The following exhibits are filed as part of this Form 10-Q, and this list includes the exhibit index:

No.	Description
3.1	Amended Articles of Incorporation of Registrant (restated in electronic format as of September 3, 2003) (incorporated by reference to Exhibit 3.1 to Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004).
3.2	Bylaws of Registrant (restated in electronic format as of March 17, 2004) (incorporated by reference to Exhibit 3.1 to Form 8-K filed April 15, 2004).
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 2004.
31.2	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 2004.

32	Certification by Chief Executive Officer and Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

NEW PEOPLES BANKSHARES, INC.
(Registrant)

By: /s/ KENNETH D. HART
Kenneth D. Hart
President and Chief Executive Officer
Date: August 8, 2007
By: /s/ C. TODD ASBURY
C. Todd Asbury
Senior Vice President and Chief Financial Officer
Date: August 8, 2007

Exhibit Index

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