NEW PEOPLES BANKSHARES INC

Financial Report

Second Quarter 2011

NEW PEOPLES BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010
(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)
(UNAUDITED)

	2011	2010
INTEREST AND DIVIDEND INCOME		
Loans including fees	$ 21,402	$ 24,478
Federal funds sold	9	21
Interest-earning deposits with banks	80	-
Investments	84	58
Dividends on equity securities (restricted)	50	42
Total Interest and Dividend Income	21,625	24,599
INTEREST EXPENSE		
Deposits		
Demand	89	150
Savings	324	393
Time deposits below $100,000	2,630	3,792
Time deposits above $100,000	1,574	2,337
FHLB Advances	444	524
Other borrowings	105	122
Trust Preferred Securities	200	219
Total Interest Expense	5,366	7,537
NET INTEREST INCOME	16,259	17,062
PROVISION FOR LOAN LOSSES	3,457	3,940
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	12,802	13,122
NONINTEREST INCOME		
Service charges	1,159	1,313
Fees, commissions and other income	1,019	989
Insurance and investment fees	191	279
Life insurance investment income	176	209
Total Noninterest Income	2,545	2,790
NONINTEREST EXPENSES		
Salaries and employee benefits	7,859	7,520
Occupancy and equipment expense	2,144	2,334
Advertising and public relations	183	194
Data processing and telecommunications	798	814
FDIC insurance premiums	1,096	1,500
Other real estate owned and repossessed vehicles, net	2,490	302
Other operating expenses	2,660	2,358
Total Noninterest Expenses	17,230	15,022
INCOME (LOSS) BEFORE INCOME TAXES	(1,883)	890
INCOME TAX EXPENSE (BENEFIT)	(757)	235
NET INCOME (LOSS)	$ (1,126)	$ 655
Earnings (Loss) Per Share		
Basic	$ (0.11)	$ 0.07
Fully Diluted	$ (0.11)	$ 0.07
Average Weighted Shares of Common Stock		
Basic	10,010,178	10,009,039
Fully Diluted	10,010,178	10,009,039

NEW PEOPLES BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED JUNE 30, 2011 AND 2010
(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)
(UNAUDITED)

	2011	2010
INTEREST AND DIVIDEND INCOME		
Loans including fees	$ 10,514	$ 12,283
Federal funds sold	-	11
Interest-earning deposits with banks	54	-
Investments	45	35
Dividends on equity securities (restricted)	28	21
Total Interest and Dividend Income	10,641	12,350
INTEREST EXPENSE		
Deposits		
Demand	44	77
Savings	138	193
Time deposits below $100,000	1,242	1,812
Time deposits above $100,000	769	1,118
FHLB Advances	223	263
Other borrowings	44	59
Trust Preferred Securities	92	112
Total Interest Expense	2,552	3,634
NET INTEREST INCOME	8,089	8,716
PROVISION FOR LOAN LOSSES	2,312	1,950
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,777	6,766
NONINTEREST INCOME		
Service charges	607	703
Fees, commissions and other income	445	448
Insurance and investment fees	93	159
Life insurance investment income	89	103
Total Noninterest Income	1,234	1,413
NONINTEREST EXPENSES		
Salaries and employee benefits	3,946	4,019
Occupancy and equipment expense	1,119	1,130
Advertising and public relations	98	116
Data processing and telecommunications	392	399
FDIC insurance premiums	421	750
Other real estate owned and repossessed vehicles, net	2,246	156
Other operating expenses	1,395	1,301
Total Noninterest Expenses	9,617	7,871
INCOME (LOSS) BEFORE INCOME TAXES	(2,606)	308
INCOME TAX EXPENSE (BENEFIT)	(931)	66
NET INCOME (LOSS)	$ (1,675)	$ 242
Earnings (Loss) Per Share		
Basic	$ (0.17)	$ 0.02
Fully Diluted	$ (0.17)	$ 0.02
Average Weighted Shares of Common Stock		
Basic	10,010,178	10,009,042
Fully Diluted	10,010,178	10,009,042

NEW PEOPLES BANKSHARES, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS EXCEPT PER SHARE AND SHARE DATA)

ASSETS	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Cash and due from banks	$ 18,818	$ 14,369
Interest-bearing deposits with banks	69,082	42,549
Federal funds sold	1,010	25,611
Total Cash and Cash Equivalents	88,910	82,529
Investment securities		
Available-for-sale	4,383	4,658
Loans receivable	664,003	707,794
Allowance for loan losses	(18,697)	(25,014)
Net Loans	645,306	682,780
Bank premises and equipment, net	33,780	34,141
Equity securities (restricted)	3,733	3,878
Other real estate owned	11,137	12,346
Accrued interest receivable	3,368	3,700
Life insurance investments	11,187	11,011
Goodwill and other intangibles	4,288	4,346
Deferred taxes	7,362	8,037
Other assets	7,653	5,201
Total Assets	$ 821,107	$ 852,627
LIABILITIES		
Deposits:		
Demand deposits:		
Noninterest bearing	$ 102,343	$ 87,839
Interest-bearing	56,062	60,022
Savings deposits	99,992	108,119
Time deposits	482,756	510,100
Total Deposits	741,153	766,080
Federal Home Loan Bank advances	18,583	24,183
Accrued interest payable	1,795	1,720
Accrued expenses and other liabilities	1,150	1,475
Line of credit borrowing	-	4,900
Other borrowings	5,450	250
Trust preferred securities	16,496	16,496
Total Liabilities	784,627	815,104
STOCKHOLDERS' EQUITY		
Common stock - $2.00 par value; 50,000,000 shares authorized; 10,010,178 shares issued and outstanding	20,020	20,020
Additional paid-in-capital	21,689	21,689
Retained earnings (deficit)	(5,301)	(4,175)
Accumulated other comprehensive income (loss)	72	(11)
Total Stockholders' Equity	36,480	37,523
Total Liabilities and Stockholders' Equity	$ 821,107	$ 852,627

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, business strategy, and financial and other goals. The words "believes," "expects," "may," "will," "should," "projects," "contemplates," "anticipates," "forecasts," "intends," or other similar words or terms are intended to identify forward looking statements.

Certain information contained in this discussion may include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements contain the Company's expectations, plans, future financial performance, and other statements that are not historical facts. These forward-looking statements are generally identified by phrases such as "the Company expects," "the Company believes" or words of similar importance. Such forward-looking statements involve known and unknown risks including, but not limited to, changes in general economic and business conditions, interest rate fluctuations, competition within and from outside the banking industry, new products and services in the banking industry, risk inherent in making loans such as repayment risks and fluctuating collateral values, problems with technology utilized by the Company, changing trends in customer profiles and changes in laws and regulations applicable to the Company. Although the Company believes that its expectations with respect to the forward-looking statements are based upon reasonable assumptions within the bounds of its knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of the Company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

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 - The Company had a net loss for the quarter ended June 30, 2011 of $1.7 million as compared to net income of $242 thousand for the quarter ended June 30, 2010. Year-to-date June 30, 2011, the Company had a net loss of $1.1 million as compared to net income of $655 thousand for the same period in 2011. Basic net loss per share was $0.17 for the quarter ended June 30, 2011 as compared to basic net income of $0.02 for the quarter ended June 30, 2010. Basic net loss per share was $0.11 for the six months ended June 30, 2011 as compared to net income per share of $0.07 for the six months ended June 30, 2010. The net loss is primarily the result of other real estate owned property write-downs in the second quarter 2011 totaling $1.9 million of which $1.8 million of this amount is related to a single property market value depreciation in a development property in the coastal Carolina area. In addition, we made additional provisions for loan losses totaling $2.3 million in the second quarter of 2011 as a result of additional impairments on troubled credits, one totaling $1.4 million in the Coastal Carolina area, and net charge-offs realized in the quarter.

Total assets decreased to $821.1 million, or 3.70%, from $852.6 million at December 31, 2010. We intentionally are reducing our asset size in an attempt to manage our net interest margin by reducing higher cost funding and to improve our capital position. We foresee total assets to remain around the current level in the near future; however, future reductions may occur to maintain a well-capitalized status under regulatory guidelines.

In the second quarter of 2011, we experienced a decrease in our net interest margin to 4.28%, as compared to 4.45% for the same period in 2010. This is reflected in the $627 thousand decrease in net interest income during the second quarter of 2011 as compared to the same period in 2010 primarily related to increased nonaccrual loans in 2011 and less earning assets.

The provision for loan losses increased $362 thousand, or 18.56%, to $2.3 million for the second quarter of 2011 as compared to $2.0 million in the same period for 2010. At June 30, 2011 our allowance for loan losses totaled $18.7 million, or 2.82% of total loans, as compared to $25.0 million, or 3.53% of total loans at December 31, 2010. At June 30, 2010 our allowance for loan losses totaled $16.4 million, or 2.22% of total loans. The allowance for loan losses are being maintained at a level that management deems appropriate to absorb any potential future losses and known impairments within the loan portfolio whether or not the losses are actually ever realized.

Total loans decreased to $664.0 million at June 30, 2011 from $707.8 million at year end 2010. This is the result of charge offs of $11.0 million for the first six months of 2011, resolution of problem loans, and the intentional shrinking of the loan portfolio to increase regulatory capital ratios. We continue to serve our customers, and although the total loan portfolio has shrunk, we have renewed existing credits and have made new loans to qualified borrowers as well. We plan to decrease the loan portfolio in the near future as we reduce our exposure to certain risks and decrease nonperforming loans. Total deposits decreased $24.9 million from $766.1 million at December 31, 2010 to $741.2 million at June 30, 2011 as two larger depositors and interest rate sensitive customers withdrew deposits to seek other investment opportunities. However, we continue to experience growth in core deposits through attractive consumer and commercial deposit products.

The deterioration of the residential and commercial real estate markets, as well as the extended recessionary period, have resulted in increases to our nonperforming assets. However, we are identifying potential problems early in an effort to minimize losses. The ratio of nonperforming assets to total assets is 6.88% at June 30, 2011 in comparison to 7.02% at December 31, 2010. Nonperforming assets, which include nonaccrual loans, other real estate owned and past due loans greater than 90 days still accruing interest, decreased to $56.5 million at June 30, 2011 from $59.8 million at December 31, 2010; however, as total assets have decreased during 2011, the June 30, 2011 ratio is higher than December 31, 2010. The majority of these assets are real estate development projects and commercial real estate secured loans. We are working aggressively to reduce these totals primarily by working with the customer for additional collateral, or restructuring the debt. However, we also may have to foreclose, repossess collateral or take other prudent measures. We are uncertain how long these processes will take. In the first six months of 2011, net charge offs were $9.9 million as compared to $6.1 million in the same period of 2010. The majority of the charge offs in the first six months of 2011 were related to real estate construction loans and commercial loans with collateral values that are dependent upon current market and economic conditions when these are ascertainable.

The Bank was well capitalized for regulatory purposes at June 30, 2011 as compared to adequately capitalized at December 31, 2010. The following ratios existed at June 30, 2011: Tier 1 leverage ratio of 5.97%, Tier 1 risk based capital ratio of 8.93%, and Total risk based capital ratio of 10.21%. The ratios were as follows at December 31, 2010: Tier 1 leverage ratio of 6.00%, Tier 1 risk based capital ratio of 8.50%, and Total risk based capital ratio of 9.79%.

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 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” below. For discussion of our significant accounting policies see our Annual Report on Form 10-K/A Amendment No. 2 for the year ended December 31, 2010.

Balance Sheet Changes - At June 30, 2011, total assets were $821.1 million, a decrease of $31.5 million, or 3.70%, from December 31, 2010. Total deposits decreased $24.9 million, or 3.25%, for the first six months of 2011 to $741.2 million from $766.1 million at December 31, 2010. Total loans decreased $43.8 million, or 6.19%, to $664.0 million at June 30, 2011 from $707.8 million at December 31, 2010.

We continue to experience an increase in core deposits as noninterest bearing deposits increased 16.51%, or $14.5 million, from $87.8 million at December 31, 2010 to $102.3 million at June 30, 2011. This was partially offset by a $4.0 million decrease in interest bearing demand deposits. Overall, we continue to experience growth in core deposits through attractive consumer and commercial deposit products.

We experienced a decrease in savings deposits of $8.1 million and a decrease in time deposits of $27.3 million. The decreases in savings and time deposits are due to customer desires to be more liquid in the current rate environment. During 2011, some larger liquid and rate sensitive deposits have withdrawn to seek other investment opportunities. We expect to continue to lose higher cost and rate sensitive deposits in the near future. However, we monitor deposits to ensure that we maintain adequate liquidity levels. We believe despite the deposit decrease, we have adequate liquidity.

Total loans decreased to $664.0 million at June 30, 2011 from $707.8 million at year end 2010. This is the result of charge offs of $11.0 million for the first half of 2011 and resolution of problem loans. We plan to decrease the loan portfolio as we manage our capital levels to maintain a well-capitalized status, reduce certain risks to various industry sectors that have posed higher risks in recent times, and resolve nonperforming loans. Even as we decrease our loan portfolio, we still are committed to serving our customers. We have hired commercial lending personnel, continue to train our loan officers to meet the needs of our customers, and are developing new business with qualified borrowers that will ensure a stronger loan portfolio in the future.

Net Interest Income and Net Interest Margin - Net interest income decreased $627 thousand, or 7.19%, to $8.1 million for the second quarter of 2011 from $8.7 million for the same period in 2010. Our net interest margin decreased to 4.28% in the second quarter of 2011 as compared to 4.45% for the same period in 2010. This is the result of nonaccrual loans of $43.0 million at June 30, 2011 which negatively affects the net interest margin as these loans are nonearning assets. If non-accruing loans increase, it may reduce our net interest margin further. We continue to manage our yields on assets and our costs of funds to improve the net interest margin.

Noninterest Income - Noninterest income decreased $179 thousand, or 12.67%, to $1.2 million in the second quarter of 2011 from $1.4 million in the same period in 2010. The decrease is the result of a $96 thousand decrease in services charges on deposit accounts and a $66 thousand decrease in insurance and investment fees. We expect noninterest income to remain flat throughout 2011 as a result of regulatory changes. During the third quarter 2011, we are increasing overdraft fees and some service charges. We continue to seek opportunities to improve noninterest income.

Noninterest Expense - Noninterest expense totaled $9.6 million for the second quarter of 2011 as compared to $7.9 million for the second quarter of 2010. The primary contributors to the increase in noninterest expenses for the quarter are the increase in other real estate owned expenses of $2.1 million, the increase in other operating expenses of $94 thousand, offset by a decrease in FDIC insurance premiums of $329 thousand. Other operating expenses increased mainly due to the result of complying with the terms of the Written Agreement entered into during 2010 and problem loan resolution expenses.

Salaries and benefits decreased $73 thousand in the quarter-to-quarter comparison. We have decreased staffing during the first half of 2011 and in the subsequent period to improve earnings. In the future, we should continue to see improvements in salary and benefits expenses.

Our efficiency ratio, which is defined as noninterest expense divided by the sum of net interest income plus noninterest income, was 103.15% for the second quarter of 2011 as compared to 77.71% for the same period in 2010. This increase in the ratio is due primarily to the $1.7 million increase in noninterest expenses for the quarter.

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

The allowance for loan losses decreased to $18.7 million at June 30, 2011 as compared to $25.0 million at December 31, 2010. The allowance for loan losses at June 30, 2011 was approximately 2.82% of total loans as compared to 3.53% at December 31, 2010 and

2.22% at June 30, 2010. Net loans charged off for the first six months of 2011 were $9.9 million compared to $6.1 million for the first six months of 2010. The provision for loan losses was $2.3 million for the second quarter of 2011 as compared with $2.0 million in the same period for 2010.

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 that have single pay maturities or demand loans that may be too new to have exhibited signs of weakness. Also, past expansions into new markets 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, northeastern Tennessee, and eastern West Virginia markets. Prior to 2008, we had purchased participation construction loans in the Coastal Carolina area. The totals of these credits were $5.9 million at June 30, 2011 and $7.6 million at December 31, 2010. At June 30, 2011 $1.3 million of the allowance for loan losses was allocated to these credits compared to $1.2 million at December 31, 2010. The $1.7 million decrease in these credits was the result of charge offs of $1.6 million during the first six months of 2011. 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, coal mining and natural gas. 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. For the year 2010 and 2011, we have engaged a third party loan review firm to conduct quarterly loan reviews.

All loans classified as special mention, substandard, doubtful and loss are individually reviewed for impairment. In determining impairment, collateral for loans classified as substandard, doubtful and loss is reviewed to determine if the collateral is sufficient for each of these credits. If an appraisal is older than one year, a new external certified appraisal is obtained in most cases and used to determined impairment. If an exposure exists, a specific allowance is directly made for the amount of the potential loss in addition to estimated liquidation and disposal costs. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Impaired loans decreased to $90.5 million with a valuation allowance of $4.6 million at June 30, 2011 as compared to $90.6 million with a valuation allowance of $12.8 million at December 31, 2010. Of the $90.5 million recorded as impaired loans, $35.7 million were nonperforming loans, which includes nonaccrual loans and past due 90 days or more and still accruing. We determined we had $18.0 million in loans that required a valuation allowance of $4.6 million at June 30, 2011. At December 31, 2010 we had $45.7 million in loans that required a valuation allowance of $12.8 million. The $27.7 million decrease in loans requiring a valuation allowance was the result of $8.1 million decrease in commercial loans, $8.6 million decrease in real estate loans, and a decrease of $11.0 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 June 30, 2011, there were 132 loans in non-accrual status totaling $43.0 million, or 6.48% of total loans. At December 31, 2010, there were 113 loans in non-accrual status totaling $45.8 million, or 6.47% of total loans. It is our policy to stop accruing interest on a loan, and to classify that loan as non-accrual, under the following circumstances: (a) whenever we are advised by the borrower that scheduled payment or interest payments cannot be met, (b) when our best judgment indicates that payment in full of principal and interest can no longer be expected, or (c) when any such loan or obligation becomes delinquent for 90 days unless it is both well secured and in the process of collection. At June 30, 2011 there were $19.2 million in loans that are classified as troubled debt restructurings compared to $13.9 million at December 31, 2010. There are also no loans identified as "potential problem loans." We do not have any commitments to lend additional funds to non-performing debtors.

Liquidity - We closely monitor our liquidity and have increased liquid assets in the form of cash, due from banks, federal funds sold, and unpledged available for sale investments from $86.3 million at December 31, 2010 to $92.1 million at June 30, 2011. We plan to maintain surplus short-term assets at levels adequate to meet potential liquidity needs during 2011.

At June 30, 2011, all of our investments are classified as available-for-sale, providing an additional source of liquidity in the amount of $3.2 million, which is net of those securities pledged as collateral. We anticipate developing an investment portfolio in the near future as we shrink our loan portfolio and increase deposits. This will primarily serve as a source of liquidity while yielding a higher return than other short term investment options, such as federal funds sold and overnight deposits with the Federal Reserve Bank. In the third quarter of 2011, we are required to pledge approximately $13.0 million in securities or loans for our payment processing with the Federal Reserve Bank. We anticipate purchasing securities and reducing our overnight funds at the Federal Reserve Bank to meet this requirement.

Our loan to deposit ratio was 89.59% at June 30, 2011 and 92.39% at year end 2010. We anticipate this ratio to remain below 90% as we continue to decrease our loan portfolio throughout 2011. We can further lower the ratio as management deems appropriate by managing the rate of growth in our loan portfolio and by offering special promotions to entice new deposits. This can be done by changing interest rates charged or limiting the amount of new loans approved.

Available third party sources of liquidity remain intact at June 30, 2011 which includes the following: our line of credit with the Federal Home Loan Bank of Atlanta, the brokered certificates of deposit markets, internet certificates of deposit, and the discount window at the Federal Reserve Bank of Richmond.

At June 30, 2011, we had borrowings from the Federal Home Loan Bank totaling $18.6 million as compared to $24.2 million at December 31, 2010. The $5.6 million decrease was due to a $5.0 million term note which matured in January 2011 and we paid off this note with liquid funds and the remaining $600 thousand decrease was due to regular monthly principal payments. Of these borrowings at June 30, 2011, none are overnight and subject to daily interest rate changes. Term notes of $10.2 million mature in the year 2012 and we anticipate paying these off as liquidity is available to do so. Two additional borrowings totaling $8.4 million have a maturity date in the year 2018, but reduce in principal amounts monthly. We also used our line of credit with the Federal Home Loan Bank to issue a letter of credit for $7.0 million in 2008 and $3.0 million in 2010 to the Treasury Board of Virginia for collateral on public funds. An additional $39.5 million was available on June 30, 2011 on the $68.1 million line of credit which is secured by a blanket lien on our residential real estate loans. Recently, the Federal Home Loan Bank conducted a collateral review indicating fewer exceptions and our available line of credit increased slightly to $68.1 million at the end of the second quarter of 2011.

We have access to the brokered deposits market. Currently we have $2.7 million in 10 year term time deposits comprised of $3 thousand incremental deposits which yield an interest rate of 4.10%. We utilized this low cost source of funds to match funding for a 10 year balloon mortgage product. With the exception of CDARS time deposits, we have no other brokered deposits. Though this has not been a strategy in the past, we may utilize this source in the future as a lower cost source of funds.

We are a member of an internet certificate of deposit network whereby we may obtain funds from other financial institutions at auction. We may invest funds through this network as well. Currently, we only intend to use this source of liquidity in a liquidity crisis event.

In September 2009, the Bank obtained approval for the Federal Reserve Bank discount window for overnight funding needs. We may collateralize this line with investment securities and loans at our discretion and in July 2011 we pledged an investment security with a fair value of $359 thousand at July 31, 2011 as collateral. We did not request funding as a result of this pledge and do not anticipate using this funding source except as a last resort.

Additional liquidity is expected to be provided by loan repayments and core deposit growth that will result from an increase in market share in our targeted trade area.

With the increased asset liquidity and other external sources of funding, we believe at the Bank level we have adequate liquidity and capital resources to meet our requirements and needs for the foreseeable future. However, liquidity can be further affected by a number of factors such as counterparty willingness or ability to extend credit, regulatory actions and customer preferences, some of which are beyond our control.

Concerning the Company's liquidity, we borrowed $500 thousand from two directors at $250 thousand each. One borrowing occurred at the end of 2010 and the other in January 2011. The use of these funds is to meet current liquidity needs of the Company. At December 31, 2010, there was a $4.9 million Silverton line of credit that management was diligently working to eliminate and to increase liquidity at the Company level. As reported in the Subsequent Event Section in Item 1. Business of the December 31, 2010 10-K, on March 16, 2011 we received additional borrowings from two directors totaling $4.95 million and were able to retire the Silverton line of credit that was to mature in June 2011 and we continue to work on enhancing the Company's liquidity.

Capital Resources - Total capital at the end of the second quarter of 2011 was $36.5 million as compared to $37.5 million at the end of December 31, 2010. The decrease was due to the net loss of $1.1 million for the first half of 2011. The Bank remains well capitalized at June 30, 2011, as defined by the capital guidelines of bank regulations. The Company's capital as a percentage of total assets was 4.44% at June 30, 2011 compared to 4.40% at December 31, 2010.

Our primary source of additional capital comes from retained earnings. We continue to implement and follow our strategic plan and capital plan. Under current economic conditions, we believe it is prudent to increase capital to absorb potential losses that may occur if asset quality deteriorates further. We are aware that capital needs and requirements are affected by the level of problem assets, growth, earnings and other factors. Retained earnings are not alone sufficient to provide for this economic cycle and we believe we will need access to additional sources of capital. As part of our initiative to improve regulatory capital ratios, we are reducing our higher risk assets, which results in a shrinking loan portfolio. Deposit growth is primarily focused on growing core deposits, which are mainly transaction accounts, commercial relationships and savings products. We are focused on improving earnings by maintaining a strong net interest margin and decreasing overhead expenses. These options we are fully implementing to increase capital. However, these efforts alone may not provide us adequate capital if further loan losses are realized. We are exploring a common stock offering.

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

Off Balance Sheet Items and Contractual Obligations - There have been no material changes during the quarter ended June 30, 2011 to the off-balance sheet items and the contractual obligations disclosed in our annual report on Form 10-K/A Amendment No. 2 for the fiscal year ended December 31, 2010.

For a copy of the Second Quarter 2011 SEC 10Q Filing

To obtain a copy of our Second Quarter 2011 10Q, visit our website at www.npbankshares.com/investor relations -SEC Filings, or by written request to New Peoples Bankshares, Inc. ATTN: Todd Asbury, EVP & CFO, 67 Commerce Drive, Honaker, Virginia 24260.