



Dear Fellow Shareholders,

I want to personally thank each and every one of you for your investment in and continued patronage of New Peoples Bank. The Board of Directors, Management and all of our employees continue to work diligently to resolve problems from the past and to deal with the challenges of the present and future. During 2012, we have begun to see the fruits of our labor. The major areas that we have been addressing are increasing capital levels, improving asset quality, serving our customers, improving our earnings, and complying with regulations.

In 2012, we worked very hard to improve the capital position of the bank. We successfully raised nearly \$18 million in new capital, primarily from our existing shareholders. In today's environment, this seemed to be a nearly impossible objective but we were blessed to have achieved it. We also have reduced the level of higher risk assets through a process of shrinking the bank. The combination of these efforts has increased our capital ratios, successfully meeting our short-term goals as laid out in our strategic and capital plan.

I am also pleased to inform you that we are experiencing improvements in the asset quality of the bank. The most significant improvement is reflected in the total amount of loans classified special mention, substandard, and doubtful. The total amount of these classified assets decreased from \$145.5 million at the end of 2011 to \$79.1 million at the end of 2012, a decrease of \$66.4 million, or 45.64%. During 2012, the ratio of nonperforming assets (nonaccrual loans, other real estate owned properties, and past due loans greater than 90 days still accruing interest) to total assets lowered to 6.67% at December 31, 2012 as compared to 7.55% at December 31, 2011. In addition, loans past due between 30 days and 89 days have decreased as well. The total of these loans decreased from \$30.9 million at the end of 2011 to \$18.4 million at the end of 2012, a decrease of \$12.5 million, or 40.45%. We have made several changes to improve our credit administration and with the concentrated efforts of our Board and employees we are making great strides at improving the asset quality of the bank, making it safer and stronger.

We have also been concentrating in the past couple of years on training and developing our staff to serve our customers and to meet our communities' financial needs. This is an on-going process. I am very proud of the team of employees that we have and I believe they are ready, willing and able to meet your financial needs. To ensure continuity of service in the future, we have developed a comprehensive succession plan that will ensure that all of our stakeholders will continue to receive the service and performance that they desire and deserve. We have also equipped our team with products that are designed to meet our customer's needs-products that are innovative, convenient and competitively priced to help us generate business and profits through our existing customer base and new customers as well. Enclosed is a guide book that introduces you to our commercial lenders, branch managers, financial service representatives and our new insurance agency staff. Also, included in this material are the products that we offer. Feel free to call upon these individuals for your banking, investment and insurance needs. We will work hard to meet your financial needs.

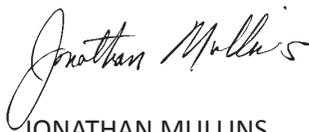
Earnings for the year 2012 improved but were still negative for the year. However, we made our first net quarterly profit in the fourth quarter of 2012 since the first quarter of 2011. In the year 2012, the net loss was primarily related to four areas: lower net interest income, provisions for loan losses, other real estate related expenses and a valuation allowance on our deferred tax asset. We maintained a strong net interest margin of 4.13% in 2012 as compared to 4.29% in 2011. However, the decreased volume of earning assets in 2012 and still high levels of nonperforming assets decreased net interest income to \$27.3 million in 2012 from \$32.2 million in 2011. In 2012, we made \$4.8 million in provisions for loan losses. Although lower than 2011's total of \$8.0 million, the provision level remains high. Expenses related to other real estate owned properties were \$4.5 million in 2012. This category of expenses was less than the \$5.6 million in 2011, but it remained a negative impact on earnings. We also incurred a valuation allowance on our deferred tax asset totaling \$4.1 million during which has a direct impact on the net loss in 2012. We may be able to reverse the valuation allowance in the future as earnings improve resulting in taxable income to offset the net loss tax carryforwards. The year 2013 remains a year focused on resolving the loan problems of the past. Consequently there most likely will be continued provisions to the allowance for loan loss, losses on other real estate owned properties and reduced levels of net interest income. However, we do not believe it will be at the magnitude of last year or the year before. We continue to seek opportunities to improve earnings through new products and through improving efficiency.

Lastly, we still face challenges daily and in the future as we deal with burdensome regulations and a weak economy. We remain under a formal written agreement with our primary banking regulators and believe that we have complied with the majority of the provisions, but we have not yet achieved full compliance under their standards. We have made and will continue to make every effort to reach full compliance and be freed from this regulatory burden as soon as possible. In addition to the written agreement, we face other regulatory changes through the Dodd-Frank Act and potential challenges with Basel III compliance once that is finalized. The impact of these regulations pose challenges to us that are still not fully known. In addition to regulatory compliance, a weak economy, both locally and nationally, makes our complete recovery a more laborious task. But with continued perseverance, focus and good decisions, I believe we will continue to rise to the challenges and make your bank a stronger, safer, and once again, a profitable institution.

We continue to improve in the key areas and many important trends are finally heading in the right direction.

Finally, to each and every shareholder that participated in the capital raise and made it a success, "THANK YOU" for having confidence in your bank. I believe we are on the road to a better future and barring economic collapse and other matters beyond our control, we will see a stronger New Peoples Bank in the coming years. Again, the Directors, Management and employees of New Peoples Bank are working together to ensure your investment is protected and becomes a viable and profitable asset to you in the years to come.

SINCERELY,



JONATHAN MULLINS  
PRESIDENT AND CEO