New Peoples Bankshares, Inc.

Annual Report 2011

"We don't wear ties, we protect them"

Our ties.

A region with rhythm and harmony. Where Saturday night isn't about television or radio at home, it's about community, fellowship, and enjoying our great traditions. Ones we love and continue to pass down the generations.

It's much like our goal for New Peoples Bank. As part of the community, we encourage our time together, and provide support to make sure our traditions are kept alive.

"We don't wear ties, we preserve them"

Jonathan H. Mullins
President and CEO, New Peoples Bank

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The 2012 Annual Meeting of Shareholders will be held on
Tuesday, December 4, 2012 at 6:00 PM
at New Peoples Bank, 350 West Main Street,
Abingdon, Virginia.

The foregoing discussion and financial information in the report is only intended to provide a general overview of our financial position and results of operations. In order to fully analyze and understand our financial position and results of operations, you'll want to review the Form 10-K which includes Management's Discussion and Analysis. For shareholders, the Form 10-K is being mailed with this report. For other interested parties, you can access our Form 10-K through the company's website at www.npbankshares.com or through the SEC EDGAR database at www.sec.gov. If you prefer, a copy of the Form 10-K may be obtained upon written request to:

New Peoples Bankshares, Inc.
ATTN: Investor Relations
PO Box 1810
Honaker, VA 24260


LIEUTENANT
EAST RIVER VOL.
FIRE DEPT.

ENGINE
ISO CLAS




Our Tie Story

In 2012, we began a marketing campaign in an effort to illustrate the continued commitment we have to our communities. At New Peoples Bank, we don't wear suits and ties, instead our approach to customer service is one of trust, friendship and our ties to the communities.

We have a long history of promoting these values through our employees and making sure what we present to our customers is inviting and kind. From our in-branch staff, our corporate office employees and our CEO, we provide our customers access for their questions, feedback and ideas.

We are very proud of our commitment and initiated a campaign to express our culture to our communities. "We don't wear ties, we are the ties" became our message. To the community, we illustrated our ties throughout our advertising and television commercials to show that the real tie is our people's passion and their commitment to service for our customers.

"We don't wear ties, we celebrate them"

As filmed at the 2012 Russell County Fair

Message to Shareholders

Dear Fellow Shareholders,

I want to take this opportunity to thank each and every one of you for your patronage, patience and understanding during this difficult economic period. Over the past few years, we have been weathering the worst economic storm since the Great Depression and are now beginning to see some positive signs on the horizon. This is not to say that our challenges are over, because we still deal with a lackluster economy, intensive regulatory pressures and unfair competition. But we believe a brighter future is forthcoming in the next couple of years, and we have extensively laid a foundation for the possibilities of tomorrow that will further strengthen the ties that we have with our shareholders, customers, employees and communities.

The past few years we have been dealing with various problems brought on by the economy and past practices. We have made several improvements in our policies and procedures to resolve these issues, bring the bank back to profitability and reduce the risk of future losses. Earnings and capital have been significantly impacted as we have remedied problem loans that have resulted in large amounts of charge-offs, foreclosures and related expenses. We believe we are approaching the end of these large expenses and will be able to return to profitability and increase the value of your stock in the future. Again, our main focus is profitability and stability for our shareholders' investments.

The steps we have taken to make the bank profitable, stabilize asset quality issues and strengthen our capital position have required very difficult decisions; such steps as raising capital levels, implementing stricter lending policies, reducing overhead expenses, and shrinking the size of the bank. However, these difficult decisions are laying the foundation for us to return to profitability sooner and reducing the potential risk of losses in the future. Our board of directors and management team are working closely together and will continue to make difficult decisions and implement strategic initiatives that we believe will enhance shareholder value in the future.

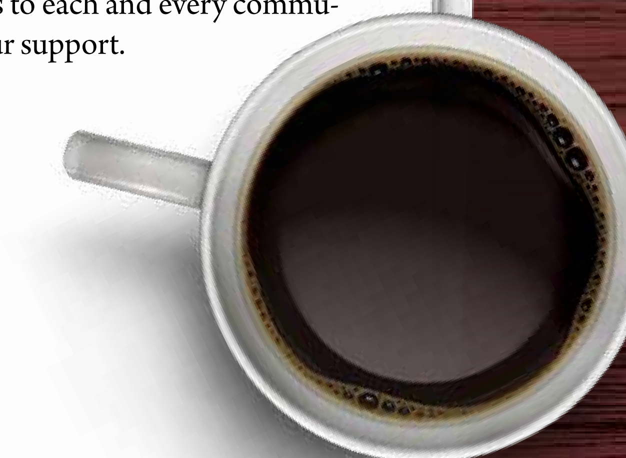
One of the things we have been working on is raising our capital levels. The recent losses have eroded our capital base and our current risk profile requires higher capital ratios. Yet, we have remained well capitalized by regulatory standards without taking (TARP) money from the government or capital from non-local institutional investors. But as the recession has affected our capital, new capital is needed. We began a common stock offering during 2012 that is presently scheduled to end on November 30, 2012 and is designed to strengthen our capital base. With the additional capital, we believe we will be able to take advantage of all the strategic improvements we have put in place to have a stronger, more efficient company going forward and one that is on the path of returning to profitability. With a successful offering, we believe we can achieve solid earnings with the ultimate goal of paying a dividend and increasing the value of your investment. We have had favorable responses to the offering and believe that we will reach the $10 million minimum amount.

We have made NPB safer by revising our lending policies and procedures that are more strict, yet are helping us to make better lending decisions at the onset of a loan application which reduces the risk of future bad credits. We are not making out of market loans which is where a lot of our larger losses have been. We have nearly eliminated our entire out of market and development loans. We are maintaining an allowance for loan losses that we believe is appropriate for the risks that are in the loan portfolio. Our allowance for loan losses remains in excess of 3% of total loans. Furthermore, we have re-organized the bank to better manage problem credits by initiating a special assets division to aggressively handle problem credits. In addition, we have established a commercial lending division that segregates commercial lending from consumer lending to provide better service for the credit needs of our customers. Our bank has made investments in expertise, technology and training to install a much stronger credit culture.

We have made the bank more efficient by lowering our costs of doing business. Our focus is on branch profitability, staffing efficiencies and cost controls. Unfortunately, we have had layoffs, branch closures, reduction of employee benefits and freezes on employee raises to accomplish this. We will further evaluate expenses to determine efficiency opportunities. These cost saving measures help us to return to profitability. These expense reductions and a net interest margin that we have successfully been able to maintain above 4%, which is higher than our peer group, are major contributing factors we believe will lead to the core earnings we can build on in the future.

In the short term, we have and will continue to shrink the size of the bank as necessary. We are trying to aggressively reduce riskier assets and more expensive cost of funds which is shrinking the size of the company. This is not a sign of weakness or failure to compete, because we are intentionally shrinking the bank to be more streamlined and safer which is returning us to profitability sooner and enhancing our ability to compete. With increased capital and an economy recovery, we will have a core base of high quality earning assets and low cost deposits which will give us the opportunity to grow our core banking business.

Lastly, I hope each of you has noticed our marketing campaign emphasizing "ties" to our community. Considering the obstacles our bank has faced in recent years, we feel the "ties" we have with you, our employees and customers, have helped us through these unprecedented times. We continue to manage proactively, prudently and intently to keep our bank safe, sound and focused on the future. Again, I want you to know that our Board of Directors, Management, all the employees of New Peoples Bank and I are working hard to ensure your investment is protected and to provide the best in banking services to each and every community we serve. Thank you all for your support.



Sincerely,

Jonathan Mullins

Jonathan Mullins,
President and CEO

This communication is neither an offer to sell nor a solicitation of an offer to buy shares of the Company's common stock. The offering of our common stock is made only by means of the final prospectus dated July 6, 2012. The Company has filed a registration statement (including a prospectus) with the Securities and Exchange Commission (the "SEC") for the offering to which this communication relates, and the registration statement became effective on July 6, 2012. Before you invest, you should read the prospectus and other documents the Company has filed with the SEC for more complete information about the Company and the offering. You may get these documents for free by visiting EDGAR on the SEC website at www.sec.gov. The final prospectus, dated July 6, 2012, was filed with the SEC on July 16, 2012. Alternatively, the Company will arrange to send you the prospectus if you request it by calling 1-276-873-7000.

Not FDIC Insured • No Bank Guarantee • May Lose Value
Not a Deposit • Not Insured By Any Government Agency

Selected Financials & Data

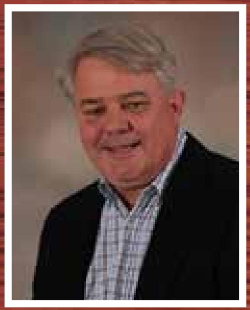
	At and for the Years ended December 31,				
	2011	2010	2009	2008	2007
	(Dollars in thousands and shares in whole numbers)				
Balance Sheet					
Total Assets	$ 780,384	$ 852,627	$ 857,910	$ 807,898	$ 765,951
Gross Loans	597,816	707,794	763,570	721,174	682,260
Allowance for Loan Losses	(18,380)	(25,014)	(18,588)	(6,904)	(6,620)
Other Real Estate Owned	15,092	12,346	5,643	2,496	2,051
Deposits	708,315	766,080	760,714	705,688	657,033
Total Borrowings	39,929	45,829	46,779	47,991	58,930
Shareholders' Equity	28,873	37,523	46,619	50,323	45,249
Summary of Operations					
Interest Income	$ 41,769	$ 48,028	$ 50,378	$ 52,317	$ 51,447
Interest Expense	9,606	13,898	18,563	23,095	25,738
Net Interest Income	32,163	34,130	31,815	29,222	25,709
Provision for Loan Losses	7,959	22,328	12,841	1,500	3,840
Noninterest Income	5,524	5,934	5,449	5,550	4,651
Noninterest Expense	39,422	31,894	29,847	26,619	23,674
Net Income before Taxes	(9,694)	(14,158)	(5,424)	6,653	2,846
Income Tax Expense (Benefit)	(784)	(5,093)	(1,738)	1,916	(24)
Net Income (Loss)	$ (8,910)	$ (9,065)	$ (3,686)	$ 4,737	$ 2,870
Per Share Data					
Book Value	$ 2.88	$ 3.75	$ 4.66	$ 5.03	$ 4.54
Tangible Book Value	2.87	3.31	4.21	4.56	4.06
Net Income (Loss), Basic	(0.89)	(0.91)	(0.37)	0.47	0.29
Net Income (Loss), Diluted	(0.89)	(0.91)	(0.37)	0.46	0.28
Basic Shares Outstanding	10,010,178	10,009,468	10,008,943	9,980,348	9,957,949
Diluted Shares Outstanding	10,010,178	10,009,468	10,008,943	10,234,909	10,371,577
Profitability					
Return (Loss) on Average Assets	(1.07%)	(1.05%)	(0.44%)	0.61%	0.42%
Return (Loss) on Average Equity	(24.35%)	(19.60%)	(7.37%)	9.98%	6.60%
Net Interest Margin (1)	4.29%	4.35%	4.14%	4.13%	4.11%
Efficiency Ratio	104.63%	79.28%	80.10%	76.55%	77.98%

(1) 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.

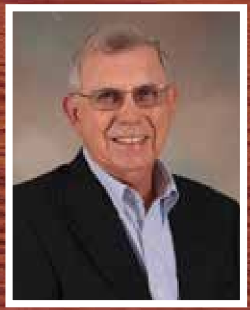
	At and for the Years ended December 31,				
	2011	2010	2009	2008	2007
	(Dollars in thousands and shares in whole numbers)				
Liquidity Ratios					
Total Loans to Deposits	84.40%	92.39%	100.38%	102.19%	103.84%
Noninterest Bearing Deposits to Total Deposits	15.48%	11.46%	11.61%	13.53%	12.74%
Nonbrokered Deposits to Total Deposits	98.46%	97.41%	96.68%	98.96%	100.00%
Capital Adequacy Ratios					
Total Equity to Total Assets	3.70%	4.40%	5.43%	6.23%	5.91%
Leverage Ratio	4.23%	4.62%	6.14%	7.72%	7.22%
Tier 1 Capital	6.57%	6.54%	8.12%	9.50%	8.73%
Total Risk-Based Capital	9.15%	8.87%	9.83%	10.78%	10.29%
Asset Quality Ratios					
Net Charge-Offs to Average Loans	2.24%	2.14%	0.15%	0.17%	0.34%
Nonperforming Loans to Total Loans	7.33%	6.71%	3.74%	0.89%	0.47%
Nonperforming Assets to Total Assets	7.60%	7.02%	3.99%	1.11%	0.69%
Allowance for Loan Losses to Gross Loans	3.07%	3.53%	2.43%	0.96%	0.97%
Allowance for Loan Losses to Nonperforming Loans	41.94%	52.69%	65.02%	107.09%	206.04%
Other Data					
Number of Branch Offices	27	27	31	31	30
Number of Employees	312	362	367	377	371

Board of Directors

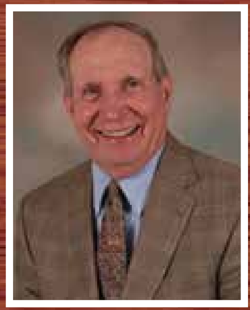

Michael G. McGlothlin
Chairman of the Board of Directors

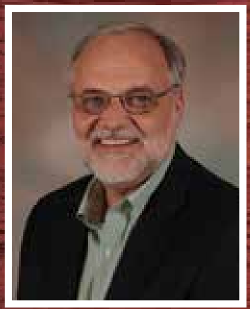

John Cox
Vice Chairman

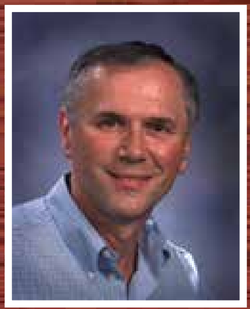

Tim Ball

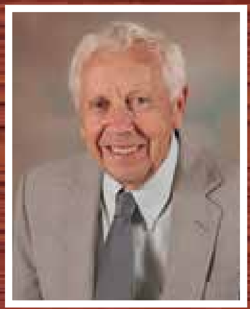

Joe M. Carter


Charles H. Gent, Jr.

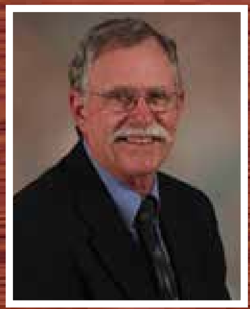

Eugene Hearl


Harold Lynn Keene


A. Frank Kilgore


Fred W. Meade


Jonathan H. Mullins


B. Scott White

Executive and Senior Management

Jonathan H. Mullins
President and
Chief Executive Officer

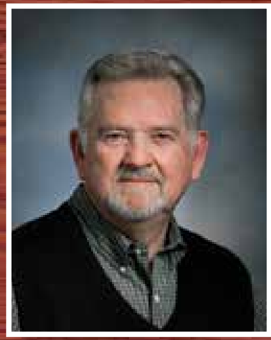
Frank Sexton, Jr.
Executive Vice President and
Chief Operating Officer

C. Todd Asbury
Executive Vice President and
Chief Financial Officer

Stephen Trescot
Executive Vice President and
Chief Credit Officer

Sharon V. Borich
Senior Vice President and
Senior Lending Officer

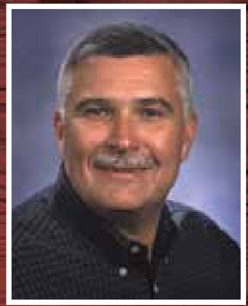
Charles C. Paschall
Senior Vice President and
Regional Bank Executive



Douglas N. Horne
Senior Vice President and
Regional Bank Executive

Debbie Arrington
Senior Vice President
Banking Operations

Area Managers



Larry Mullins
Senior Vice President and
Area Manager
Clinch Mountain Region

Robbie Sturgill
Senior Vice President and
Area Manager
Cumberland Region

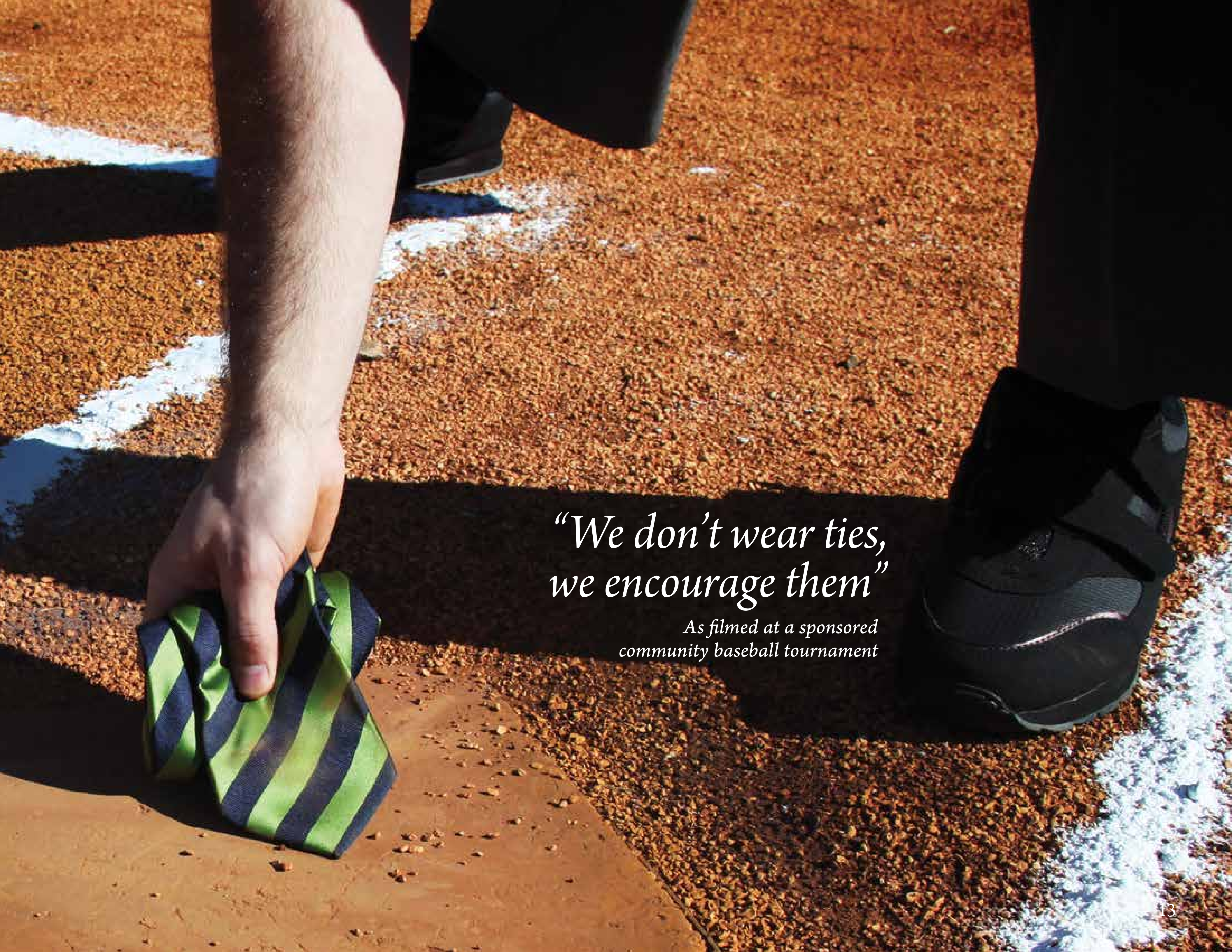
Dorothy Meade
Senior Vice President and
Area Manager
Tri Cities Region

Our Community.

A time when we come together to play, cheer and visit with each other. For me, it's an opportunity where I can give back to the community, just like someone did for me when I played. Only now, I am playing the role of a coach and a mentor.

That's like my relationship with New Peoples Bank. As part of our community, they support us and our time together, generation after generation.

Dan Counts
Youth Baseball Volunteer
Russell County Ramblers



“We don’t wear ties,
we encourage them”

As filmed at a sponsored
community baseball tournament

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

(In Thousands Except Share And Per Share Data)

Assets	2011	2010
Cash and due from banks	$ 18,306	$ 14,369
Interest-bearing deposits with banks	72,170	42,549
Federal funds sold	77	25,611
Total Cash and Cash Equivalents	90,553	82,529
Investment Securities available-for-sale	32,434	4,658
Loans receivable	597,816	707,794
Allowance for loan losses	(18,380)	(25,014)
Net Loans	579,436	682,780
Bank premises and equipment, net	33,141	34,141
Equity securities (restricted)	3,573	3,878
Other real estate owned	15,092	12,346
Accrued interest receivable	3,067	3,700
Life insurance investments	11,351	11,011
Goodwill and other intangibles	123	4,346
Deferred taxes, net	7,220	8,037
Other assets	4,394	5,201
Total Assets	$ 780,384	$ 852,627

Liabilities	2011	2010
Deposits		
Demand deposits		
Non interest bearing	$ 109,629	$ 87,839
Interest-bearing	58,459	60,022
Savings deposits	94,569	108,119
Time deposits	445,658	510,100
Total Deposits	708,315	766,080
FHLB advances	17,983	24,183
Accrued interest payable	1,796	1,720
Accrued expenses and other liabilities	1,471	1,475
Line of credit borrowing	-	4,900
Other borrowings	5,450	250
Trust preferred securities	16,496	16,496
Total Liabilities	$ 751,511	$ 815,104
Stockholders' Equity		
Common stock	$ 20,020	$ 20,020
Additional paid-in-capital	21,689	21,689
Retained earnings (deficit)	(13,085)	(4,175)
Accumulated other comprehensive income (loss)	249	(11)
Total Stockholders' Equity	$ 28,873	$ 37,523
Total Liabilities and Stockholders' Equity	$ 780,384	$ 852,627

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(In Thousands Except Share And Per Share Data)

Interest & Dividend Income	**2011**	**2010**
Loans including fees	$ 41,176	$ 47,775
Federal funds sold	9	44
Interest-earning deposits with banks	184	12
Investments	301	111
Dividends on equity securities (restricted)	99	86
Total Interest and Dividend Income	$ 41,769	$ 48,028
Interest Expense		
Demand	$ 155	$ 250
Savings	460	779
Time deposits below $100,000	4,768	7,000
Time deposits above $100,000	2,949	4,112
FHLB advances	644	1,057
Other borrowings	194	246
Trust Preferred Securities	436	454
Total Interest Expense	$ 9,606	$ 13,898
Net Interest Income	$ 32,163	$ 34,130
Provision For Loan Losses	7,959	22,328
Net Interest Income After Provision For Loan Losses	$ 24,204	$ 11,802

Noninterest Income	**2011**	**2010**
Service charges	$ 2,488	$ 2,701
Fees, commissions and other income	2,096	2,248
Insurance and investment fees	600	523
Life insurance investment income	340	462
Total Noninterest Income	$ 5,524	$ 5,934
NonInterest Expenses		
Salaries and employee benefits	15,735	15,007
Occupancy and equipment expense	4,533	4,552
Advertising and public relations	445	412
Data processing and telecommunications	1,654	1,616
FDIC Assessment	2,014	2,422
Other real estate owned and repossessed vehicles, net	5,577	2,183
Impairment of goodwill	4,122	-
Other operating expenses	5,342	5,702
Total Noninterest Expenses	$ 39,422	$ 31,894
Loss Before Income Taxes	$ (9,694)	$ (14,158)
Income Tax Benefit	(784)	(5,093)
Net Loss	$ (8,910)	$ (9,065)
Loss Per Share		
Basic	$ (0.89)	$ (0.91)
Fully Diluted	$ (0.89)	$ (0.91)
Average Weighted Shares of Common Stock		
Basic	10,010,178	10,009,468
Fully Diluted	10,010,178	10,009,468

Financial Overview

Caution About Forward Looking Statements

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

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.

Overview - At December 31, 2011, total assets were $780.4 million, total loans were $597.8 million, and total deposits were $708.3 million at December 31, 2011. The Company had a total net loss after tax of $8.9 million or $0.89 per basic share and per diluted share for the year ended December 31, 2011 as compared to a net loss of $9.1 million, or $0.91 per basic and per diluted share for the year ended December 31, 2010. The annualized return on average assets for the fiscal year 2011 was (1.07)% as compared to (1.05)% for the same period in 2010. The annualized return on average equity was (24.35)% for the fiscal year 2011 and (19.60)% for the same period in 2010.

Income - For the year ending December 31, 2011, we experienced a net loss of $8.9 million as compared to $9.1 million for the same period in 2010. In the year 2011, the net loss was primarily related to four areas: lower net interest income, increased other real estate owned expenses, a one-time goodwill impairment loss and a valuation allowance on our deferred tax asset. We maintain a strong net interest margin of 4.29% in 2011 as compared to 4.35% in 2010. However, the decreased volume of earning assets in 2011 and high levels of non-performing assets decreased net interest income to $32.2 million in 2011 from $34.1 million in 2010. Other real estate owned expenses also increased in 2011 to $5.6 million from $2.2 million. The majority of this is due to decreased real estate market value primarily in out of market loans originated in the past. We also determined that our goodwill is more likely than not to be totally impaired at December 31, 2011 due to our decreased stock price. In addition, this goodwill was determined to be more likely than not to be impaired due to the decreased capital levels that we have experienced because of historical losses. This $4.1 million expense is a one-time expense. Finally, we incurred a valuation allowance on our deferred tax asset totaling $2.7 million which has a direct impact on the net loss in 2011. We may be able to reverse the valuation allowance in the future as earnings improve resulting in taxable income to offset net loss tax carry forwards.

Net Interest Income and Net Interest Margin - The Company's primary source of income, net interest income, decreased $2.0 million, or 5.76% from 2010 to 2011. The decrease in net interest income is due primarily to a reduction in loans during 2011 and the level of non earning assets, i.e. non accrual loans and other real estate owned properties. Loan interest income decreased $6.6 million, or 13.81%, from $47.8 million in 2010 to $41.2 million in 2011. Interest expense decreased $4.3 million, or 30.88%, from $13.9 million for the year ending 2010 to $9.6 million in 2011 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, 2011 was 4.29% as compared to 4.35% for the same period in 2010. The net interest margin, however, was trending upward during the last half of 2011.

Noninterest Income - Non interest income decreased $410 thousand, or 6.91%, from $5.9 million in 2010 to $5.5 million in 2011. The primary reasons for the decrease is from $136 thousand decrease in insurance commissions, a $122 thousand decrease in bank owned life insurance income and a $252 thousand difference in the gain on sale of fixed assets. Service charges and fees increased in 2011 from 2010. Service charges on deposit accounts, primarily overdraft fees, decreased $213 thousand, while fees on ATM and debit card network fees increased $328 thousand due to increased volume.

Noninterest Expense - Non interest expenses increased $7.5 million, or 23.60%, to $39.4 million in 2011 from $31.9 million in 2010. Following are explanations of the increase.

Other real estate owned and repossessed vehicle expenses increased $3.4 million, or 155.47%, to $5.6 million in 2011 from $2.2 million in 2010. The increase is related to a decrease in real estate market values resulting in write-downs and an increase in foreclosures and repossessions in 2011. We re-assessed the values of the properties in other real estate owned in 2011 and wrote down these assets by $4.0 million to reflect fair market value changes in the properties since the original date that the assets were acquired in 2010 or the prior year balance for properties that continue to be held. In the year 2011, we had a net loss on the sale of other real estate owned property of $218 thousand compared to a net loss of $202 thousand in 2010.

Salaries and employee benefits increased from $15.0 million in 2010 to $15.7 million in 2011. In the year 2010, there was a net reduction of total salaries totaling $358 thousand related to the reversal of an accrual salary continuation for a former bank executive. The one time reversal was realized in 2010 and not in 2011; therefore, the change in retirement contribution expenses increased year-to-year by $413 thousand. In addition, total salaries increased $187 thousand in the year 2011. Although we have had a reduction in full-time equivalent employees in 2011, there was an increase in higher compensated employees needed for asset quality improvement. In December 2011, we had a 10% reduction in force and we expect approximately $1.0 million in cost savings in the year 2012 as a result of this reduction.

In 2011, FDIC assessment expense decreased $408 thousand, or 16.85%, from $2.4 million in 2010 to $2.0 million in 2011. This is the result of a decrease in the assessment base that became effective in April 2011 and also a reduction of total deposits in 2011.

Other operating expenses decreased $360 thousand, or 6.31%, to $5.3 million in 2011 from $5.7 million in 2010. The decrease is primarily related to decreased professional fees incurred from legal and consultant fees during 2011. These fees decreased as most of these expenses were

Financial Overview (continued)

associated with initial compliance of the Written Agreement entered into during 2010. In addition, in 2010 a non-recurring $483 thousand reserve for the remaining available funds on an under-collateralized construction line of credit was expensed due to the possibility of providing additional funding to the customer to complete the construction project and minimize other losses. We anticipate the other noninterest expense to remain flat or slightly decrease in 2012 as we engage fewer consultants and we realize cost savings from improving operational efficiencies.

The ratio of noninterest expense as a percentage of average assets slightly increased in 2011 to 4.74% as compared to 3.70% in 2010. We expect greater efficiencies to result as we maximize the performance of our branches and as the economy improves. Our efficiency ratio, which is defined as noninterest expense divided by the sum of net interest income plus noninterest income, was 104.61% in 2011 as compared to 79.28% for 2010 primarily the result of increased noninterest expenses related to goodwill impairment and other real estate owned expenses.

Capital - Our total capital at the end of 2011 was $28.9 million compared to $37.5 million in 2010. The decrease was $8.7 million, or 23.05%. The Bank had fallen below well capitalized status, as defined by the capital guidelines of bank regulations, at the end of 2010, but returned to well capitalized at the end of the first quarter of 2011 and thereafter. New Peoples capital as a percentage of total assets was 3.70% at December 31, 2011 compared to 4.40% at December 31, 2010. The decrease in New Peoples capital is due to the net loss incurred in 2011 primarily the result of the goodwill impairment, other real estate owned writedowns, and the valuation allowance on deferred taxes.

Asset Quality - The ratio of nonperforming assets to total assets is 7.55% at December 31, 2011 as compared 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, were nearly the same level for both years. At December 31, 2011, nonperforming assets totaled $58.9 million as compared to $59.8 million at December 31, 2010. 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; however, this amount is only $2.5 million at December 31, 2011 as compared to $7.6 million at December 31, 2010. In addition, there are also some similar projects located in Northeastern Tennessee and one in eastern West Virginia. We are undertaking aggressive efforts to work out these credits. This will take some time, but overall we believe we are making progress.

During 2011, we have made significant progress in identifying the risks in our loan portfolio. In addition, we have improved our lending policies and further trained our lending staff on these policies and procedures. Each of these steps is critical to minimize future losses and to strengthen asset quality of the Bank. Our allowance for loan loss at December 31, 2011 is $18.4 million, or 3.07% as compared to $25.0 million, or 3.53% at December 31, 2010. The provision for loan losses decreased to $ 8.0 million in 2011 as compared to $22.3 million in 2010. We continue to maintain a higher level in the allowance for loan loss in light of the current economic circumstances, including the anemic recovery and continued increases in non-performing loans and believe that this level is adequate. Future provisions may be deemed necessary, however. Net charge-offs year-to-date for 2011 as a percentage of total average loans were 2.24% as compared to 2.14% in 2010. Impaired loans increased slightly to $91.8 million with an estimated allowance of $6.0 million for potential losses at December 31, 2011 as compared to $90.6 million in impaired loans with an estimated allowance of $12.8 million at the end of 2010. In working with our customers, troubled debts restructured increased in 2011 to $29.1 million as compared to $13.9 million at December 31, 2010.

Other real estate owned increased $2.8 million, or 22.24%, to $15.1 million at December 31, 2011 from $12.3 million at December 31, 2010. We anticipate total other real estate owned to increase in the near future as we foreclose on real estate collateralized loans. All properties are being marketed for sale by commercial and residential realtors under the direction of our Special Assets division. During 2011, we were able to sale $5.9 million of our properties as compared to sales of $3.7 million in 2010. Future sales of these properties are contingent upon an economic recovery; consequently, it is difficult to estimate the duration of our ownership of these assets. We have designated employees to monitor other real estate owned properties to ensure proper fair market values of these assets and to ensure that maintenance and improvements are made to make these properties more marketable. During 2011 we had to record writedowns on other real estate owned properties in the amount of $4.0 million compared to $1.4 million in 2010. Substantially all of the $4.0 million in writedowns was related to a $1.2 million writedown on a commercial subdivision property located in Pigeon Forge, Tennessee and a $2.1 million writedown on a commercial subdivision property located in the Coastal Carolina area.

Our Technology Edge

New Peoples Bank was founded as a de novo bank in October of 1998 out of a desire in the community for a friendly, hometown banking experience. By exceeding customer's expectations and providing exceptional customer service, New Peoples Bank has grown substantially, serving the public from 23 branches in Virginia, West Virginia and Tennessee.

Knowing that business success depends on managing and using information effectively across the organization, management opted for the scalable Premier® suite of integrated software from Fiserv to accommodate the bank's envisioned growth. At the same time, the bank licensed the fully integrated Director suite to help manage the volume of digital content that would be generated by DDA and loan activity. Director is an Enterprise Content Management (ECM) software suite that combines a report and check archive, document imaging, electronic document management, e-mail and records management, and workflow coordination to bring greater efficiency and productivity. That choice has proved to be a fitting complement to the mission, image and customer-focused atmosphere that leadership established for the bank.

Getting Started with Director

In 1998, New Peoples Bank was one of the early adopters of the Director suite, at a time when only a modest number of scanning modules was available. The bank mainly used Director Report Archive for document imaging and COLD processing to store reports, statements and notices. That changed with the passage of Check 21, when digital check imaging became the norm, and more Director products were introduced. "As we grew, we realized the value of Director more and more," says Patricia Miller, Vice President and Image Systems Officer. "We continued to increase what we were storing in Director for research purposes, and rolled it out to the branches for more of our people to use." That process included scanning a significant number of existing paper files. "We even went back and scanned all of our paper signature cards, so we could get those in the hands of our front-line people," remembers Debbie Arrington, Senior Vice President for Banking Operations. "Many of our deposit items were scanned as well."

Robust Capability, Seamless Integration

Today, New Peoples Bank is fully committed to ECM with Director, having installed a broad range of scanning, printing and business process automation modules. They include:

- Director Report Archive, for storing reports, statements and notices
- Director Automated Indexing, for handling deposit signature cards
- Director Web Access, which easily retrieves signature cards, customer identifications and other data.
- Director Version Control, for collaborative document review.
- Director Document Import, for intake of content from third- party applications
- Director Document Retention, to manage content held for a period of time, then deleted.
- Director Document Distribution, which the bank uses to publish CD-ROM statements for customers.
- Director Workflow, to automate work processes, used in conjunction with Director Records Management and the Accounts Payable template.

This aggressive deployment was motivated in part by Director's transparent integration with the Premier bank platform and its ancillary products. For example, the bank uses Business Process Manager for Premier for new account opening, and as a workflow for getting approvals on loan documents. When these processes are complete, the documents are archived automatically into Director. Because every kind of operational and loan document is being scanned or automatically archived into the system, all research, including official review, is simplified. "It's been a great tool for our auditors, our loan review people and even our external examiners," Miller says. "When they come in now, we put them at a Director workstation, and they pull electronic files themselves to do their exams."

Efficiency Means Cost Savings

The effects of electronic efficiency are being seen in other ways. Even though the bank has been scanning full loan files into Director for a relatively short time, storage space for paper loan documents has been reduced by half, and that amount will shrink further as the bank continues to scan old packages into the system. Add to that the savings on paper forms and filing materials, as well as the personnel time no longer needed to hunt down physical files, and the financial benefits start to mount up. "Because of Director, we've saved at least two or three FTEs, and kept our employment level steady in the operations center." says Frank Sexton, Executive Vice President and Chief Operating Officer.

Growing into the Future

New Peoples Bank's latest push is toward broader use of mobile delivery channels. The bank already provides iPhone® and Android® apps for customers to view transactions and statements, and to pay bills. Sexton sees mobile as an opportunity to serve customers better. "We can offer our customers greater access to their own records through Director," he says. "That will help us from a staffing standpoint, as well as being more convenient for our customers, who increasingly want the ability to do their own research online or through their mobile devices." New Peoples Bank is also employing mobile technology internally. The bank was a beta site for Director Mobile Access for iPad®, enabling management to approve documents remotely using Director Workflow on Apple iPad devices. "All of our senior management and directors have iPads," Sexton says. "They read their board reports and use their iPads in board meetings. That's why we were eager to get the Accounts Payable template for Director Workflow in here right away, so we could beta test it with the iPad. They've found it very easy to use."

"Director is user-friendly," Miller says. "It's easy to train branch personnel to get the information they need. It's a very capable system." Sexton agrees. "To me, the best part is all the things that Director does in the background that our employees don't even have to think about," he says. "Signature cards pop up on the screen when needed, check images pop up on the screen, and links to Director content are already there in Navigator for Premier. As a result, the learning curve is a lot shorter for an employee to get to a higher level of customer service.

Our Nearest Branch Is At Your Fingertips...

Discover a whole new way to bank with online banking. New Peoples Bank Online Banking provides you with the tools to take control of your money and to simplify how you manage your finances. It's FREE, easy and secure!

- **Bank at your convenience – Check balances, pay bills, review account activity, transfer money anytime, anywhere.**
- **Securely manage your accounts. Multiple layers of security help keep your information safe and secure.**

E-Statements

Enjoy access to statements without waiting for them to arrive in the mail. You can view and print your statement or save a PDF version. eStatements are recommended by identity theft experts as a better way to protect your information.

Pop Money

The fast and easy personal payment system for sending money to family and friends. All you need is the recipient's name and email address or their mobile phone number and you can transfer money from your account into theirs. Personalize it with an e-greeting card for those times you want to make it extra special.

Mobile Money

Delivers the information you need, when you need it with multiple layers of security. Access it on any cell phone with text messaging or a mobile browser. View account balances, account activity, transfer funds and pay bills.

Mobile App

Enroll in online banking and download our free mobile app for your iPhone or Android mobile device.

Online Bill Pay

The fast and easy way to start paying your bills without the hassles of writing checks. Simply sign on, select who you want to pay, enter the payment amount, set the payment date and submit – it's that easy.

Alerts

Set up alerts and stay informed anywhere, anytime. Easily monitor your accounts via email or text message. Receive notification of your balances and important activity. Know when your direct deposit has arrived. Get faster notification when overdrafts have occurred. Track your debit and credit card spending to stay within your budget. Monitor your card transactions such as online or international purchases.

Corporate Officers

Jonathan H. Mullins, President and Chief Executive Officer
Frank Sexton, Jr., Executive Vice President and Chief Operating Officer
C. Todd Asbury, Executive Vice President, Chief Financial Officer, Secretary and Treasurer

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