UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2012

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

FDIC Certificate Number: 20568-1

LUMBEE GUARANTY BANK

(Exact Name of Issuer as Specified in Its Charter)

North Carolina (State or other jurisdiction of Incorporation of organization)	**56-0990387** (I.R.S. Employer Identification Number)
403 East Third Street **Pembroke, NC** (Address of Principal Executive Offices)	**28372** (Zip Code)

Registrant's telephone number, including area code: (910) 521-9707

Securities registered pursuant to Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $2.00

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

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

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 2 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. [X] Yes [ ] No

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

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

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

[ ] Large accelerated filer	[ ] Accelerated filer
[ ] Non-accelerated filer (Do not check if a smaller reporting company)	[X] Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity, consisting solely of common stock, held by non-affiliates of the issuer (3,417,565 shares) computed by reference to the closing price of such stock was $51,263,475 as of June 30, 2012.

The number of shares of outstanding common stock of the issuer as of December 31, 2012 is 3,417,565.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statements to be delivered to shareholders in connection with the annual meeting of stockholders to be held May 29, 2013, are incorporated by reference into Form 10-K Part III, Items 10, 11, 12, 13, and 14.

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Part I

Item 1. Business

General Description of Business

Lumbee Guaranty Bank (the "Bank") was incorporated under the laws of North Carolina on September 29, 1971, and commenced operations as a North Carolina state-chartered bank on December 20, 1971. The Bank conducts its operations through 14 full-service offices located in Robeson, Cumberland and Hoke Counties.

History

Lumbee Guaranty Bank was founded in 1971, when a group of individuals decided there was a need for a community bank to serve the local community, which has a high concentration of Native American Indians as residents. The incorporators sold stock to roughly 750 subscribers, 97% of whom were Indian, and the Bank officially became the first Native American Indian-owned bank in the United States.

Location and Service Area

Lumbee Guaranty Bank's corporate headquarters are located in the Town of Pembroke, North Carolina. The bank operates two general banking offices in the Town of Pembroke, three branches in the City of Lumberton and branches in the Towns of St. Pauls, Red Springs, Maxton, Fairmont and Rowland, all in Robeson County, North Carolina. Three additional branches are located in neighboring Cumberland County in the Town of Hope Mills and the City of Fayetteville. The Bank also operates a branch in the City of Raeford located in Hoke County, North Carolina.

A substantial portion of the Bank's market is located in Robeson County, North Carolina. Robeson County is the largest county in the State of North Carolina comprising of 29 townships serviced by mostly small business, manufacturing and service industries, the University of North Carolina at Pembroke and Southeastern Regional Medical Center. The United States Census Bureau estimated that Robeson County population was 134,168 as of 2010. With the rural nature of the county the Bank's business is seasonal to some extent due to the emphasis on agriculture and construction related trades located in the county.

The Bank also has a presence in North Carolina's Cumberland & Hoke Counties. These counties serve as home to Fort Bragg which is the United States largest Army installation. The United States Census Bureau estimated that Cumberland & Hoke Counties had populations of 319,431 and 46,952 respectively, as of 2010. Fayetteville serves as Cumberland's county seat and has an estimated population of 205,678, making it the sixth-largest municipality in North Carolina. Fort Bragg & Pope Army Airfield contribute $4.5 billion annually into the region's economy, making Fayetteville one of the best retail markets in the country. In addition to Fort Bragg the area's largest employers include; Cumberland County School System, Wal-Mart Stores & Distribution Center, Goodyear Tire Manufacturing Plant, and Cape Fear Valley Health System.

Banking Services

The Bank operates for the primary purpose of providing an adequate return to our shareholders while safely meeting the banking needs of individuals and small to medium sized businesses in the Bank's service area by developing personal, hometown associations with these customers.

The Bank offers a wide range of banking services including checking accounts, savings accounts, money market accounts, certificates of deposit, and individual retirement accounts. All deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to the maximum amount allowed by law.

We offer a full range of lending services including commercial real estate, consumer, residential, and agricultural and raw land. We offer non-deposit investment products for sale to the public through Capital Investment Group.

Other Bank services include safe deposit boxes, notary public, consumer online banking, bill payment and e-statements, wire transfers, direct deposit of payroll and social security checks. We operate automated teller machines at each of our fourteen full service banking centers. The Bank also offers VISA credit and debit card services.

The Bank's primary sources of revenue are interest income from its lending activities, and, to a lesser extent, from its investment portfolio. The Bank also earns fees from lending and deposit activities. The major expenses of the Bank are interest on deposit accounts, general and administrative expenses, data processing, occupancy and related expenses. The Bank does not provide trust services.

Lending Activities

The Bank's lending products include commercial, real estate, consumer, residential, agricultural and land loans. The loan portfolio constituted 62.4% of the earning assets of the Bank at December 31, 2012 and has historically produced the highest interest rate spread above the cost of funds. The Bank's loan officers and loan committees have the authority to extend credit under limits approved by the Board of Directors. Each loan officer or loan committee is assigned a specific level of loan authority. Having loan authority gives the individual or committee the ability to authorize the extension of credit. Loan authority also sets the maximum level of credit exposure, including overdrafts, to a single borrower or related borrower(s). The Bank has two loan committees that would be designated as Management Loan Committees – one is composed of the Chief Credit Officer, Chief Operating Officer, and senior lenders and the other is composed of the President/CEO, Chief Credit Officer, and Chief Operating Officer. Any credit request that exceeds the authority of the Management Loan Committee on which the President/CEO sits as a member is presented to the full Board of Directors. The Loan Committees not only act as approval bodies to ensure consistent application of the Bank's loan policy, but also provide valuable insight through communication and pooling of knowledge, judgment and experience of its members.

In 2012, the Bank segmented its gross loans among four broad categories to monitor lending activities. The largest category of loans, comprising of 76.8% of the loan portfolio, was commercial loans. Installment loans added another 11.9% of the loan balance. Mortgage loans and Credit Lines were 6.7% and 4.6% respectively.

The Bank's loan policies are established and approved by the Bank's Board of Directors. These policies identify criteria that should be considered when evaluating a loan request. Management will establish specific policy and underwriting guidelines for each loan product offered by the Bank, consistent with the content of the policies, as well as safe and sound banking practices. Loan policies are intended to provide a framework for the consistent evaluation of loan requests presented to the Bank. However, the Board of Directors recognizes that there are times when exceptions to these policies, underwriting guidelines, and procedures will be necessary. Therefore, the Bank encourages judgmental evaluation of each loan request, and will allow for such exceptions when appropriately and properly mitigated and documented.

All loans in the Bank's portfolio are risk-rated using a combination of risk factors to quantify the risk grade. The risk grade is set at the inception of the loan through the approval process, and is periodically re-evaluated based on the approved loan servicing requirements and updated financial information.
Loans are subject to risk from the conditions of the economy in the Bank's market area and also the national economy. The complexity of potential loan structures, amounts, collateral, financial conditions of

the borrowers and guarantors, and the changing marketplace require the Bank to exercise good judgment in evaluating the risk factors.

Investments

The Bank invests a portion of its assets in Government-sponsored enterprises debt instruments, state, county and municipal obligations, and equity securities. The Bank's investments are managed in relation to loan demand and deposit growth and are generally used to provide for the investments of excess funds at reduced yields and risk relative to increases in loans or to offset fluctuations in deposits. The Bank does not engage in any hedging activities. Additionally, the Bank does not own any Government-sponsored enterprises equity securities.

Deposit Activities

Deposits are the major source of funds for lending and other investment activities. The Bank considers the majority of its regular savings, demand, NOW and money market deposits and small denomination certificates of deposit, to be core deposits. These accounts comprised 76.5% of the Bank's total deposits at December 31, 2012. Certificates of deposit in denominations of $100,000 or more represented an additional 20.6% of deposits at year end. Large denomination certificates of deposit have historically remained a stable source of funds at out bank. At December 31, 2012 the Bank had brokered deposits in the amount of $7.9 million or 2.8% of total deposits.

The Bank is a participating institution in the Certificate of Deposit Account Registry Service ("CDARS"). CDARS is a technology based service that the Bank can incorporate into its traditional product offering. The service uses a web based application that allows participating institutions across the country to swap, sell, or buy deposits from other members. The CDARS program has limitations but can be used to attract new deposits, diversify our funding sources, and manage liquidity.

Bank Website

The Bank maintains an internet website at www.lumbeeguarantybank.com. This website contains information relating to the Bank and its business.

Employees

At December 31, 2012, the Bank had 96 full time and 5 part time employees, none of whom are represented by a union or covered by a collective bargaining agreement. Management considers employee relations to be good.

Competition

The Bank encounters strong competition both in making loans and in attracting deposits. The deregulation of the banking industry and the widespread enactment of state laws that permit multi-bank holding companies as well as an increasing level of interstate banking have created a highly competitive environment for commercial banking. In one or more aspects of it business, the Bank competes with other commercial banks, credit unions, finance companies, brokerage and investment banking companies, and other financial intermediaries. Many of these competitors have substantially greater resources and lending limits and may offer certain services that we do not currently provide. Recent federal and state legislations have heightened the competitive environment in which financial institutions must conduct their business. Accordingly, the potential for competition among financial institutions of all types has increased significantly.

We compete by relying upon specialized services, responsive handling of customer needs, and personal contacts by our officers, directors, advisory board members, and staff. Large multi-branch banking competitors tend to compete primarily by rate and the number of branch locations while smaller, independent financial institutions, like the Bank, tend to compete primarily by a combination of rate and personal service.

Currently, in Robeson County, the Bank competes with nine other commercial banks that operate 22 branches in the County. In the Federal Deposit Insurance Corporation's ("FDIC") Summary of Deposits for June 30, 2012, the Bank held 23.57% of the deposits in Robeson County, which represents the second largest market share of all financial institutions. In Cumberland County, the Bank competes with thirteen other financial institutions that operate 66 branches and held 0.896% of the market share of deposits. In Hoke County, the Bank competes with three other financial institutions that operate 3 branches and held 6.64% of the market share of deposits.

Government Supervision and Regulation

The following discussion is a summary of the principal laws and regulations that comprise the regulatory framework that applies to the Bank. Other laws and regulations that govern various aspects of the operations of banks are not described, although violations of such laws and regulations could result in supervisory enforcement action against the Bank. The following descriptions summarize the material terms of the principal laws and regulations and are qualified in their entirety by reference to the applicable laws and regulations:

General The events of the past few years have led to numerous new laws in the United States and internationally for financial institutions. The Dodd-Frank Wall Street Reform and Consumer Protection Act ("The Act" or "Dodd-Frank"), which was enacted in July 2010, significantly restructures the financial regulatory regime in the United States. From our perspective, the Dodd-Frank Act primarily did the following:

- Created the Financial Stability Oversight Council charged with identifying systemically important institutions, whose distress or failure could imperil our financial stability, and recommending enhanced prudential standards for such institutions.
- Established an orderly liquidation regime for such systemically important institutions in an effort to end "too-big-to-fail".
- Required originators and securitizers of mortgage loans to retain part of the loan assets that are bundled into securities in order to incent them to exercise more caution.
- Established a regulatory framework for derivatives and places limitations on bank proprietary trading.
- Provided more stringent capital requirements for banks.
- Established regulatory oversight of the credit rating agencies through the SEC.
- Created a new Bureau of Consumer Financial Protection with broad authority to write rules to protect consumers. At the federal level, the FDIC will continue to examine us for compliance with such rules.
- Added significant new requirements relating to residential mortgage loans, including a requirement that originators determine a consumer's ability to repay a loan.

Many aspects of the The Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on our Bank, our customers and the financial industry in general. The following provisions are expected to directly impact our Bank:

- The federal banking agencies are directed to make capital requirements countercyclical. Such that the amount of capital required increases in times of economic expansion and decreases in times of economic contraction. In effect building a buffer in an expanding economy.
- The Act required the FDIC to base deposit insurance assessments on an insured

depository institution's total consolidated assets minus its tangible equity, rather than on its deposit base (subject to adjustment for custodial banks and bankers' banks). Basing assessments on assets rather than deposits should benefit smaller banks and adversely impact larger banks, as small banks rely more on deposits to fund lending than larger banks do.

- The Act made permanent the $250,000 limit for federal deposit insurance and increases the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000.
- The Act repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.
- Mortgage originators are placed under a new duty of care to be qualified and registered and licensed in accordance with state or federal law, including the Secure and Fair Enforcement for Mortgage Licensing Act ("S.A.F.E. Act"). A mortgage originator will also have a duty to include on all loan documents his or her unique identifier as provided by the Nationwide Mortgage Licensing System and Registry.
- The Act established minimum standards for mortgages, defined high cost mortgages, and specified licensed appraiser requirements.
- The Bank will have to comply with provisions related to executive compensation and corporate governance such as say on pay and clawback provisions on incentive compensation, although the effective date has been extended for smaller reporting companies such as our Bank.
- The Act revised the accredited investor standard for raising capital in a private offering.

The implications of the The Act for our Bank will depend to a large extent on the manner in which rules adopted pursuant to The Act are implemented by the primary U.S. financial regulatory agencies as well as potential changes in market practices and structures in response to the requirements of The Act. Our Bank continues to analyze the impact of rules adopted under The Act. However, the full impact will not be known until the rules, and other regulatory initiatives that overlap with the rules are finalized and their combined impacts can be understood.

The Sarbanes-Ox1ey Act of 2002 was signed into law on July 30, 2002. It comprehensively revised the laws affecting corporate governance, accounting obligations and corporate reporting for companies with equity or debt securities registered under the Securities Exchange Act of 1934. Compliance with this complex legislation and with subsequent Securities and Exchange Commission rules has since been a major focus of all public corporations in the United States, including the Bank. Among the many significant provisions of the Sarbanes-Oxley Act, Section 404 and related Securities and Exchange Commission rules created increased scrutiny by management, the internal auditors, and external auditors of our systems of internal controls over financial reporting. Dodd-Frank eliminated the auditor attestation of Section 404 of the Sarbanes-Oxley Act of 2002 for smaller reporting banks like Lumbee Guaranty Bank. However, the Bank's certifying officers must still attest to the effectiveness of the Bank's internal controls.

As a state-chartered bank, the Bank is subject to regulation, supervision and examination by the North Carolina Commissioner of Banks {"NCCOB") and the FDIC. Federal and North Carolina laws govern the activities in which the Bank may engage, the investments that it may make and limit the aggregate amount of loans that may be granted to one borrower to 15% of the bank's capital and surplus unless the loans are secured by certain types of marketable collateral. Various consumer and compliance laws and regulations also affect the Bank's operations.

The NCCOB and FDIC conduct regular examinations of the Bank and review such matters as the adequacy of loan loss reserves, quality of loans and investments, management practices, compliance with laws, and other aspects of its operations. In addition to these regular examinations, the Bank must furnish the FDIC with periodic reports containing a full and accurate statement of its affairs. Supervision, regulation and examination of banks by these agencies are intended primarily for the protection of depositors rather than shareholders.

Insurance of Accounts, Assessments and Regulation by the FDIC The deposits of the Bank are insured by the FDIC up to the limits set forth under applicable law. The deposits of the Bank are also subject to the deposit insurance assessments of the FDIC.

The FDIC is authorized to prohibit an insured institution from engaging in any activity that the FDIC determines by regulation or order to pose a serious threat to the respective insurance fund. Also, the FDIC may initiate enforcement actions against such banks. The FDIC may terminate the deposit insurance of any depository institution if it determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed in writing by the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If deposit insurance is terminated, the deposits at the institution at the time of termination, less subsequent withdrawals, shall continue to be insured for a period from six months to two years, as determined by the FDIC. Management is aware of no existing circumstances that could result in termination of the Bank's deposit insurance.

The FDIC has authority to impose special assessments from time to time. In February 2009, the FDIC amended the restoration plan for the Deposit Insurance Fund ("DIF"). The plan imposed an emergency special assessment on all banks during 2009 in an effort to restore the Deposit Insurance Fund to an acceptable level. The special assessment increased the Bank's insurance premiums expense by $107,344, or approximately 25% of the total expense incurred by the Bank to provide FDIC insurance coverage for our customers in 2009. There was no special assessment in 2012, 2011, or 2010.

In November 2009, the FDIC adopted the final rule amending the assessment regulations to require insured depository institutions to prepay their quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012, on December 30, 2009, along with the risk-based assessment for the third quarter of 2009. This amounted to approximately $1.1 million for the Bank, which will be expensed over the three year period. The Bank had adequate funds to remit this payment that was substantially higher than a typical quarterly deposit insurance assessment At December 31, 2011, $260,934 in prepaid deposit insurance assessments is included in other assets in the accompanying consolidated balance sheet.

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by Dodd-Frank. Under the new restoration plan, the FDIC ceased the uniform three-basis point increase in initial assessment rates. It maintains the current schedule of assessment rates for all depository institutions. At least semi-annually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking, if required.

In November 2010, the FDIC issued a final rule to implement provisions of Dodd-Frank that provide for temporary unlimited coverage for non-interest-bearing transaction accounts. The separate coverage for non-interest-bearing transaction accounts became effective on December 31, 2010 and terminated on December 31, 2012.

On April 1, 2011, the deposit insurance assessment base changed from total domestic deposits to average total assets minus average tangible equity, pursuant to a rule issued by the FDIC as required by Dodd-Frank.

Capital

The FDIC has issued risk-based and leverage capital guidelines applicable to banking organizations that they supervise. Under the risk-based capital requirements, the Bank generally is required to maintain a minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) of 8%. At least half of the total capital is to be composed of common equity, retained earnings and qualifying perpetual preferred stock, less certain intangibles ("Tier I capital"). The remainder may consist of certain subordinated debt, certain hybrid capital instruments and other qualifying preferred stock and a limited amount of the loan loss allowance ("Tier 2 capitals" and, together with Tier I capital, "total capital").

The FDIC may take various corrective actions against any undercapitalized bank and any bank that fails to submit an acceptable capital restoration plan or fails to implement a plan accepted by the FDIC. These powers include, but are not limited to, requiring the institution *to* be recapitalized, prohibiting asset growth, restricting interest rates paid, requiring new election of directors, and requiring the dismissal of directors and officers. The Bank presently maintains sufficient capital to remain in compliance with these capital requirements.

The risk-based capital standards of the FDIC explicitly identify concentrations of credit risk and the risk arising from non-traditional activities, including an institution's abi1ity to manage these risks, as important factors to be taken into account by the agency in assessing an institution's overall capital adequacy. The capital guidelines also provide that an institution's exposure to a decline in the economic value of its capital due to changes in interest rates be considered by the agency as a factor in evaluating a bank's capital adequacy.

The Bank did not participate in the U.S. Treasury's Department's Capital Purchase Program ("TARP"). We are committed to remain well-capitalized.

The Basel Committee provides a framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as "Basel III". Basel III, when implemented by the U.S. banking agencies and fully phased-in in 2019, will require banks to maintain substantially more capital, with a greater emphasis on common equity. As of December 31, 2012 the implementation of Basel III was indefinitely suspended. The FDIC has given no indication when or if these new requirement will go into effect.

<u>Other Safety and Soundness Regulations</u> There are a number of obligations and restrictions imposed on depository institutions by Federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the FDIC insurance fund in the event that the depository institution becomes in danger of default or is in default. The FDIC's claim for reimbursement is superior to claims of shareholders of the insured bank but is subordinate to claims of depositors, secured creditors and holders of subordinated debt (other than affiliates) of the insured bank.

The Federal banking agencies also have broad powers under current Federal law to take prompt corrective action to resolve problems of banks and other insured institutions. The Federal Deposit Insurance Act requires that the federal banking agencies establish five capital levels for insured depository institutions. The category levels are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." It also requires or permits such agencies to take certain supervisory actions should an insured institution's capital level fall. For example, an "adequately capitalized" institution is restricted from accepting brokered deposits. An "undercapitalized" or "significantly undercapitalized" institution must develop a capital restoration plan and is subject to a number of mandatory and discretionary supervisory actions. These powers and authorities are in addition to the traditional powers of the Federal banking agencies to deal with undercapitalized institutions. The Bank is "well capitalized" under FDIC guidelines.

Laws restrict the interest and charges which the Bank may impose for certain loans. The Bank's loan operations also are subject to certain federal laws, such as the Truth in Lending Act, the Home Mortgage Disclosure Act, the Equal Credit Opportunity Act, and the Fair Credit Reporting Act. The deposit operations of the Bank also are subject to the Truth in Savings Act, the Right to Financial Privacy Act, the Electronic Funds Transfer Act and Regulation E, the Expedited Funds Availability Act and Regulation CC, and the Bank Secrecy Act. These and other similar laws result in significant costs to financial institutions and create the potential for liability to customers and regulatory authorities.

Federal regulatory authorities also have broad enforcement powers over the Bank, including the power to impose fines and other civil and criminal penalties, and to appoint a receiver in order to conserve the assets of any such institution for the benefit of depositors and other creditors.

The Federal Bureau of Investigation ("FBI) has sent, and will send, banking regulatory agencies lists of the names of persons suspected of involvement in terrorist attacks and other terrorist activities as they may occur and are investigated. The FBI has requested, and will request in the future, that the Bank search its records for any relationships or transactions with persons on those lists. In addition, on an ongoing basis, the Office of Foreign Assets Control ("OFAC"), a division of the Department of the Treasury, is responsible for helping to insure that United States entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, it must freeze that account, file a suspicious activity report and notify the FBI. The Bank actively checks all OFAC areas including, but not limited to, new accounts, wire transfers and customer files.

In October 2001, the USA Patriot Act of 2001 ("Patriot Act") was enacted in response to the September 11, 2001 terrorist attacks in New York, Pennsylvania and Northern Virginia. The Patriot Act is intended to strengthen U.S. law enforcement's and the intelligence communities' abilities to work cohesively to combat terrorism. The continuing impact on financial institutions of the Patriot Act and related regulations and policies is significant and wide ranging. The Patriot Act contains sweeping anti-money laundering and financial transparency laws, and imposes various regulations, including standards for verifying customer identification at account opening, and rules to promote cooperation among financial institutions, regulators, and Jaw enforcement entities to identify persons who may be involved in terrorism or money laundering.

The federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

In June 2010, the Federal Reserve, the Office of the Comptroller of the Currency ("OCC"), and FDIC issued a comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk taking. The guidance, which covers all employees who have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

The FDIC will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Bank, that are not "large, complex banking organizations". These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In October 2011, the SEC Division of Corporate Finance issued new guidance describing disclosures of cyber security incidents and attacks and the prevention and remediation measures and expenses that public companies have or may suffer. The Bank has in place an online banking channel, electronic mail services and select various systems which correspond with external public and private networks not owned or operated by us. The Bank's online banking services are outsourced to a national firm specializing in internet banking and protecting its clients from cyber-attacks. Methods of defense include but are not limited to Secured Socket Layer (“SSL”) security, multifactor authentication and Internet Protocol ("IP") white listing. The Bank also utilizes the services of an intrusion prevention firm to secure our inbound internet channels with real time monitoring and blocking of malicious activity. Event log monitoring activities are in place by the bank's Information Technology staff and notifications are setup if abnormalities are detected. At December 31, 2012, the Bank has not experienced any significant security incidents. Adequate insurance coverage is in place should an incident pose financial and/or reputational risk.

Payment of Dividends Under North Carolina banking law, as amended during 2012, the Bank may declare such dividends it deems proper, provided that it may not make any distribution that reduces its capital below required levels, and it may not declare a dividend if, after the dividend, it cannot pay its debts as they become due. Under the FDIC’s rules, a bank may not declare or pay any dividend if, after making the dividend, the bank would be “undercapitalized”, as defined in regulations of the FDIC. In Addition, the Bank is subject to various general regulatory policies relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. In 2012 the bank declared a dividend of $0.16 per share, paying out a total of $546,810 in dividends to Shareholders.

Community Reinvestment The requirements of the Community Reinvestment Act (“CRA”) are applicable to the Bank. The CRA imposes on financial institutions an affirmative and ongoing obligation to meet the credit needs of their local communities, including low-to-moderate income neighborhoods, consistent with the safe and sound operation of those institutions. A financial institution’s efforts in meeting community credit needs currently are evaluated as part of the examination process pursuant to a number of assessment factors. These factors also are considered in evaluating mergers, acquisitions and applications to open a branch or other facility. The Bank strives to meet the credit needs of all aspects of its market, consistent with safe and sound banking practices.

Economic and Monetary Polices The Bank’s operations are affected not only by general local economic conditions, but also by the economic and monetary policies of various regulatory authorities. In particular, the Federal Reserve regulates money, credit and interest rates in order to influence general economic conditions. These policies have a significant influence on overall growth and distribution of loans, investments and deposits and affect interest rates charged on loans or paid for deposits. Federal Reserve monetary policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

It seems that the worst of the economic downturn is in the past, but the economy still has many resources that are being underutilized. The national unemployment rate for January 2013 was 7.9%. This is a higher rate than most economists would consider to be the natural rate of unemployment, but it is down considerably from the 10% peak in October 2009. Economic growth's story is similar to unemployment: gross domestic product has improved from the worst of the recession when the economy was contracting, but its recent levels are still considered subpar. For 2013, the consensus economists' prediction for gross domestic product is 2.0%. While positive, this is not the level that will quickly bring down the unemployment rate. Inflation, one of the main determinants of interest rates, continues to be close to or within the Federal Open Market Committee's comfort zone of less than 2 percent on an annual basis. As long as inflation and inflation expectations remain in check, it is likely that interest rates will remain low. Inflation is forecasted to remain close to 2% through 2015, coinciding with the Federal Reserve's statement of holding interest rates low through the same time period. The economy is showing improvement compared to the negative results from earlier in the downturn. However, it looks like a return to strong economic growth and low unemployment will take several years.

Item 1A. Risk Factors

Not Applicable

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The Bank is headquartered in the Main Office at 403 East Third Street, Pembroke, North Carolina. In addition, the Bank owns and operates retail banking offices in North Carolina located at 915 West Third Street in Pembroke, 600 North Pine Street in Lumberton, 2899 West Fifth Street in Lumberton, 4845 Fayetteville Road in Lumberton, 306 South Fifth Street in St. Pauls, 3500 North Main Street in Hope Mills, 104 Martin Luther King, Jr. Drive in Maxton, 215 East Fourth Street in Red Springs, 201 North Bond Street in Rowland, 301 North Walnut Street in Fairmont, 2315 Bloom Avenue in Fayetteville, and 720 Harris Avenue in Raeford. The Bank owns an additional facility that is utilized for its Operations Center at 410 East Third Street in Pembroke.

The Bank is obligated on a lease of its retail banking location at 6313 Raeford Road in Fayetteville, North Carolina. The initial term of the lease was for one year expiring July 31, 2007, with two renewal options of five years upon expiration of the initial term. The Bank exercised the first five year option on August 1, 2007. The lease was renewed again on August 1, 2012 for one year with a renewal option for an additional year upon expiration of the current agreement. The lease calls for monthly payments of $2,100.00.

The Bank is obligated on a month to month lease for a storage facility on East 4th Street in Lumberton, North Carolina. The lease calls for monthly payments of $500.00 and can be terminated at any time by either party.

For additional information on properties and leases, see Note F of the notes to the financial statements. All premises occupied by the Bank are considered to be adequate.

Item 3. Legal Proceedings

In the normal course of business the Bank is involved in various legal proceedings. After consultation with legal counsel, management believes that any liability resulting from such proceedings will not be material to the consolidated financial statements.

Item 4. Mine Safety Disclosure

Not Applicable

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Shares of the Bank's Common Stock are neither listed on any stock exchange nor quoted on the NASDAQ Stock market and trades infrequently. Shares of Common Stock have periodically been sold in a limited number of privately negotiated transactions between stockholders. The high and low selling prices of our Common Stock are based on information available to the Bank. However, there may have been other transactions at other prices not known to the Bank. As of December 31, 2012, there were approximately 1,965 record holders of the Bank's Common Stock.

Market Price

2011:	High	Low
1st Quarter	$16.00	$16.00
2nd Quarter	$16.00	$15.00
3rd Quarter	$18.00	$15.00
4th Quarter	$16.00	$14.75

2012:	High	Low
1st Quarter	$16.00	$15.00
2nd Quarter	$16.00	$15.00
3rd Quarter	$16.00	$15.00
4th Quarter	$15.00	$15.00

Dividends Declared

2011:	Per Share
June	$0.08
December	$0.08

2012:	Per Share
June	$0.08
December	$0.08

Item 6. Selected Financial Data

The following table sets forth certain selected financial data concerning the Bank for the years ended December 31, 2012, 2011, 2010, 2009, and 2008. This information should be read in conjunction with and is qualified in its entirety by reference to the detailed audited consolidated financial statements and notes thereto which are included in this report.

Income Statement Date	2012	2011	2010	2009	2008
(in thousands)					
Interest Income	$13,876	$14,096	$13,814	$13,270	$13,801
Interest Expense	2,759	2,979	3,597	3,888	4,856
Net Interest Income	11,117	11,117	10,217	9,382	8,945
Provision for loan loss	606	833	962	657	510
Net interest income after provision for loan loss	10,511	10,284	9,255	8,725	8,435
Other operating income	2,497	2,280	2,083	2,489	2,823
Other operating expenses	10,412	10,127	9,843	10,111	8,478
Income taxes	481	235	100	36	659
Securities gains (losses)	15	(168)	11	40	21
Extraordinary items	0	0	0	0	0
Net Income	$2,130	$2,034	$1,406	$1,107	$2,142
Per Share Data					
Net income	$0.62	$0.60	$0.41	$0.32	$0.63
Year end book value	9.32	8.59	8.33	11.24	10.93
Dividends declared	0.16	0.16	0.12	0.21	0.27
Balance Sheet Date					
(in thousands)					
Loans, net	$175,347	$179,723	$167,840	$168,224	$145,296
Investments	96,907	61,074	63,439	53,674	55,362
Total Assets	326,137	304,205	283,123	265,730	236,693
Deposits	284,872	260,590	233,225	213,532	180,532
Shareholders' Equity	31,844	30,156	28,476	27,433	26,677

Key Ratios

The following schedule of key ratios is presented for the years December 31, 2012, 2011, 2010, and 2009.

	2012	2011	2010	2009
Return on Equity and Assets				
Return on Assets	0.67%	0.67%	0.52%	0.42%
Return on Equity	6.76%	6.68%	5.01%	4.04%
Dividend Payout Ratio	25.68%	26.88%	29.94%	46.32%
Equity to Assets (averages)	9.87%	9.98%	10.07%	11.22%
Ending Equity to Ending Assets	9.76%	9.91%	10.06%	10.32%
Average Interest Earning Assets to Average Total Assets	88.16%	84.86%	85.31%	86.71%
Average Net Loans to Average Total Loans	97.48%	98.07%	98.30%	98.49%
Average Interest Earning Assets to Average Interest Bearing Liabilities	122.89%	117.48%	101.21%	107.27%

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

Cautionary Statement Regarding Forward-Looking Statements

Certain information in this report may include "forward-looking statements" as defined by federal securities law. These forward-looking statements contain Bank's the expectations, plans, future financial performance, and other statements that are not historical facts. Although the Bank believes that its assumptions regarding these forward-looking statements are based on reasonable assumptions actual results could differ materially. The forward-looking statements involve known and unknown risks including, but not limited to, the following factors:

- Changes in general local, regional and national economic and business conditions in the Bank's market area, including downturns in certain industries.
- Changes in deposit composition and controlling the growth of deposits.
- Changes in banking laws, compliance, and the regulatory climate of the Bank.
- Changes in interest rates and the management of interest rate risk.
- Demand for banking services, both lending and deposit products, in our market area.
- Risks inherent in making loans such as repayment risks and fluctuating collateral values.
- Changes in loan quality, delinquencies and defaults by our borrowers.
- Further decline in the market value of real estate in the Bank's market.
- Increased regulatory scrutiny could require considerable time and attention of our management and board of directors.
- Attraction and retention of key personnel, including the Bank's management team and directors.
- Changes in technology, product delivery channels, and end user demands and acceptance.
- Changes in consumer spending, borrowings, and savings habits.
- The soundness of other financial institutions.
- Risks related to cyber incidents.
- Government intervention in the U.S. financial system.

- Changes in accounting principles, policies, and guidelines.

These risks and inherent uncertainties should be considered in evaluation forward-looking statements contained in this report. We caution readers not to place undue reliance on those statements, which are specific as of the date of the report.

Overview

Management's Discussion and Analysis is provided to assist in understanding and evaluating Lumbee Guaranty Bank's financial condition and its results of operations. The following discussion should be read in conjunction with the Bank's consolidated financial statements.

Lumbee Guaranty Bank is an independent, community bank which has fourteen full-service offices operating in the three North Carolina counties of Robeson, Cumberland and Hoke. The Bank extends both commercial and consumer loans throughout its market area and offers a full range of deposit accounts for its customer base. The Bank has experienced sustained growth over the past six years in assets and deposits.

The past year continued to be a challenging one for the banking industry, domestically and globally. Additional financial institutions failed, although at a slower pace than in the prior year, and enforcement actions by regulatory agencies continued to be published, both of which further eroded the public's confidence in our economic and banking systems. The industry continues to await new regulations and implementation timelines related to the Dodd-Frank Wall Street Reform and Consumer Protection Act. The overall national economy was in the recovery phase of an economic cycle during 2012 although the recovery speed has been lackluster and has not been fully self-sustained due to the lack of recovery of the housing sector in various regions of the country and continued prolonged levels of high unemployment. In 2012, the residential mortgage industry experienced continued low long-term mortgage rates, but tighter lending standards and reduced market values continued to make it difficult for consumers nationwide to refinance their homes. Housing prices remained stagnant and continued to impact local residential real estate developers, home sales, and mortgage defaults and foreclosures. Even with these negative conditions the Bank had a net profit in 2012. Despite of the negative environment, we remain optimistic long term. The stock market's performance in 2012 had a positive impact on certain components of our equity capital. The year was marked by soft loan demand and the management team strategically restricted deposit growth to preserve capital ratios. Despite these ongoing challenges of our industry, management believes that the Bank met all capital adequacy requirements to which we are subject, although our regulators encourage higher levels given the risk associated with our nonperforming assets. As a result, management developed and implemented strategies to help strengthen the Bank's Tier 1 leverage ratio. We remain committed to extending credit appropriately in our market area to promote local economic activity, without participating in a government sponsored plan to inject reserves or capital into our Bank.

Critical Accounting Policy

The Bank's financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The notes to the audited consolidated financial statements included in this annual report for the year ended December 31, 2012 contain a summary of its significant accounting policies. Management believes the Bank's policy with respect to the methodology for the determination of the allowance for loan losses involves a higher degree of complexity and requires management to make difficult and subjective judgments that often require assumptions or estimates about highly uncertain matters. Accordingly, the Bank considers the policy related to the allowance for loan losses critical.

Results of Operations

Net Income

The Bank continued its growth in 2012 with net income of $2.13 million or $0.62 basic net income per share compared to $2.03 million or $0.60 basic net income per share in 2011. This is primarily due to an increase in noninterest income of $215,000 offset by an increase in noninterest expense of $33,000. The Bank continued to growth in 2012 despite the anemic economic recovery.

Net Interest Income

Net interest income, the principal source of bank earnings, is the amount of income generated by earning assets (primarily loans and investments securities) less the interest expense incurred on interest-bearing liabilities (primarily deposits used to fund earning assets). Net interest income remained flat in 2012, earning $11,125,983 in 2012 and $11,925,724 in 2011. Interest income for the Bank decreased by $218,964 in 2012, due to diminished loan demand and continued historically low interest rates. This was offset by a decrease in interest expense of $219,223 in 2012, due to the Bank lowering interest rates in 2012 relating to the before mentioned historically low interest rates.

Interest Rate Sensitivity

One of the principal goals of the Bank's asset and liability management strategy is to manage interest rate risk. Interest rate risk management balances the effects of interest rate changes on interest earning assets or interest bearing liabilities, to protect the Bank from wide fluctuations in its net interest income which could result from interest rate changes.

Interest rate risk is measured by the changes in interest rates and the impact on interest income and interest expense as interest-sensitive assets and interest-sensitive liabilities either re-price or mature. Management attempts to maintain the portfolios of interest earning assets and interest-bearing liabilities with maturities or re-pricing opportunities at levels that will afford protection from erosion of net interest margin resulting from changes in interest rates, to the extent practical.

Matching sensitivity positions alone does not ensure that the Bank has no interest rate risk. All banks have interest rate rick. The re-pricing characteristics of assets are different from the re-pricing characteristic of funding sources such as deposits. Thus, net interest income can be impacted by changes in interest rates even if they re-pricing opportunities of assets and liabilities are perfectly matched.

Provision for loan losses

The provision for loan losses decreased from $825,000 in 2011 to $600,000 in 2012. The decrease is related to a surplus in the reserve in 2011 and the decrease of the loan portfolio in 2012. The reserve for loan losses was $3,453,823 at December 31, 2012, approximately 1.92% of gross outstanding loans at that date. Management considers the reserve for loan loss balance to be adequate for possible charge-offs in subsequent years on the uncollected loan balances at December 31, 2012.

Noninterest Income

Noninterest income consists of revenue generated from a broad range of financial services and activities. The majority of noninterest income is a result of service charges on deposits, including charges for insufficient funds, ATM fees, and fees charge for non-deposit services such as safe deposit box rentals. Noninterest income increase $148,740 or 6.32% from $2,353,356 in 2011 to $2,502,096 in 2012. This was due to an increase in other operating income of $218,942 offset by a decrease in service charges on deposits of $70,202.

Noninterest Expense

Noninterest expense increased $33,211 or 0.32% from $10,384,596 in 2011 to $10,417,807 in 2012. The increase is related to an increase in salaries, wages and employee benefits of $258,212, increase in net occupancy expense of $91,203, and an increase in equipment expense of $98,207 offset by a decrease in other operating expenses of $414,411. The increases in salaries, wages, employee benefits, occupancy expense, and equipment expense are related to the addition of the two branches purchased from New Century Bank in Raeford and Pembroke, North Carolina.

Income Taxes

Income tax expense is based on amounts reported in the statements of income (after adjustments for non-taxable income and non-deductible expenses) and consists of taxes currently due plus deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes. The deferred tax assets and liabilities represent the future Federal income tax return consequences of those differences, which will be taxable or deductible, depending when the assets and liabilities are recovered or settled.

Income taxes increased $245,340 from $235,282 in 2011 to $480,622 in 2012. The increase is primarily related to an increase in income for 2012.

Liquidity and Capital Resources

The Bank's liquidity position is primarily dependent upon its need to respond to loan demand and short-term demand for funds caused by withdrawals from deposit accounts and upon the liquidity of its assets. The Bank' primary liquidity source include cash and amounts due from other banks, federal funds sold and investments available for sale, and other temporary investment securities. In addition the Bank has the ability to borrow funds from the Federal Reserve Bank and to purchase federal funds from other financial institutions. The Bank's management believes its liquidity sources are adequate to meet it operating needs. Total shareholders' equity was $31,844,352 or 9.76% of total assets and $30,156,150 or 9.91% of total assets at December 31, 2012 and 2011, respectively.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Lumbee Guaranty Bank
Pembroke, North Carolina

We have audited the accompanying consolidated statements of condition of Lumbee Guaranty Bank and Subsidiary as of December 31, 2012and 2011, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years ended December 31, 2012 and 2011. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lumbee Guaranty Bank at December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the years ended December 31, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America.

February 15, 2013

/s/ Nelson Price & Associates, P.A.
NELSON PRICE & ASSOCIATES, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
LUMBERTON, NORTH CAROLINA

CONSOLIDATED BALANCE SHEETS
Years ended December 31, 2012 & 2011

Assets	2012	2011
Cash and due from banks	$28,239,257	$41,954,126
Investment securities (AFS)	39,513,941	27,914,172
Investment securities (HTM)	57,393,213	33,159,575
Federal funds sold and REPO's	-	-
Loans	179,182,432	183,347,822
Less: Unearned interest	381,551	416,492
Reserve for loan losses	3,453,823	3,208,582
Net loans	175,347,058	179,722,747
Bank premises & equipment, net	10,726,622	9,173,501
Intangible assets	695,302	-
Foreclosed real estate	1,461,467	1,227,001
Accrued interest receivable	1,323,841	1,319,785
Prepaid expenses	565,589	824,418
Other assets	10,870,468	8,910,136
Total other assets	25,643,289	21,454,841
Total assets	$326,136,758	$304,205,461
Liabilities and shareholders' equity		
Deposits:		
Demand	66,453,610	$51,690,159
N.O.W. & Money market	62,607,306	70,174,580
Savings	14,831,312	11,579,824
Time deposits, $100,000 and over	58,890,281	57,193,259
Other time deposits	82,089,457	69,951,721
Total deposits	284,871,966	260,589,543
Accrued interest & other expenses	2,539,930	257,720
Other liabilities	6,880,510	13,202,048
Total liabilities	294,292,406	274,049,311
Shareholders' equity		
Common stock; $2.00 par value, 5,000,000 shares authorized; 3,417,565 and 3,417,565 shares issued and outstanding at December 31, 2012 and December 31, 2011, respectively	$6,835,130	$6,835,130
Surplus	7,109,647	7,058,431
Undivided profits	17,061,389	15,478,550
Net unrealized gains (losses) on AFS securities	838,186	784,039
Total shareholders' equity	31,844,352	30,156,150
Total liabilities and stockholders' equity	$326,136,758	$304,205,461

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Year ended December 31, 2012 and 2011

	2012	2011
Interest income		
Interest & other fees on loans	$11,396,748	$11,761,574
Interest on federal funds sold/repos	197	720
Interest on securities:		
Federal agency	220,315	217,482
State, county & municipals	982,583	846,842
Other investments	1,285,583	1,277,772
Total interest income and fees	13,885,426	14,104,390
Interest expense		
Interest paid on NOW & MMA	316,454	393,756
Interest paid on savings	20,915	18,914
Interest paid on time certificates of deposits of $100,000 or more	1,054,953	1,126,924
Interest paid on other time deposits	1,367,121	1,439,072
Total interest expense	2,759,443	2,978,666
Net interest income	11,125,983	11,125,724
Provision for loan losses	600,000	825,000
Net interest income after provision	10,525,983	10,300,724
Noninterest income		
Service charges on deposit accounts	1,669,577	1,739,779
Other operating income	832,519	613,577
Total noninterest income	2,502,096	2,353,356
Noninterest expense		
Salaries and wages	4,259,310	3,962,937
Other personnel costs	1,640,381	1,678,542
Net occupancy expense	870,624	779,421
Equipment expense	402,736	304,529
Other operating expense	3,244,756	3,659,167
Total noninterest expense	10,417,807	10,384,596
Income before income taxes and securities gains (losses)	2,610,272	2,269,484
Applicable income taxes	480,622	235,282
Net income	$2,129,650	$2,034,202
Basic net income per common share	$0.62	$0.60
Diluted net income per common share	$0.62	$0.58

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2012 and 2011

	2012	2011
Net Income	$ 2,129,650	$ 2,034,202
Other comprehensive income (loss):		
Unrealized holding gains (loss) on available for sale securities	54,147	141,472
Tax effect	18,410	48,100
Net of tax amount	35,737	93,372
Total other comprehensive income (loss)	35,737	93,372
Comprehensive income	$ 2,165,387	$ 2,127,574

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years ended December 31, 2012 and 2011

	Common Stock Shares	Common Stock Amount	Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total Shareholder's Equity
Balance, December 31, 2010	3,417,565	6,835,130	7,007,215	13,991,159	642,567	28,476,071
Net income				2,034,202		2,034,202
Other comprehensive income, net of tax: Change in unrealized gain (loss) on securities available for sale, net of tax of $93,372					141,472	141,472
TOTAL COMPREHENSIVE INCOME						2,175,674
Dividends declared ($0.16 per share)				(546,811)		(546,811)
Stock based compensation			51,216			51,216
Balance, December 31, 2011	$ 3,417,565	$ 6,835,130	$ 7,058,431	$ 15,478,550	$ 784,039	$ 30,156,150
Balance, December 31, 2011	3,417,565	6,835,130	7,058,431	15,478,550	784,039	30,156,150
Net income				2,129,650		2,129,650
Other comprehensive income, net of tax: Change in unrealized gain (loss) on securities available for sale, net of tax of $35,737					54,147	54,147
TOTAL COMPREHENSIVE INCOME						2,183,797
Dividends declared ($0.16 per share)				(546,811)		(546,811)
Stock based compensation			51,216			51,216
Balance, December 31, 2012	$ 3,417,565	$ 6,835,130	$ 7,109,647	$ 17,061,389	$ 838,186	$ 31,844,352

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW
Year ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Net income	$2,129,650	$2,034,202
Adjustments to reconcile net income		
to net cash provided by operating activities:		
Depreciation and amortization	466,084	409,522
Amortizations of premiums (discounts)	325,119	166,946
Deferred income taxes	(98,312)	(185,768)
Net (Gain) Loss on sale of securities	(15,118)	(81,948)
Provision for possible loan losses	600,000	825,000
Decrease (increase) in:		
Accrued income	(4,056)	(61,460)
Prepaid and other assets	(1,701,503)	314,322
Increase (decrease) in:		
Accrued interest payable	2,282,210	(25,249)
Other liabilities	(6,457,268)	(7,929,022)
Net cash provided by (used by) operating activities	(2,473,194)	(4,533,455)
Cash flows from investing activities		
Net (increase) decrease in loans	4,375,689	(11,882,828)
Purchases of premises and equipment, net	(2,019,205)	(643,355)
Gain (Loss) on sale other real estate owned	(234,466)	(311,405)
Acquisition of New Century Bank branches	(1,800,000)	0
Purchases of investment securities	(57,431,484)	(12,840,917)
Proceeds from sale of securities	22,026,816	15,443,890
Net cash provided by (used by) investing activities	(35,082,650)	(10,234,615)
Cash flows from financing activities		
Net increase (decrease) in deposits	24,282,423	27,365,249
Net increase (decrease) in borrowings	0	(1,000,000)
Cash dividend	(546,811)	(546,811)
Proceeds from issuance of stock	0	0
Stock based compensation	51,216	51,216
Increase (Decrease) unrealized gain/loss	54,147	141,472
Net cash provided by (used by) financing activities	23,840,975	26,011,126
Net increase (decrease) in cash and cash equivalents	(13,714,869)	11,243,056
Cash and cash equivalents at beginning of period	41,954,126	30,711,070
Cash and cash equivalents at end of period	$28,239,257	$41,954,126
Supplemental disclosure of cash flow information		
Interest paid	$ 2,759,443	$ 3,003,915
Taxes paid	$ 585,005	$ 402,775

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

Note A. Organization and Summary of Significant Accounting Policies

Organization

Lumbee Guaranty Bank is an independent, community bank providing full service banking through fourteen branch offices in Robeson, Cumberland, and Hoke counties in North Carolina. The Bank extends both commercial and consumer loans throughout its market area and offers a full range of deposit accounts for its customer base. The Bank is a North Carolina state-chartered bank subject to regulation by the North Carolina Commissioner of Banks and the Federal Deposit Insurance Corporation.

The accounting and reporting policies of the Bank follow generally accepted accounting principles ("GAAP") and general practices of the financial services industry, within the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") structure of authoritative literature. The following is a summary of the more significant policies.

Critical Accounting Policy

Management believes the policy with respect to the methodology for the determination of the allowance for loan losses involves a high degree of complexity. Management must make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could cause reported results to differ materially. This critical policy and its application are periodically reviewed with the Audit Committee and Board of Directors.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses on loans, the valuation of foreclosed assets such as real estate acquired in connection with foreclosures or in satisfaction of loans, fair value of financial instruments, deferred taxes, and employee benefit plans.

Interest-bearing Deposits with Banks

Interest-bearing deposits with banks are carried at cost.

Investment Securities

Debt Securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Note A. Organization and Summary of Significant Accounting Policies, continued

Investment Securities, continued

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than –temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer or a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, are reported at their outstanding principal amount adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Loan originated fees and cost are capitalized and recognized as an adjustment to the yield on the related loan.

Interest is accrued and credited to income based on the principal amount outstanding. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. Management also considers the adequacy of collateral and the state of the collection process. When interest accrual is discontinued, all unpaid accrued interest is reversed. We apply payments received on nonaccrual loans first to outstanding principal, and the residual amount, if any, is applied to interest. When facts, circumstances, and consistent performance indicate the borrower has regained the ability to meet required payments, the loan is returned to accrual status. Past due status of loans is determined based on contractual terms.

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in the loan portfolio. The allowance is based on three basic principles of accounting: (i) guidance for Contingencies, which requires that losses be accrued when they are probable of occurring and estimable, (ii) guidance of Receivables, which requires that losses be accrued based on the differences between the present value of future cash flows, value of collateral, or values that are observable in the market, and the loan balance, and (iii) guidance allowing a creditor to use existing methods for recognizing interest income on an impaired loan.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the loan balance is uncollectible. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses consists of specific, general and unallocated components. The specific component elates to loans that are classified as impaired, for which an allowance is established when the discounted cash flows, collateral value, or observable market price of the loan is lower than its carrying value. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. Historical losses are categorized into risk-similar loan pools and a loss ratio factor is applied to each group's loan balances to determine the allocation. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses.

The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Note A. Organization and Summary of Significant Accounting Policies, continued

Allowance for Loan Losses, continued

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Further information regarding the Bank's policies and methodology used to estimate the allowance for loan losses is presented in Note E.

Property and Equipment

Land is carried at cost. Buildings and furniture and equipment are carried at cost, less accumulated depreciation and amortization computed principally by the straight-line method over the following estimated useful lives or lease terms:

	Years
Buildings and improvements	7-40
Furniture and equipment	3-10

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of carrying value or fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses during the holding period and gains and losses on sale are included in net expenses from foreclosed assets.

Employee Benefit Plans

A qualified defined pension plan (the "Plan") is provided to all employees who meet the eligibility requirements of 21 years of age and one year of service in which they have work a minimum of 1,000 hours. To maintain the Plan's funding adequacy, the Bank contributes an appropriate amount which is deductible for federal income tax purposes. Benefits under the plan are accrued by periodic charges to income as determined by the Plan's actuaries.

To the extent accumulated plan assets, including current period cash contributions, are less than projected benefit obligations, the Bank accrues such obligations through either a charge to income or other comprehensive income.

Advertising and Public Relations Expense

The Bank expenses adverting and public relations costs as they are incurred.

Income Taxes

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of the allowance for loan losses and accumulated depreciation. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Note A. Organization and Summary of Significant Accounting Policies, continued

Subsequent Events

The Bank valuated events and transactions for potential recognition or disclosure in our financial statements through the date the financial statements were issued.

Note B. Restrictions on Cash and Due From Banks

To comply with banking regulations, the Bank is required to maintain certain average cash reserve balances with the Federal Reserve Bank. The daily average cash reserve requirement was approximately $3,988,000 for the periods including December 31, 2012 and 2011.

Note C. Investment Securities

Debt and equity securities have been classified in the consolidated balance sheets according to management's intent. The carrying amount of securities and their approximate fair values at December 31 follow:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2012				
Available for sale:				
US Treasury & Government Agencies	15,479,368	208,395	58,271	15,629,492
Mortgage-backed securities	40,643,867	1,143,956	24,102	41,763,721
	56,123,235	1,352,351	82,373	57,393,213
Held to maturity:				
State and municipal securities	39,513,941	2,381,613	56,246	41,839,308
	39,513,941	2,381,613	56,246	41,839,308

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2011				
Available for sale:				
US Treasury & Government Agencies	9,271,435	100,788	-	9,372,223
Mortgage-backed securities	17,454,800	1,087,149		18,541,949
	26,726,235	1,187,937	-	27,914,172
Held to maturity:				
State and municipal securities	33,159,575	1,791,647	1,875	34,949,347
	33,159,575	1,791,647	1,875	34,949,347

The scheduled maturities of securities available for sale and securities held to maturity at December 31, 2012, are shown below. Actual expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

	Available for Sale		Held to maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	-	-	1,466,729	1,482,362
Due after one year through five years	28,523,366	29,528,286	10,898,156	11,445,988
Due after five years through ten years	22,310,645	22,543,363	21,012,908	22,456,555
Due after ten years	5,289,224	5,321,564	6,136,148	6,454,403
	56,123,235	57,393,213	39,513,941	41,839,308

Note C. Investment Securities, continued

Investment securities with an amortized cost of approximately $28,956,000 and $29,076,000 were pledged at December 31, 2012 and 2011 respectively, to secure certain deposits and for other purposes required by law.

The following tables detail unrealized losses and related fair values in the Bank's investment securities portfolio. This information is aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of December 31.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2012						
US Treasury & Government Agencies	4,015,712	58,271	-	-	4,015,712	58,271
Mortgage-backed securities	4,179,745	24,102	-	-	4,179,745	24,102
State and municipal securities	5,179,815	56,246	-	-	5,179,815	56,246
Total Temporarily Impaired Securities	13,375,272	138,619	-	-	13,375,272	138,619

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2011						
US Treasury & Government Agencies	-	-	-	-	-	-
Mortgage-backed securities	-	-	-	-	-	-
State and municipal securities	247,070	1,875	-	-	247,070	1,875
Total Temporarily Impaired Securities	247,070	1,875	-	-	247,070	1,875

Management evaluates securities for other-than –temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects if the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The Bank does not believe that gross unrealized losses as of December 31, 2012, which comprised of 22 securities, represent an other-than temporary impairment. The gross unrealized losses reported relate to investment securities issued by Government-sponsored enterprises and various state and municipal securities. Total gross unrealized losses, which represent 0.14% of the amortized cost basis of the Bank's total investment securities, were attributable to changes in interest rates due to market conditions and not due to the credit quality of the investment securities.

Restricted equity securities, which are carried at cost, consist of investments in stock of the Federal Home Loan Bank of Atlanta ("FHLB"), which are upstream correspondents of the Bank. The FHLB requires financial institutions to make equity investments in the FHLB in order to borrow from it. The Bank is required to hold that stock so long as it borrows from the FHLB. The FHLB stock is restricted in the fact that the stock may only be repurchased by the issuer. Management also considers these investments when testing for impairment. On a quarterly basis, management reviews the institutions' capital adequacy to ensure they meet regulatory minimum requirements. Bank management does not believe any unrealized losses associated with investments in the FHLB to be anything other than temporary.

Note D. Loans Receivable

The Bank grants commercial, mortgage and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout the North Carolina counties of Robeson, Cumberland & Hoke. The ability of the Bank's debtors to honor their contracts is dependent upon the general economic conditions in the area.

Loans are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan fees and unearned discounts.

Unearned discounts on installment loans are recognized as income over the term of the loans using a method that approximates the interest method.

Loan origination and commitment fees, as well as certain direct origination costs, are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 90 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The major segmented components of loans at December 31, 2012 and 2011 are as follows:

	2012	2011
Commercial	137,580,186	139,706,853
Mortgage	12,090,657	11,479,734
Consumer	29,511,589	32,161,235
	179,182,432	183,347,822
Less:		
Unearned Interest & Fees	381,550	416,493
Allowance for Loan Losses	3,453,824	3,208,582
	175,347,058	179,722,747

Loans receivable include $72,093 and $88,850 in overdraft demand deposit accounts at December 31, 2012 and 2011, respectively.

The Bank had no subprime residential loans at December 31, 2012 and 2011.

Note E. Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in the loan portfolio. The allowance is based on three basic principles of accounting: (i) guidance for Contingencies, which requires that losses be accrued when they are probable of occurring and estimable, (ii) guidance for receivables, which requires that losses be accrued based on the differences between the present value of future cash flows, value of collateral, or values that are observable in the market, and the loan balance, and (iii) guidance allowing a creditor to use existing methods for recognizing interest income on an impaired loan.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loans identified as losses and deemed uncollectible by management are charged to the allowance. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions and environmental factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as additional information becomes available.
The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired, for which an allowance is established when the discounted cash flows, collateral value, or observable market price of the loan is lower than its carrying value. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. Historical losses are categorized into risk similar loan pools and a loss ratio factor is applied to each group's loan balances to determine the allocation. The loss ratio factor is based on average loss history for the current year and two prior years to ensure the most relevant data is being used in the model following the economic recession, anemic recovery, current economic conditions.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. Qualitative environmental factors include external risk factors that management believes affect the overall lending environment of the Company. Environmental factors that management of the Company routinely analyze include levels and trends in delinquencies and impaired loans, levels and trends in charge-offs and recoveries, trends in volume and terms of loans, effects of changes in risk selection and underwriting practices, experience, ability, and depth of lending management and staff, national and local economic trends and conditions such as unemployment rates, and housing statistics, banking industry conditions, local economic forecasts, and the effect of changes in credit concentrations.

The following table presents activity in the allowance for credit losses for the years-ended December 31, 2012 and December 31, 2011 on a portfolio segment basis. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

Allowance for Loan Losses	**2012**	**2011**
Balance, January 1	3,208,582	2,778,138
Charge-Offs	(439,943)	(430,363)
Recoveries	85,185	35,807
Provisions	600,000	825,000
Balance, December 31	3,453,824	3,208,582

Note F. Premises and Equipment

A summary of premises and equipment at December 31, 2012 and 2011 follows:

	2012	2011
Land	2,225,595	1,620,595
Buildings	9,313,514	7,718,660
Equipment	4,400,452	5,921,725
	15,939,561	15,260,980
Less accumulated depreciation	5,212,939	6,087,479
	10,726,622	9,173,501

Depreciation expense for 2012 and 2011 was $466,083 and $409,521 respectively.

Note G. Long Term Lease

The Bank is obligated on a lease of its retail banking location at 6313 Raeford Road in Fayetteville, North Carolina. The initial term of the lease was for one year expiring July 31, 2007, with two renewal options of five years upon expiration of the initial term. The Bank exercised the first five year option on August 1, 2007. The lease was renewed again on August 1, 2012 for one year with a renewal option for an additional year upon expiration of the current agreement. The lease calls for monthly payments of $2,100.00.

The Bank is obligated on a month to month lease for a storage facility on East 4th Street in Lumberton, North Carolina. The lease calls for monthly payments of $500.00 and can be terminated at any time by either party.

Note H. Intangible assets

On April 6, 2012 the Bank purchased two retail branches from New Century Bank in Pembroke and Raeford, North Carolina. The purchase of these two branches resulted in goodwill and a core deposit intangible assets for the Bank.

Deposits are a liability of a bank; however their existence may create an intangible asset. The buyer receives a “built in” customer base of, usually, stable relationships when a bank is acquired. This customer base has demonstrable economic benefits to the buyer. A core deposit base consists of specific account relationships existing at the time of acquisition. These account holders will eventually pass away, relocate or move their account, and therefore the core deposit base has a limited life.

In order to value the goodwill and core deposit intangible, the Bank acquired the services of Smith Capital, Inc. in Charlotte, North Carolina. During their review the use of three methods: (i) cost savings approach, (ii) future income approach, and (iii) market approach were used to determine these values.

Note H. Intangible assets, continued

A summary of intangible assets at December 31, 2012 and 2011 follows:

Intangible Assets	2012	2011
Goodwill	591,147	-
Intangible Assets	117,355	-
Less:		
Accumulated core deposit amortization	13,200	-
Net Intangible Assets	695,302	-

As directed in FASB 142, goodwill is not amortized. Management reviews goodwill on an annual basis for impairment and adjusts accordingly. As of December 31, 2012, management considers goodwill to not be impaired and is carried at fair value.

The core deposit premium is amortized over 10 years using a 150% declining balance. Amortization expense for 2012 and 2011 was $13,200 and $0, respectively.

Note I. Foreclosed Assets

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Direct holding cost are expensed to operations.

Note J. Deposits

Deposit account balances at December 31, 2012 and 2011, are summarized as follows:

	2012	2011
Noninterest bearing	66,453,610	51,690,159
interest-bearing deamnd	62,607,306	70,174,580
Savings deposits	14,831,312	11,579,824
Certificates of deposit	140,979,738	127,144,980
	284,871,966	260,589,543

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2012 and 2011 was $58,890,281 and $57,193,259, respectively.

Note J. Deposits, continued

At December 31, 2012, the scheduled maturities of time deposits are as follows:

2013	112,407,250
2014	21,214,184
2015	4,997,852
2016	1,610,179
2017 and therafter	750,272
	140,979,737

Note K. Income Taxes

The consolidated provision for income taxes for 2012 and 2011 consists of the following:

	2012	2011
:ome tax expense:		
Current tax expense		
Federal	540,699	538,045
State	27,296	37,610
Deferred tax (benefit)		
Federal	(80,718)	(142,023)
State	(6,655)	(30,857)
	480,622	402,775

The provision for federal income taxes differs from that computed by applying federal statutory rates to income before federal income tax expense, as indicated in the following analysis:

	2012	2011
Federal statutory income tax at 34%	887,492	828,572
Tax exempt interest	(410,168)	(428,058)
Effect of state income taxes	3,298	2,261
Other		
	480,622	402,775

A cumulative net deferred tax asset is included in other assets. The components of the asset are as follows:

	2012	2011
Differences in depreciation methods	-	-
Differences in accounting for loan losses	896,247	797,935
	896,247	797,935
Deferred tax assets	896,247	797,935
Deferred tax liabilities	-	-
Net differed tax assets	896,247	797,935

The federal income tax returns of the Bank for 2012, 2011 and 2010 are subject to examination by the IRS, generally for three years after they were filed.

Note L. Commitments and Contingencies

In the normal course of business the Bank is involved in various legal proceedings. After consultation with legal counsel, management believes that any liability resulting from such proceedings will not be material to the consolidated financial statements.

Note M. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the bank has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying consolidated financial statements. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheet.

Financial instruments whose contract amount represents credit risk were as follows:

	2012	2011
Commitments to extend credit	16,285,010	15,963,065
Standby letters of credit	192,072	121,068

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit. The Bank holds first deeds of trust, certificates of deposit and/or marketable securities as collateral supporting those commitments for which collateral is deemed necessary.

The Bank enter into a variety of interest rate contracts including interest rate caps and floors in its trading activities and in managing interest rate exposure.

Note N. Employee Benefit Plans

The bank maintains a noncontributory qualified benefit plan ("the Plan") covering all eligible employees who work 1000 hours or more as of the beginning of the plan's fiscal year. Benefits are based on years of service. A participant may retire at normal retirement age with 1.0% of final average compensation multiplied by years of credited service (max 35 years). Covered compensation is the average of Social Security taxable wage base or the 35-year period ending at the participant's Social Security retirement age.

Note N. Employee Benefit Plans, continued

The enrolled actuaries of the Plan have indicated that the amount of contribution with respect to a specified person cannot be individually calculated under the actuarial cost method used in determining aggregate contribution requirements for the Plan. For the years ending December 31, 2012 and 2011, contribution of $343,030 and $248,075 were made to the Plan, respectively.

Pension expense charged to operations was $333,420 in 2012 and $247,783 in 2011. The projected benefit obligation at December 31, 2012 was determined using a weighted average discount rate of 5.0% an expected long-term return of plan assets of 7.0% and an expected increase in salary levels of 3.0%.

The following table set forth the Plan's funded status and amounts recognized in the Bank's statement of condition at December 31, 2012 and 2011.

	December 31,	
	2012	**2011**
Actuarial present value of accumulated benefit obligation	5,824,103	5,318,746
Projected benefit obligation	5,824,103	5,318,746
Plan assets at fair value, primarily market securities	3,731,186	3,204,794
Plan assets in excess of (less than) projected benefit obligation	2,092,917	2,113,951
Unrecognized net transition asset being amortized over 17 years	23,629	26,256
Unrecognized prior service cost	(29,580)	(33,799)
Unrecognized net (gain) loss	1,828,365	1,886,270
Accrued pension liability	(270,503)	(235,225)

The net pension expense for the two years ended December 31, 2012and 2011 included the following components:

	December 31,	
	2012	**2011**
Service sosts-benefits earned during the period	276,226	228,196
Interst costs on projected benefit obligation	262,764	269,403
Return on plan assets	(231,246)	(212,446)
Net amortization and deferals	2,626	1,592
(Gain) / Loss	72,157	22,604
Net pension expense	378,308	306,165

Note N. Employee Benefit Plans, continued

The Bank adopted a 401k plan for its employees effective April 1997. All employees are eligible provided they have attained 21 year of age and completed 1,000 hours of service. The bank contributes a matching contribution $0.50 per cash dollar up to a maximum of 3% of an employee's eligible contribution. The Bank's expense for the plan was $72,000 and $74,060 as of December 31, 2012 and 2011, respectively.

Note O. Deferred Compensation Plan for Directors/Executives

The Bank has established a deferred compensation plan for non-employee directors of the Bank. Each participating director may defer up to 100% of their monthly Board fee into the Director plan. The Director plan also provides a $25,000 death benefit payable to the Director's beneficiary. The Bank also adopted a deferred compensation plan for the benefit of key employees. While the plan is to be funded from the general assets of the Bank, life insurance policies were acquired for the purpose of serving as the primary funding source. Under the plan, cash values on life insurance policies increased $238,356 and $210,158 in 2012 and 2011, respectively for the annual administration of the plan.

Note P. Earnings Per Share

The following table details the computation of basic and diluted earnings per share for each year ended December 31:

	2012	2011
Net Income avaialable to common stockholders	2,129,650	2,034,202
Weighted average common share outstanding, basic	3,417,565	3,417,565
Effect of dilutive securities, options	60,200	64,400
Weighted average common shares outstanding, diluted	3,477,765	3,481,965
Basic net income per share	0.62	0.60
Diluted net income per share	0.61	0.58

Note Q. Related Party Transactions

Directors and officers of the Bank and their affiliated companies were customers of, and had other transactions with, the Bank in the ordinary course of business during 2012 and 2011. All such loans included in such transactions were made in the normal course of business.

Note R. Other Operating Expenses

Other operating expenses as of December 31, 2012 and 2011 are summarized as follows:

	December 31,	
	2012	2011
Directors fees	135,550	124,550
Data processing	1,049,501	964,929
Courier fees	143,301	140,765
FDIC insurance	242,491	431,613
Business insurance	74,803	70,241
Advertizing & promotions	106,627	97,001
Professional fees	213,788	219,128
Collection & Reposeesion	103,787	105,839
Office supplies & printing	338,308	282,561
Postage	107,229	117,253
Dues & subscriptions	38,762	45,936
Donations	132,677	106,881
Telephone	100,171	93,784
Check printing	31,786	15,111
Travel & entertainment	35,140	39,245
Conventions & conferences	22,789	14,098
Miscellaneous expenses	368,046	790,232
	3,244,756	3,659,167

Note S. Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the Federal Deposit Insurance Corporation (FDIC). Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that if undertaken, could have a direct material effect on the Bank and the consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.
Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of: total risk-based capital and Tier 1 capital to risk-weighted assets (as defined in the regulations), and Tier 1 capital to adjusted total assets (as defined). Management believes, as of December 31, 2012, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2012, the most recent notification from the FDIC, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized; the Bank will have to maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the table below. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category.

Note S. Regulatory Capital, continued

The Bank's actual and required capital amounts and ratios are as follows (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2012:						
Total Risk-based Capital						
(to Risk-weighted Assets)	32,750	16.87%	25,905	≥ 8.00%	32,381	≥ 10.00%
Tier I Capital						
(to Risk-weighted Assets)	30,311	15.62%	12,952	≥ 4.00%	19,428	≥ 6.00%
Tier I Capital						
(to Adjusted Total Assets)	30,311	9.36%	12,952	≥ 4.00%	16,190	≥ 5.00%
As of December 31, 2011:						
Total Risk-based Capital						
(to Risk-weighted Assets)	31,840	16.19%	23,536	≥ 8.00%	29,420	≥ 10.00%
Tier I Capital						
(to Risk-weighted Assets)	29,372	14.93%	11,768	≥ 4.00%	17,652	≥ 6.00%
Tier I Capital						
(to Adjusted Total Assets)	29,372	9.98%	11,768	≥ 4.00%	14,710	≥ 5.00%

Note T. Fair Value Measurements

The estimated fair values of the Bank's financial instruments are as follows dollars in thousands):

	December 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and due from banks	17,974	17,974	35,802	35,802
Interest-bearing deposits with banks	10,266	10,266	6,152	6,152
Federal funds sold	-	-	-	-
Investment securities, available for sale	57,393	57,393	27,914	27,914
Investment securities, held to maturity	39,514	39,514	33,160	33,160
Loans, net	175,347	175,347	179,723	179,723
Accrued interest receivable	1,324	1,324	1,320	1,320
Financial liabilities				
Deposits	284,872	284,872	260,590	260,590
Accrued interest payable	262	262	258	258
Unused Commitments				
Unused Commitments	-	-	-	-

The following methods and assumptions were used by the Bank in estimating its fair value disclosures for financial instruments:

Cash and due from banks: The carrying amounts reported in the balance sheet for cash and due from banks approximate their fair values.

Interest-bearing deposits with banks, federal funds sold, and time deposits with banks: The carrying amount of interest-bearing deposits with banks, federal funds sold, and time deposits with banks approximate their fair values.

Note T. Fair Value Measurements, continued

Securities: Fair values for securities, excluding restricted equity securities, are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The carrying values of restricted equity securities approximate fair values.

Loans receivable: For variable-rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics.

Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable. The carrying amount of accrued interest receivable approximates its fair value.

Deposit liabilities: The fair values disclosed for demand and savings deposits are, by definition, equal to the amount payable on demand at the reporting date. The fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits. The carrying amount of accrued interest payable approximates fair value.

Unused Commitments: The Bank had outstanding letters of credit and commitments to extend credit at December 31, 2012. These off-balance-sheet financial instruments are generally exercisable at the market prevailing at the date underlying transaction will be completed and, therefore, they were deemed to have no current fair market value. See Note M.

Fair Value Hierarchy

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain real estate acquired through or in lieu of foreclosure and impaired loans.

Note T. Fair Value Measurements, continued

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Investment Securities Available for Sale

Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. lf quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active or over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset- backed securities in less liquid markets.

Loans

The Bank does not record loans at fair value on a recurring basis, however, from time to time, a loan is considered impaired and an allowance for loan loss is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan are considered impaired.

Fair value of assets and liabilities measured on a recurring basis at December 31, 2012 and 2011 are as follows (dollars in thousands):

	Fair Value	Level 1	Level 2	Level 3
December 31, 2012				
Available for sale securities				
US Treasury & Government Agencies	15,629,492	12,578,075	3,051,417	-
Mortgage-backed securities	42,327,302	-	42,327,302	-
Held to maturity securities				
State and municipal securities	41,275,728	1,052,675	40,223,053	-
Total Assets at fair value	99,232,522	13,630,750	85,601,772	-
December 31, 2011				
Available for sale securities				
US Treasury & Government Agencies	5,082,318		5,082,318	
Mortgage-backed securities	22,831,855	1,290,625	21,541,230	
Held to maturity securities				
State and municipal securities	34,949,347	774,330	34,175,017	
Total Assets at fair value	62,863,520	2,064,955	60,798,565	-

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

As of the end of the period to which this report relates, the Bank has carried out an evaluation, under the supervision and with the participation of the Disclosure Committee, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Bank's disclosure controls and procedures in accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"). The Disclosure Committee ensures that information required to be disclosed under the Exchange Act is communicated to our Chief Executive Officer and Chief Financial Officer. Internal audits conducted by McGlardrey LLP are reviewed by certifying officers to assist in assessing the adequacy of the Bank's internal controls. Based on these evaluations, the Chief Executive Officer and Chief Financial Officer concluded that the Bank's disclosure controls and procedures were effective in enabling us to record, process, summarize and report effectively and in a timely manner the information required to be disclosed in reports the Bank files under the Exchange Act.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act Rules 13a-15(f). a system of internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Under the supervision and with the participation of management, including the principal executive officer and the principal financial officer, the Bank's management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2012 based on the criteria established in a report entitled "Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission" and the interpretive guidance issued by the Securities and Exchange Commission in Release No. 34-55929. Based on this evaluation, the Bank's management has evaluated and concluded that the Bank's internal control over financial reporting was effective as of December 31, 2012.

There has been no change in its internal control over financial reporting that occurred during the Bank's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.

This annual report does not include an attestation report of the Bank's independent registered public accounting firm regarding internal control over financial reporting. The Dodd-Frank Act exempted the Bank from complying with Section 404(b) and our registered public accounting firm was not required to issue an attestation on our internal controls over financial reporting pursuant to rules of the Securities and Exchange Commission.

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers, and Corporate Governance

With the exception of the disclosure provided below, the information required by Item 10 of Form 10-K is incorporated herein by reference from the information that appears under the headings or captions “Proposal 1: Election of Directors,” “Code of Ethics,” “Executive Officers,” and Section 16(a) Beneficial Ownership Reporting Compliance in the Bank’s proxy statement for its 2013 annual meeting of stockholders.

Rules of the Securities and Exchange Commission require that the Bank disclose whether its Board of Directors has determined that its Audit Committee includes a member who qualifies as an "audit committee financial Expert" as that term is defined in the SEC's rules. To qualify as an audit committee financial expert under the SEC's rules, a person must have a relatively high level of accounting and financial knowledge or expertise which he or she has acquired through specialized education or training or through experience in certain types of positions. We currently do not have an independent director who our Board believes can be considered an audit committee financial expert and, for that reason, there is no such person who the Board can appoint to our Audit Committee.

Item 11. Executive Compensation

The information required by Item 11 of Form 10-K is incorporated herein by reference from the information that appears under the headings or captions "Executive Compensation" and "Director Compensation" in the Bank’s proxy statement for its 2013 annual meeting of stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

With the exception of the disclosure provided below, the information required by Item 12 of Form 10-K is incorporated herein by reference from the information that appears under the headings or captions "Beneficial Ownership of Our Common Stock" in the Bank’s proxy statement for its 2013 annual meeting of stockholders.

The following table summarizes all compensation plans and individual compensation arrangements which were in effect on December 31, 2012 and under which shares of the Bank's common stock have been authorized for issuance.

Equity Compensation Plan Information

Plan Category	(a) Number of shares to be issued upon exercise of outstanding options	(b) Weighted-average exercise price of outstanding options	(c) Number of shares remaiing available for future issuance under equity compensation plans (excluding shares reflected in column (a))
Equity compensation plans approved by security holders	64,400	$12.22	56,157
Equity compensation plans not approved by security holders	-0-	N/A	-0-
Total	64,400	$12.22	56,157

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 of Form 10-K is incorporated herein by reference from the information that appears under the headings or captions "Corporate Governance – Director Independence" and "Transactions with Related Persons" in the Bank's proxy statement for its 2013 annual Meeting of stockholders.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 of Form 10-K is incorporated herein by reference from the information that appears under the headings or captions "Services and Fees for 2012 and 2011" in the Bank's proxy statement for its 2013 annual Meeting of stockholders

Part IV

Item 15. Exhibits, Financial Statements Schedules

(a) The following documents are filed as part of this Report:

1. Financial Statements

   Report of Independent Registered Public Accounting Firm
   Consolidated Balance Sheets
   Consolidated Statements of Income
   Consolidated Statements of Comprehensive Income
   Consolidated Statements of Changes in Stockholders' Equity
   Consolidated Statements of Cash Flows
   Notes to Consolidated Financial Statements

2. Financial Statement Schedules:

   All schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements or related notes.

3. Exhibits

3.1	Articles of Incorporation
3.2	Bylaws of Lumbee Guaranty Bank
21	Subsidiaries of Lumbee Guaranty Bank filed as Exhibit 21 to the Form 10-K on March 30, 2012
31.1	Certification of Chief Executive Officer pursuant to Rule 13 a-14(a) under the Securities Exchange Act of 1934
31.2	Certification of Chief Financial Officer pursuant to Rule 13 a-14(a) under the Securities Exchange Act of 1934
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99	Definitive Proxy Statement