FEDERAL DEPOSIT INSURANCE COPRORATION
Washington, D.C. 20429

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, 2013

[ ] 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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [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 [ ] 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 (2,535,675 shares) computed by reference to the closing price of such stock was $27,892,245 as of June 30, 2013.

The number of shares of outstanding common stock of the issuer as of March 27, 2014 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 28, 2014, 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 and is comprised 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’s 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 and 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 and 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 and Pope Army Airfield contribute $4.5 billion annually into the region’s economy, making Fayetteville one of the largest retail markets in the state. In addition to Fort Bragg, the area’s largest employers include: Cumberland County School System, Wal-Mart retail stores and 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 services include safe deposit boxes, notary public, consumer online banking, bill payment and e-statements, wire transfers and direct deposit of payroll and social security checks. We operate automated teller machines at each of our 14 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 and occupancy expenses. The Bank does not provide trust services.

Lending Activities

The Bank's lending products include commercial, real estate, consumer, residential and agricultural loans. The loan portfolio constituted 62.9% of average earning assets of the Bank for the year ended December 31, 2013 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 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 Management 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.

At December 31, 2013, residential real estate loans represented 49% of the loan portfolio while commercial real estate loans were 38%. Commercial and consumer loans were 6% and 5%, respectively, and agricultural and raw land loans made up 2% of the portfolio.

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 has established 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 enterprise debt instruments; state, county and municipal obligations; and FNMA, GNMA, and FHLMC mortgage-backed 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.

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 81% of the Bank's total deposits at December 31, 2013. Certificates of deposit in denominations of $100,000 or more represented an additional 19% of deposits at year end. Large denomination certificates of deposit have historically remained a stable source of funds. At December 31, 2013 the Bank had brokered deposits in the amount of $2.0 million or 0.7% 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. CDARS deposits were 0.5% of total deposits at December 31, 2013.

Bank Website

The Bank maintains an internet website at www.lumbeeguarantybank.com. This website contains information relating to the Bank and its business. Information on our website is not incorporated into this Form 10-K.

Employees

At December 31, 2013, the Bank had 96 full time and 4 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 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 FDIC's Summary of Deposits for June 30, 2013, the Bank held 25.2% of the deposits in Robeson County, which represents the second largest market share of all financial institutions in the county. In Cumberland County, the Bank competes with thirteen other financial institutions that operate 66 branches and held 0.9% of that county's deposits. In Hoke County, the Bank competes with three other financial institutions that operate 3 branches and held 7.0% of the county's 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 placed limitations on bank proprietary trading.
- Provided more stringent capital requirements for banks.
- Established regulatory oversight of the credit rating agencies through the Securities and Exchange Committee ("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 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 increased 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 has 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 Act for the 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. The 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 and Regulation by the FDIC

Our deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC insured institutions. It also may prohibit any FDIC insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the insurance fund.

Due to the large number of recent bank failures, the FDIC adopted a revised risk-based deposit insurance assessment schedule in February 2009, which raised deposit insurance premiums. The FDIC also implemented a five basis point special assessment of each insured depository institution’s assets minus Tier 1 capital as of June 30, 2009, which special assessment amount was capped at 10 basis points times the institution’s assessment base for the second quarter of 2009. In addition, the FDIC required financial institutions to prepay estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2011 through and including 2012 to re-capitalize the Deposit Insurance Fund. The prepaid assessment was expensed over a three-year period.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management of the Bank is not aware of any practice, condition or violation that might lead to termination of the Bank's deposit insurance.

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 capital" 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 Basel Committee provides a framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as "Basel III". Basel III will require banks to maintain substantially more capital, with a greater emphasis on common equity. In July 2013, the Federal Reserve Bank, the OCC and the FDIC finalized rules to implement the Basel III capital rules in the United States. These comprehensive rules are designed to help ensure that banks maintain strong capital positions by increasing both the quantity and quality of capital held by U.S. banking organizations.

Other Safety and Soundness Regulations

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 law 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 OCC, and the FDIC issued 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 a 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, 2013, 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 as 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 payment, 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 2013 the bank declared a dividend of $0.16 per share, paying out a total of $546,811 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 segments 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.

We believe 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 February 2014 was 6.7%. The rate continues to improve and 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 2014, 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% 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, we believe that 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, North Carolina. The Bank owns an additional facility that is utilized for its Operations Center at 410 East Third Street in Pembroke, North Carolina.

The Bank is obligated on a month to month lease of its retail banking location at 6313 Raeford Road in Fayetteville, North Carolina. The lease calls for monthly payments of $2,100 and can be terminated at any time by either party.

The Bank is also 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 and can be terminated at any time by either party.

For additional information on properties and leases, see the Premises and Equipment note 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 financial statements.

Item 4. Mine Safety Disclosures

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 the stock 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, 2013, there were approximately 1,965 record holders of the Bank's common stock.

Market Price

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

2013:	High	Low
1st Quarter	$16.00	$15.00
2nd Quarter	$15.00	$11.00
3rd Quarter	$15.00	$11.00
4th Quarter	$12.00	$11.00

Dividends Declared

2012:	Per Share
June	$0.08
December	$0.08

2013:	Per Share
June	$0.08
December	$0.08

Item 6. Selected Financial Data

Not applicable.

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 the Bank's 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 requiring 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 evaluating 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 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.

Critical Accounting Policies

The Bank's financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The notes to the audited financial statements included in this annual report for the year ended December 31, 2013 contain a summary of our significant accounting policies.

Certain accounting policies involve significant judgments and assumptions by us that have a material impact on the carrying value of certain assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgment and assumptions we use are based on historical experience and other factors, which we believe to be reasonable under the circumstances. Because of the nature of the judgment and assumptions we make, actual results could differ from these judgments and estimates that could have a material impact on the carrying values of our assets and liabilities and our results of operations.

Allowance for Loan Losses

We believe the allowance for loan losses is the critical accounting policy that requires the most significant judgment and estimates used in preparation of our financial statements. Some of the more critical judgments supporting the amount of our allowance for loan losses include judgments about the creditworthiness of borrowers, the estimated value of the underlying collateral, the assumptions about cash flow, determination of loss factors for estimating credit losses, the impact of current events, and conditions, and other factors impacting the level of probable inherent losses.

Under different conditions or using different assumptions, the actual amount of credit losses incurred by us may be different from management's estimates provided in our financial statements. Refer to the portion of this discussion that addresses our allowance for loan losses for a more complete discussion of our processes and methodology for determining our allowance for loan losses.

Income Taxes

We use assumptions and estimates in determining income taxes payable or refundable for the current year, deferred income tax liabilities and assets for events recognized differently in our financial statements and income tax returns, and income tax expense. Determining these amounts requires analysis of certain transactions and interpretation of tax laws and regulations. Management exercises judgment in evaluating the amount and timing of recognition of resulting tax liabilities and assets. These judgments and estimates are reevaluated on a continual basis as regulatory and business factors change. No assurance can be given that either the tax returns submitted by us or the income tax reported on the financial statements will not be adjusted by either adverse rulings by the United States Tax Court, changes in the tax code, or assessments made by the Internal Revenue Service. We are subject to potential adverse adjustments, including, but not limited to, an increase in the statutory federal or state income tax rates, the permanent nondeductibility of amounts currently considered deductible either now or in future periods, and the dependency on the generation of future taxable income, including capital gains, in order to ultimately realize deferred income tax assets.

Results of Operations

Summary

Net income for the year ended December 31, 2013 was \$1.8 million compared to \$2.2 million for the year ended December 31, 2012. Net interest income increased to \$11.3 million for the year ended December 31, 2013 from \$11.1 million in the prior year. Losses realized on the disposal of certain fixed assets resulted in decreased noninterest income and losses recognized on the sales of foreclosed properties attributed to higher noninterest expense in 2013.

Net Interest Income

Net interest income, the principal source of bank earnings, is the amount of income generated by earning assets (primarily loans and investment securities) less the interest expense incurred on interest-bearing liabilities (primarily deposits used to fund earning assets). Net interest income increased slightly in 2013 to $11.3 million in 2013 from $11.1 million in 2012. As assets and liabilities continued to reprice at historically low rates, both interest income and interest expense declined. Interest income decreased by $528 thousand from 2012 to 2013 compared to a decrease from 2011 to 2012 of $218 thousand. Interest expense decreased from $3.0 million in 2011 to $2.8 million in 2012 to $2.1 million in 2013. The following table sets forth information related to our average balance sheet, average yields on assets and average costs of liabilities.

	Year ended December 31,								
	2013			2012			2011		
(dollars in thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets									
Interest-earning assets:									
Loans[3]	$ 180,774	$ 10,929	6.05%	$ 181,228	$ 11,397	6.29%	$ 178,425	$ 11,762	6.59%
Federal funds sold	-	-	0.00%	387	-	0.00%	737	1	0.14%
Investment securities:									
Available for sale	50,466	1,058	2.10%	47,858	1,203	2.51%	30,045	1,064	3.54%
Held to maturity	42,402	1,329	3.13%	34,306	1,237	3.61%	33,458	1,265	3.78%
Nonmarketable securities	700	18	2.57%	945	19	2.01%	1,383	11	0.80%
Deposits with banks	13,269	24	0.18%	15,171	30	0.20%	4,797	1	0.02%
Total earning assets	287,611	13,358	4.64%	279,895	13,886	4.96%	248,845	14,104	5.67%
Noninterest-earning assets:									
Cash and due from banks	12,935			17,002			20,408		
Premises and equipment	10,525			10,326			8,866		
Other assets	13,637			12,057			10,451		
Allowance for loan losses	(3,386)			(3,443)			(2,997)		
Total assets	$ 321,322			$ 315,837			$ 285,573		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
Interest checking	$ 65,096	172	0.26%	$ 64,483	316	0.49%	$ 58,737	394	0.67%
Savings deposits	16,491	26	0.16%	13,441	21	0.16%	11,824	19	0.16%
Large time deposits	55,115	841	1.53%	62,657	1,102	1.76%	54,615	1,045	1.91%
Other time deposits	80,481	831	1.03%	77,608	1,083	1.40%	67,805	1,149	1.69%
Total deposits	217,183	1,870	0.86%	218,189	2,522	1.16%	192,981	2,607	1.35%
FHLB Advances	4,196	181	4.31%	5,649	234	4.14%	11,509	370	3.21%
Securities sold under agreements to repurchase	2,822	4	0.14%	1,795	4	0.22%	490	1	0.20%
Total interest-bearing liabilities	224,201	2,055	0.92%	225,633	2,760	1.22%	204,980	2,978	1.45%
Noninterest-bearing liabilities:									
Demand deposits	62,662			56,712			48,903		
Other liabilities	2,844			2,413			2,225		
Total liabilities	289,707			284,758			256,108		
Shareholders' equity	31,615			31,079			29,465		
Total liabilities and shareholders' equity	$ 321,322			$ 315,837			$ 285,573		
Net interest income		$ 11,303			$ 11,126			$ 11,126	
Interest rate spread[1]			3.72%			3.74%			4.22%
Interest rate margin[2]			3.93%			3.98%			4.47%

[1] Net interest spread is the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.
[2] Net interest margin equals net interest income divided by total interest-earning assets.
[3] Average loan balances include nonaccrual loans.

Rate/Volume Analysis

Net interest income can be analyzed in terms of the impact of changing interest rates and changing volume. The following table sets forth the effect which the varying levels of interest-earning assets and interest-bearing liabilities and the applicable rates had on changes in net interest income for the comparative periods presented. Changes attributed to both rate and volume have been allocated on a pro rata basis.

	2013 Compared to 2012 Increase (Decrease)			2012 Compared to 2011 Increase (Decrease)		
(in thousands)		Due To			Due To	
	Total	Rate	Volume	Total	Rate	Volume
Interest-earning assets						
Loans	$ (468)	$ (439)	$ (29)	$ (365)	$ (555)	$ 190
Federal funds sold	-	-	-	(1)	(1)	-
Investment securities:						
Taxable	(145)	(216)	71	139	(133)	272
Exempt from income tax	92	(115)	207	(28)	(61)	33
Dividend income	(1)	5	(6)	8	10	(2)
Deposits with banks	(6)	(3)	(3)	29	23	6
Total	(528)	(768)	240	(218)	(717)	499
Interest-bearing liabilities						
Interest checking	(144)	(147)	3	(78)	(122)	44
Savings deposits	5	-	5	2	-	2
Large time deposits	(261)	(137)	(124)	57	(69)	126
Other time deposits	(252)	(294)	42	(66)	(365)	299
Total deposits	(652)	(578)	(74)	(85)	(556)	471
FHLB Advance	(53)	10	(63)	(136)	178	(314)
Securities sold under agreements to repurchase	-	(1)	1	3	1	2
Total	(705)	(569)	(136)	(218)	(377)	159
Net interest income	$ 177	$ (199)	$ 376	$ -	$ (340)	$ 340

Increases in the volume of interest-earning assets offset by a decrease in average interest-bearing liabilities provided an increase of $376 thousand to net interest income for 2013 while decreases in yields earned on average assets and costs of average liabilities provided a decrease of $199 thousand. For 2012, changes in rates and volume offset resulting in a net change to net interest income of zero.

Provision for loan losses

We have established an allowance for loan losses through a provision for loan losses charged as a non-cash expense to our statement of operations. We review our loan portfolio periodically to evaluate our outstanding loans and to measure both the performance of the portfolio and the adequacy of the allowance for loan losses. Please see the discussion below under “Allowance for Loan Losses” for a description of the factors we consider in determining the amount of the provision we expense each period to maintain this allowance.

The provision for loan losses decreased from $600 thousand in 2012 to $252 thousand in 2013. The allowance for loan losses was $3.2 million at December 31, 2013, approximately 1.77% of gross outstanding loans at that date. Management considers the allowance for loan loss balance to be adequate for possible charge-offs in subsequent years on the uncollected loan balances at December 31, 2013.

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 charged for non-deposit services such as safe deposit box rentals. Noninterest income decreased $252 thousand or 9.8% from $2.6 million in 2012 to $2.3 million in 2013. The decrease primarily related to a loss recognized in 2013 on the disposal of certain fixed assets combined with lower service charges earned on deposit accounts.

Noninterest Expense

Noninterest expense increased $707 thousand or 6.8% from $10.5 million in 2012 to $11.2 million in 2013. The largest component of the increase relates to losses realized on the sales of foreclosed properties as we work to reduce our nonperforming assets.

Income Taxes

Income tax expense is based on amounts reported in the statements of operations (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 on when the assets and liabilities are recovered or settled.

Income taxes were 16.5% of net income before taxes for 2013 compared to 18.2% for 2012. The decrease is the result of a higher percentage of tax-exempt income for 2013 compared to 2012.

Financial Position

General

At December 31, 2013, total assets were $317.3 million compared to $327.1 million at December 31, 2012. Total deposits decreased $9.2 million, $6.2 million of which were interest-bearing. Proceeds from investment maturities were used to fund loan growth as total loans increased $4.4 million while investment securities decreased $8.9 million.

Although total assets at December 31, 2013 were lower than total assets at December 31, 2012, average assets for the year were higher than last year. Average interest-earning assets continued to increase as a percentage of total average assets. For 2013, average interest-earning assets were 89.5% of total average assets compared to 88.6% at 2012 and 87.1% at 2011. The average asset mix for 2013, 2012 and 2011 are presented in the following table.

	December 31,					
	2013		2012		2011	
(in thousands)	Average Balance	%	Average Balance	%	Average Balance	%
Interest-earning assets:						
Loans	$ 180,774	56.26%	$ 181,228	57.38%	$ 178,425	62.48%
Federal funds sold	-	0.00%	387	0.12%	737	0.26%
Investment securities:						
Taxable	50,466	15.71%	47,858	15.15%	30,045	10.52%
Exempt from income tax	42,402	13.19%	34,306	10.86%	33,458	11.72%
Nonmarketable securities	700	0.22%	945	0.30%	1,383	0.48%
Deposits with banks	13,269	4.13%	15,171	4.81%	4,797	1.68%
Total interest-earning assets	287,611	89.51%	279,895	88.62%	248,845	87.14%
Noninterest-earning assets:						
Cash and due from banks	12,935	4.02%	17,002	5.38%	20,408	7.15%
Premises and equipment	10,525	3.28%	10,326	3.27%	8,866	3.10%
Other assets	10,251	3.19%	8,614	2.73%	7,454	2.61%
Total noninterest-earning assets	33,711	10.49%	35,942	11.38%	36,728	12.86%
Total average assets	$ 321,322	100.00%	$ 315,837	100.00%	$ 285,573	100.00%

Investments

At December 31, 2013, investment securities available for sale were included on our balance sheet at a fair value of $43.6 million and consisted of Government sponsored enterprises and FNMA, GNMA, and FHLMC mortgage-backed securities. Investments securities held to maturity were included on our balance sheet at an amortized cost of $44.4 million and consisted of state and municipal securities.

We continually evaluate our investment securities portfolio in response to established asset/liability management objectives, changing market conditions that could affect profitability, and the level of interest rate risk to which we are exposed. These evaluations may cause us to change the level of funds we deploy into investment securities, change the composition of our investment securities portfolio, and change the proportion of investments made into the available for sale and held to maturity investment categories.

Gross unrealized gains in our investment securities portfolio were $1.2 million as of December 31, 2013 and $3.7 million as of December 31, 2012. Gross unrealized losses were $3.5 million as of December 31, 2013 and $139 thousand as of December 31, 2012. The increase in our gross unrealized loss positions on our investment securities was primarily due to an increase in interest rates beginning in the second quarter of 2013, relative to the interest rate environment when the investment securities were purchased. Management does not believe that gross unrealized losses as of December 31, 2013, represent an other-than-temporary impairment.

The following table presents the maturity distribution at amortized cost, weighted-average yield by maturity, and fair value of investment securities as of December 31, 2013. Amortized cost and fair value of investment securities as of December 31, 2012 and 2011 are also presented.

December 31, 2013 (in thousands)	Amortized Cost Due					
	Within One Year	After One Through Five Years	After Five Through Ten Years	After Ten Years	Total	Market Value
Government sponsored enterprises	$ 1,010	$ 1,931	$ 10,713	$ -	$ 13,654	$ 12,969
FNMA, GNMA, and FHLMC mortgage-backed securities	-	13,998	17,559	-	31,557	30,657
State and municipal securities	843	14,459	23,511	5,599	44,412	43,695
Total	$ 1,853	$ 30,388	$ 51,783	$ 5,599	$ 89,623	$ 87,321
Weighted Average Yields						
Government sponsored enterprises	1.72%	1.54%	2.15%	-%	2.03%	
FNMA, GNMA, and FHLMC mortgage-backed securities	-%	2.74%	1.84%	-%	2.14%	
State and municipal securities	2.20%	3.14%	2.96%	3.85%	3.12%	
Total	1.94%	2.75%	2.41%	3.50%	2.59%	

December 31, 2012 (in thousands)	Amortized Cost	Fair Value
Government sponsored enterprises	$ 15,479	$ 15,629
FNMA, GNMA, and FHLMC mortgage- backed securities	40,644	41,764
State and municipal securities	39,514	41,839
Total	$ 95,637	$ 99,232

December 31, 2011 (in thousands)	Amortized Cost	Fair Value
Government sponsored enterprises	$ 9,271	$ 9,372
FNMA, GNMA, and FHLMC mortgage- backed securities	17,455	18,542
State and municipal securities	33,160	34,949
Total	$ 59,886	$ 62,863

Loans

We make commercial, mortgage and consumer loans to our customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout the North Carolina counties of Robeson, Cumberland and Hoke. The ability of our borrowers to honor their contracts is dependent upon the general economic conditions in the area.

Total loans were $183.2 million at December 31, 2013 compared to $178.8 million at December 31, 2012, an increase of $4.4 million or 2.5%. Loans secured by real estate comprise the largest part of our loan portfolio, 88.7% at December 31, 2013 and 88.2% at December 31, 2012. Non-real estate commercial loans comprised 6.0% of our loan portfolio at December 31, 2013 compared to 5.4% at December 31, 2012, while consumer loans comprised 5.3% at December 31, 2013 compared to 6.4% at December 31, 2012.

The following table presents the composition of our loan portfolio.

	December 31,				
(in thousands)	2013	2012	2011	2010	2009
Commercial	$ 10,935	$ 9,709	$ 10,240	$ 8,574	$ 9,435
Commercial Real Estate	69,696	63,210	65,520	60,656	57,069
Consumer	9,719	11,460	12,517	13,088	14,837
Residential Real Estate	90,433	91,836	92,212	85,938	86,992
Agricultural and Raw Land	2,791	2,967	2,859	2,770	2,533
Gross Loans	183,574	179,182	183,348	171,026	170,866
Unearned Fees	(388)	(382)	(416)	(408)	(459)
Gross Loans less Unearned Fees	183,186	178,800	182,932	170,618	170,407
Allowance for Loan Losses	(3,246)	(3,453)	(3,209)	(2,778)	(2,183)
Net Loans	$ 179,940	$ 175,347	$ 179,723	$ 167,840	$ 168,224

The following table presents fixed rate and variable rate loans by their contractual maturities.

	December 31, 2013			
(in thousands)	One Year or Less	Over One Year through Five Years	Over Five Years	Total
Commercial	$ 6,331	$ 4,227	$ 200	$ 10,758
Commercial Real Estate	20,705	43,186	5,811	69,702
Consumer	3,884	5,245	634	9,763
Residential Real Estate	43,352	41,376	5,713	90,441
Agricultural and Raw Land	1,136	1,654	-	2,790
Total	$ 75,408	$ 95,688	$ 12,358	$ 183,454
Variable rate loans	$ 16,577	$ 10,152	$ 443	$ 27,172
Fixed rate loans	58,831	85,536	11,915	156,282
Total	$ 75,408	$ 95,688	$ 12,358	$ 183,454

Allowance for Loan Losses

An allowance for loan losses is maintained at a level deemed appropriate by management to provide adequately for known and inherent losses in the loan portfolio. Management's judgment as to the adequacy of the allowance for loan losses is based on a number of assumptions about future events, which we believe to be reasonable, but which may or may not prove to be accurate.

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 and 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 our overall lending environment. Environmental factors that management routinely analyzes 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, housing statistics and banking industry conditions; local economic forecasts; and the effect of changes in credit concentrations.

At December 31, 2013, the allowance for loan losses was $3.2 million or 1.77% of total loans compared to $3.5 million or 1.93% of total loans at December 31, 2012. The following table presents activity in the Allowance for Loan Losses.

(in thousands)	December 31, 2013	2012	2011	2010	2009
Balance at beginning of period	$ 3,453	$ 3,209	$ 2,778	$ 2,183	$ 1,782
Charge-offs:					
Commercial	(36)	(59)	(69)	(43)	(52)
Commercial Real Estate	-	(181)	(141)	-	-
Consumer	(161)	(115)	(100)	(137)	(160)
Residential Real Estate	(169)	(85)	(131)	(261)	(133)
Agricultural and Raw Land	(126)	-	-	-	-
Total Charge-offs	(492)	(440)	(441)	(441)	(345)
Recoveries:					
Commercial	-	8	15	6	15
Commercial Real Estate	-	-	-	-	-
Consumer	33	43	22	42	68
Residential Real Estate	-	33	2	26	6
Agricultural and Raw Land	-	-	-	-	-
Total Recoveries	33	84	39	74	89
Net Charge-offs	(459)	(356)	(402)	(367)	(256)
Provision	252	600	833	962	657
Balance at end of period	$ 3,246	$ 3,453	$ 3,209	$ 2,778	$ 2,183
Net charge-offs as a percentage of average loans	0.25%	0.20%	0.23%	0.21%	0.16%

The following table presents the Allowance for Loan Losses by loan category and the loan category as a percentage of total loans. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	December 31, 2013		2012		2011		2010		2009	
(in thousands)	$	%[1]	$	%[1]	$	%[1]	$	%[1]	$	%[1]
Commercial	$ 529	5.9%	$ 482	5.4%	$ 501	5.6%	139	5.0%	121	5.5%
Commercial Real Estate	1,420	38.0%	1,123	35.3%	623	35.7%	985	35.5%	729	33.4%
Consumer	129	5.3%	369	6.4%	163	6.8%	213	7.7%	190	8.7%
Residential Real Estate	764	49.3%	698	51.3%	1,215	50.3%	1,396	50.2%	1,111	50.9%
Agricultural and Raw Land	5	1.5%	2	1.6%	6	1.6%	45	1.6%	32	1.5%
Unallocated	399	-%	779	-%	701	-%	-	-%	-	-%
	$ 3,246	100.0%	$ 3,453	100.0%	$ 3,209	100.0%	2,778	100.0%	2,183	100.0%

[1]Loan category as a percentage of total loans.

Nonperforming Loans

Loans are generally placed in non-accrual status when the collection of interest is 90 days or more past due, when the full collection of all principal and interest is unlikely (even if the amount and timing of the eventual loss are unknown), when a loan is designated as Troubled Debt Restructure (“TDR”), or when the borrower has filed for bankruptcy. Loans that are less delinquent may also be placed on non-accrual if so directed by the Chief Credit Officer or President/CEO.

Loans that meet these criteria guidelines may be kept on accrual if approved by the Chief Credit Officer and the loan is well secured and in the process of collection. A debt is "well secured" if collateralized by liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt in full; or by the guarantee of a financially responsible party. A debt is "in process of collection" if collection is proceeding in due course either through legal action, including judgment enforcement procedures, or, in appropriate circumstances, through collection efforts not involving legal actions which are reasonably expected to result in repayment of the debt or its restoration to a current status. With the approval of the Chief Credit Officer, a loan also may be kept on accrual if it is past due because of a recent maturity without a timely renewal, but the loan has been approved for renewal and is in the process of being renewed and returned to a paying status. When interest accrual is discontinued, all unpaid accrued interest is reversed.

A non-accrual loan may be returned to accrual status when we can reasonably expect continued timely payments until payment in full. All prior arrearage does not necessarily have to be eliminated, nor do all previously charged off amounts need to have been recovered. The loan can be returned to accrual status if: 1) approved by the Chief Credit Officer, and 2) the return to sustained, acceptable, payment performance, without subsequent relapse to seriously delinquent or otherwise non-performing, is likely. The two general rules that apply here are: a) all principal and interest amounts contractually due (including arrearage) are reasonably assured of repayment within a reasonable period, and b) there is a sustained period of repayment performance (generally a minimum of six months) by the borrower, in accordance with the contractual terms involving payments of cash or cash equivalents.

The following table sets forth our nonperforming assets.

	December 31,				
(in thousands)	2013	2012	2011	2010	2009
Non-accrual loans	$ 6,863	$ 4,174	$ 4,122	$ 2,743	$ 1,686
Loans 90 days+ past due, still accruing	73	764	1,090	138	252
Troubled debt restructurings	3,472	3,696	2,358	1,244	-
Total nonperforming loans	10,408	8,634	7,570	4,125	1,938
Foreclosed real estate	726	1,461	1,227	916	871
Total nonperforming assets	$ 11,134	$ 10,095	$ 8,797	$ 5,041	$ 2,809

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

At December 31, 2013, our impaired loans amounted to $9.7 million consisting of real estate and commercial loans. Of these impaired loans, $5.7 million had specific reserves set aside in an amount of $1.9 million for future losses.

Potential Problem Loans

As of December 31, 2013, our watch list loans amounted to $33.5 million, compared $25.5 million at December 31, 2012. The watch list is the classification utilized by us when we have an initial concern about the financial health of a borrower. We then gather current financial information about the borrower and evaluate our current risk in the credit. We will then either move it to "substandard" or back to its original risk rating after a review of the information. There are times when we may leave the loan on the "watch list," if, in management's opinion, there are risks that cannot be fully evaluated without the passage of time, and we want to review it on a more regular basis. Loans on the watch list are not considered "potential problem loans" until they are determined by management to be classified as substandard.

Loans past due 30-89 days amounted to $7.8 million at December 31, 2013 as compared to $9.1 million at December 31, 2012. Past due loans are often regarded as a precursor to further credit problems which would lead to future increases in nonaccrual loans and other real estate owned. At December 31, 2013, there were loans past due greater than 90 days of $73 thousand that had not already been placed on nonaccrual.

Deposits

Total deposits at December 31, 2013 were $275.6 million compared to $284.9 million at December 31, 2012. Non-interest bearing deposits decreased $3.0 million while interest checking and savings deposits increased $5.0 million.

Average interest-bearing deposits also decreased from 2012 to 2013 as did rates. The weighted average rate paid for total deposits decreased from 1.16% for the year ended December 31, 2012 to 0.86% for the year ended December 31, 2013. The table below presents average interest-bearing deposits and the average rate paid on each category for the year.

	December 31,					
	2013		2012		2011	
(in thousands)	Average Balances	Average Rate	Average Balances	Average Rate	Average Balances	Average Rate
Interest-bearing deposits:						
Interest checking	$ 65,096	0.26%	$ 64,483	0.49%	$ 58,737	0.67%
Savings	16,491	0.16%	13,441	0.16%	11,824	0.16%
Time deposits, $100,000 and over	55,115	1.53%	62,657	1.76%	54,615	1.91%
Other time deposits	80,481	1.03%	77,608	1.40%	67,805	1.69%
Total interest-bearing deposits	217,183	0.86%	218,189	1.16%	192,981	1.35%
Noninterest-bearing deposits	62,662		56,712		48,903	
Total average deposits	$ 279,845		$ 274,901		$ 241,884	

Total time deposits decreased $11.2 million from $141.0 million at December 31, 2012 to $129.8 million at December 31, 2013. Time deposits greater than $100,000 were $52.5 million and $58.9 million at December 31, 2013 and 2012, respectively.

The following table presents a maturity analysis of time deposits of $100,000 and over at December 31.

(in thousands)	2013
Less than three months	$ 9,288
Three months through one year	26,668
Over one year	16,503
Total time deposits, $100,000 and over	$ 52,459

Federal Home Loan Bank Advances

At December 31, 2013, we had outstanding advances from the Federal Home Loan Bank of $4.1 million compared to $4.3 million at December 31, 2012. The advances are used primarily for asset/liability management. The weighted average rate paid on the advances during 2013 was 4.3%. These advances mature between 2014 and 2024. Our remaining credit availability was $58.7 million at December 31, 2013.

Capital

Total shareholders' equity increased $265 thousand to $31.2 million at December 31, 2013 from $30.9 million at December 31, 2012. Unrealized losses on available for sale securities which are included in other comprehensive income, net of tax, increased $1.0 million from December 31, 2012 to December 31, 2013. This change combined with dividends paid of $547 thousand offset net income of $1.8 million for the year.

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 financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines involving quantitative measures of our assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Our 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 us 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, 2013, that we meet all the capital adequacy requirements to which we are subject.

As of December 31, 2013, the most recent notification from the FDIC, we were categorized as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, we 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 our prompt corrective action category.

Our actual and required capital amounts and ratios are as follows:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2013						
Total Capital						
(to Risk-Weighted Assets)	$ 34,403	17.24%	$ 15,963	8.00%	$ 19,954	10.00%
Tier I Capital						
(to Risk-Weighted Assets)	$ 31,899	15.99%	$ 7,982	4.00%	$ 11,973	6.00%
Tier I Capital						
(to Average Assets)	$ 31,899	10.10%	$ 12,634	4.00%	$ 15,792	5.00%
December 31, 2012						
Total Capital						
(to Risk-Weighted Assets)	$ 33,035	16.99%	$ 15,553	8.00%	$ 19,441	10.00%
Tier I Capital						
(to Risk-Weighted Assets)	$ 30,592	15.74%	$ 7,776	4.00%	$ 11,665	6.00%
Tier I Capital						
(to Average Assets)	$ 30,592	9.44%	$ 12,964	4.00%	$ 16,205	5.00%

Key Ratios

The following schedule of key ratios is presented for the years December 31, 2013, 2012, and 2011.

	2013	2012	2011
Return on Assets	0.57%	0.68%	0.71%
Return on Equity	5.81%	6.93%	6.90%
Dividend Payout Ratio	29.78%	25.39%	26.89%
Equity to Assets (averages)	9.84%	9.84%	10.32%
Ending Equity to Ending Assets	9.83%	9.46%	9.57%
Average Interest Earning Assets			
to Average Total Assets	89.51%	88.62%	87.14%
Average Net Loans			
to Average Total Loans	98.13%	98.10%	98.32%
Average Interest Earning Assets			
to Average Interest Bearing Liabilities	128.28%	124.05%	121.40%

Effect of Inflation and Changing Prices

The effect of relative purchasing power over time due to inflation has not been taken into account in our financial statements. Rather, our financial statements have been prepared on an historical cost basis in accordance with generally accepted accounting principles.

Unlike most industrial companies, our assets and liabilities are primarily monetary in nature. Therefore, the effect of changes in interest rates will have a more significant impact on our performance than will the effect of changing prices and inflation in general. In addition, interest rates may generally increase as the rate of inflation increases, although not necessarily in the same magnitude. As discussed previously, we seek to manage the relationships between interest sensitive assets and liabilities in order to protect against wide rate fluctuations, including those resulting from inflation.

Off-Balance Sheet Risk

Commitments to extend credit are agreements to lend to a customer as long as the customer has not violated any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. At December 31, 2013, unfunded commitments to extend credit were $16.4 million. A significant portion of the unfunded commitments related to consumer equity lines of credit. Based on historical experience, we anticipate that a significant portion of these lines of credit will not be funded. We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the borrower. The type of collateral varies but may include accounts receivable, inventory, property, plant and equipment, and commercial and residential real estate.

At December 31, 2013, there were commitments totaling approximately $137 thousand under letters of credit. The credit risk and collateral involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Since most of the letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements.

Liquidity

Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss, and the ability to raise additional funds by increasing liabilities. Liquidity management involves monitoring our sources and uses of funds in order to meet our day-to-day cash flow requirements while maximizing profits. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of our investment portfolio is fairly predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to the same degree of control.

Our liquidity position is primarily dependent upon our need to respond to loan demand and short-term demand for funds caused by withdrawals from deposit accounts and upon the liquidity of our assets. Our primary liquidity sources include cash and amounts due from other banks, federal funds sold and investments available for sale. In addition, we have the ability to borrow funds from the Federal Home Loan Bank and the Federal Reserve Bank and to purchase federal funds from other financial institutions. Management believes our liquidity sources are adequate to meet our operating needs.

Interest Rate Sensitivity

One of the principal goals of our 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 us from wide fluctuations in our net interest income which could result from interest rate changes.

We actively monitor and manage our interest rate risk exposure principally by measuring our interest sensitivity "gap," and net interest income simulations. Interest sensitivity gap is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. Interest rate sensitivity can be managed by repricing assets or liabilities, selling securities available for sale, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in this same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates. We generally would benefit from increasing market rates of interest when we have an asset-sensitive gap position and generally would benefit from decreasing market rates of interest when we are liability-sensitive.

The following table sets forth information regarding our rate sensitivity, as of December 31, 2013, at each of the time intervals. The information in the table may not be indicative of our rate sensitivity position at other points in time. In addition, the maturity distribution implied in the table may differ from the contractual maturities of the earning assets and interest-bearing liabilities presented due to consideration of prepayment speeds under various interest rate change scenarios and other embedded optionality in the application of the interest rate sensitivity methods described above.

December 31, 2013	**Timeframes**							
(in thousands)	Floating	1-3 months	3-12 months	1-3 years	3-5 years	5-15 years	> 15 years	Total
Interest-bearing deposits in other banks	$ -	$ -	$ 11,522	$ -	$ -	$ -	$ -	$ 11,522
Total investments	-	10,691	13,449	9,348	6,783	24,765	23,003	88,039
Total loans	9,769	56,761	67,775	30,490	8,964	4,130	5,565	183,454
Total Rate Sensitive Assets (RSA)	$ 9,769	$ 67,452	$ 92,746	$ 39,838	$ 15,747	$ 28,895	$ 28,568	$ 283,015
Interest checking and savings	$ 20,602	$ -	$ -	$ 61,805	$ -	$ -	$ -	$ 82,407
Time deposits	-	25,036	67,166	35,894	1,677	-	-	129,773
Securities sold under agreements to repurchase	-	-	-	-	3,246	-	-	3,246
FHLB advances	-	-	1,000	1,500	-	1,626	-	4,126
Total Rate Sensitive Liabilities (RSL)	$ 20,602	$ 25,036	$ 68,166	$ 99,199	$ 4,923	$ 1,626	$ -	$ 219,552
Interest Sensitivity Gap	$ (10,833)	$ 42,416	$ 24,580	$ (59,361)	$ 10,824	$ 27,269	$ 28,568	$ 63,463
Cumulative Gap	$ (10,833)	$ 31,583	$ 56,163	$ (3,198)	$ 7,626	$ 34,895	$ 63,463	$ 63,463
Cumulative Gap/RSA	(3.90)%	11.37%	20.22%	(1.15)%	2.75%	12.56%	22.42%	22.42%
RSA/RSL	47.42%	269.42%	136.06%	40.16%	319.87%	1,777.06%	-%	128.91%

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
Balance Sheets
Statements of Income
Statements of Comprehensive Income
Statements of Changes in Shareholders' Equity
Statements of Cash Flows
Notes to Financial Statements

elliott davis

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Lumbee Guaranty Bank

We have audited the accompanying balance sheets of Lumbee Guaranty Bank (the "Bank") as of December 31, 2013 and 2012, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended. 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 misstatement. The Bank is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of Lumbee Guaranty Bank as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The financial statements of the Bank as of December 31, 2012 were previously audited by other auditors that have ceased providing services to public companies. As explained above, we have audited the financial statements as of and for the year ended December 31, 2012. Our audit resulted in the Bank restating its financial statements as of and for the year ended December 31, 2012. See Note 1 for information regarding the restatement, as well as a reconciliation of the restated amounts to the amounts previously reported by the Bank.

/s/ Elliott Davis, PLLC

Charlotte, North Carolina
March 31, 2014

Lumbee Guaranty Bank
Balance Sheets
December 31, 2013 and 2012

	2013	*Restated 2012
Assets		
Cash and due from banks	$ 11,988,133	$ 17,973,625
Interest-bearing deposits in other banks	11,520,337	10,265,632
Cash and cash equivalents	23,508,470	28,239,257
Investment securities, available for sale	43,626,624	57,393,213
Investment securities, held to maturity (fair value $43,694,916 and $41,839,308 at December 31, 2013 and 2012, respectively)	44,412,280	39,513,941
Loans	183,573,580	179,182,432
Less: Unearned fees	(388,026)	(381,551)
Allowance for loan losses	(3,245,667)	(3,453,823)
Loans, net	179,939,887	175,347,058
Premises and equipment, net	10,238,817	10,726,622
Intangible assets, net	679,682	695,302
Nonmarketable equity securities	686,000	751,000
Foreclosed real estate	726,395	1,461,467
Accrued interest receivable	1,277,920	1,323,841
Prepaid expenses	336,904	565,589
Cash value of bank owned life insurance	8,898,757	8,630,797
Other assets	2,965,518	2,403,370
Total assets	$ 317,297,254	$ 327,051,457
Liabilities and shareholders' equity		
Deposits:		
Noninterest-bearing	$ 63,450,410	$ 66,453,610
Interest checking	65,245,664	62,607,306
Savings	17,160,261	14,831,312
Time deposits, $100,000 and over	52,459,449	58,890,281
Other time deposits	77,313,299	82,089,457
Total deposits	275,629,083	284,871,966
Securities sold under agreements to repurchase	3,245,506	2,546,398
Federal Home Loan Bank advances	4,125,769	4,251,536
Accrued interest and other expenses	2,531,876	2,539,930
Defined benefit pension plan liability	509,747	1,807,938
Other liabilities	58,312	102,106
Total liabilities	286,100,293	296,119,874
Commitments and contingencies (Notes 17 and 18)		
Shareholders' equity		
Common stock, $2.00 par value, 5,000,000 shares authorized; 3,417,565 shares issued and outstanding	6,835,130	6,835,130
Surplus	7,046,776	7,044,543
Undivided profits	18,697,445	17,406,963
Accumulated other comprehensive loss	(1,382,390)	(355,053)
Total shareholders' equity	31,196,961	30,931,583
Total liabilities and shareholders' equity	$ 317,297,254	$ 327,051,457

* See Note 1 to the financial statements.

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

Lumbee Guaranty Bank
Statements of Income
For the years ended December 31, 2013 and 2012

	2013	*Restated 2012
Interest income		
Interest and fees on loans	$ 10,928,511	$ 11,396,748
Interest on Federal Funds Sold	-	197
Interest on securities:		
Available for sale	1,057,829	1,202,898
Held to maturity	1,329,268	1,236,832
Nonmarketable equity securities	18,559	19,092
Other interest income	24,114	29,659
Total interest income and fees	13,358,281	13,885,426
Interest expense		
Interest paid on deposits	1,870,197	2,521,472
Interest paid on FHLB advances	180,819	234,170
Interest paid on securities sold under agreements to repurchase	3,895	3,801
Total interest expense	2,054,911	2,759,443
Net interest income	11,303,370	11,125,983
Provision for loan losses	252,001	600,000
Net interest income after provision for loan losses	11,051,369	10,525,983
Noninterest income		
Service charges on deposit accounts	1,566,287	1,669,577
Income from bank owned life insurance	267,960	238,356
Gains on sales of securities	111,029	15,118
Losses on disposals of fixed assets	(157,524)	-
Other operating income	519,868	636,091
Total noninterest income	2,307,620	2,559,142
Noninterest expense		
Salaries and wages	4,366,029	4,259,310
Other personnel costs	1,476,311	1,615,965
Net occupancy expense	912,266	870,625
Equipment expense	440,495	402,735
Amortization	15,620	13,200
Data processing	1,105,872	1,049,051
FDIC insurance premiums	258,438	242,491
Foreclosed real estate expense, net	533,347	160,833
Printing and office supplies	396,568	338,308
Other operating expenses	1,652,986	1,497,919
Total noninterest expense	11,157,932	10,450,437
Income before income taxes	2,201,057	2,634,688
Income tax expense	363,764	480,622
Net income	$ 1,837,293	$ 2,154,066
Basic net income per common share	$ 0.54	$ 0.63
Diluted net income per common share	$ 0.54	$ 0.62
Weighted average basic common shares outstanding	3,417,565	3,417,565
Weighted average diluted common shares outstanding	3,417,565	3,466,414

* See Note 1 to the financial statements.

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

Lumbee Guaranty Bank
Statements of Comprehensive Income
For the years ended December 31, 2013 and 2012

	2013	*Restated 2012
Net income	$ 1,837,293	$ 2,154,066
Other comprehensive income (loss):		
Unrealized holding gains (losses) on available for sale securities	(2,743,733)	97,159
Tax effect	932,869	(33,034)
Total net of taxes	(1,810,864)	64,125
Reclassification adjustment for gains realized in net income	(111,029)	(15,118)
Tax effect	37,750	5,140
Total net of taxes	(73,279)	(9,978)
Changes to defined benefit pension plan liability	1,298,191	70,788
Tax effect	(441,385)	(24,068)
Total net of taxes	856,806	46,720
Total other comprehensive income (loss)	(1,027,337)	100,867
Comprehensive income	$ 809,956	$ 2,254,933

* See Note 1 to the financial statements.

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

Lumbee Guaranty Bank
Statements of Changes in Shareholders' Equity
For the years ended December 31, 2013 and 2012

	Common Stock					
	Shares	Amount	Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total Shareholder's Equity
Restated* Balance, December 31, 2011	3,417,565	$ 6,835,130	$ 7,017,743	$ 15,799,708	$ (455,920)	$ 29,196,661
Net income	-	-	-	2,154,066	-	2,154,066
Other comprehensive income	-	-	-	-	100,867	100,867
Dividends declared ($0.16 per share)	-	-	-	(546,811)	-	(546,811)
Stock based compensation	-	-	26,800	-	-	26,800
Restated* Balance, December 31, 2012	3,417,565	6,835,130	7,044,543	17,406,963	(355,053)	30,931,583
Net income	-	-	-	1,837,293	-	1,837,293
Other comprehensive loss	-	-	-	-	(1,027,337)	(1,027,337)
Dividends declared ($0.16 per share)	-	-	-	(546,811)	-	(546,811)
Stock based compensation	-	-	2,233	-	-	2,233
Balance, December 31, 2013	3,417,565	$ 6,835,130	$ 7,046,776	$ 18,697,445	$ (1,382,390)	$ 31,196,961

* See Note 1 to the financial statements.

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

Lumbee Guaranty Bank
Statements of Cash Flows
For the years ended December 31, 2013 and 2012

		2013		*Restated 2012
Cash flows from operating activities				
Net income	$	1,837,293	$	2,154,066
Adjustments to reconcile net income				
to net cash provided by operating activities:				
Depreciation and amortization		514,966		479,284
Amortizations of premiums/discounts		516,175		325,120
Realized gains on sales of securities		(111,029)		(15,118)
Losses on disposals of fixed assets		157,524		-
Losses on sales of foreclosed real estate		415,452		57,045
Writedowns of foreclosed real estate		8,332		6,559
Income from bank owned life insurance		(267,960)		(238,356)
Provision for loan losses		252,001		600,000
Stock based compensation		2,233		26,800
Decrease (increase) in:				
Accrued interest receivable		45,921		(4,056)
Prepaid expenses and other assets		195,771		102,258
Increase (decrease) in:				
Accrued interest payable		(8,054)		(32,410)
Other liabilities		(43,794)		12,864
Net cash flows provided by operating activities		3,514,831		3,474,056
Cash flows from investing activities				
Purchases of investment securities, available for sale		(5,065,726)		(46,391,778)
Purchases of investment securities, held to maturity		(6,601,605)		(11,008,606)
Maturities, calls and paydowns of investment securities,				
available for sale		10,301,937		14,451,417
Maturities and calls of investment securities, held to maturity		1,465,000		4,546,000
Sales of investment securities, available for sale		5,508,736		2,341,599
Redemptions of nonmarketable equity securities		65,000		406,700
(Increase) decrease in loans		(5,358,709)		3,289,804
Acquisition of bank branches		-		12,437,333
Purchases of premises and equipment, net		(169,065)		(896,256)
Proceeds from sales of foreclosed real estate		825,167		534,710
Purchase of bank owned life insurance		-		(2,000,000)
Net cash flows provided by (used by) investing activities		970,735		(22,289,077)
Cash flows from financing activities				
Net increase (decrease) in deposits		(9,242,883)		9,666,745
Increase in securities sold under agreements to repurchase		699,108		1,603,969
Decrease in FHLB advances		(125,767)		(5,623,751)
Cash dividends		(546,811)		(546,811)
Net cash flows provided by (used by) financing activities		(9,216,353)		5,100,152
Net decrease in cash and cash equivalents		(4,730,787)		(13,714,869)
Cash and cash equivalents at beginning of period		28,239,257		41,954,126
Cash and cash equivalents at end of period	$	23,508,470	$	28,239,257
Supplemental disclosure of cash flow information				
Interest paid	$	2,112,061	$	2,759,443
Taxes paid	$	350,467	$	580,000
Non-cash transactions				
Transfer from loans to foreclosed assets	$	513,879	$	832,780
Change in unrealized gain (loss) on securities available for sale, net of tax	$	(1,844,143)	$	54,147
Changes to defined benefit pension plan liability, net of tax	$	856,806	$	46,720

* See Note 1 to the financial statements.

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

Note 1. 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 accepted in the United States of America 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, 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.

Cash and Cash Equivalents

Cash and cash equivalents include cash and noninterest-bearing deposits, interest-bearing deposits, and funds sold. All amounts are readily convertible to cash and have maturities of less than 90 days.

Investment Securities

Investment securities are accounted for according to their purpose and holding period. Trading securities are those that are bought and held principally for the purpose of selling them in the near term. The Bank held no trading securities as of December 31, 2013 and 2012. Available for sale investment securities are those that may be sold before maturity due to changes in the Bank's interest rate risk profile or funding needs, and are reported at fair value with unrealized gains and losses, net of taxes, reported as a component of other comprehensive income. Held to maturity investment securities are those that management has the positive intent and ability to hold to maturity and are reported at amortized cost.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Investment Securities, continued

Realized gains and losses are recorded in noninterest income and are determined on a trade date basis using the specific identification method. Interest and dividends on investment securities are recognized in interest income on an accrual basis. Premiums and discounts are amortized or accreted into interest income using the interest method over the expected lives of the individual securities.

The Bank conducts an other-than-temporary-impairment ("OTTI") analysis of investment securities on a quarterly basis or more often if a potential loss-triggering event occurs. A write-down of a debt security is recorded when fair value is below amortized cost in circumstances where: (1) the Bank has the intent to sell a security; (2) it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis; or (3) the Bank does not expect to recover the entire amortized cost basis of the security. If the Bank intends to sell a security or if it is more likely than not that the Bank will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security's amortized cost basis and its fair value. If the Bank does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and an amount related to all other factors, which is recognized in other comprehensive income. To determine the amount related to credit loss on a debt security, the Bank applies a methodology similar to that used for evaluating the impairment of loans. As of December 31, 2013, management determined that the Bank did not own any investment securities that were other-than-temporarily-impaired.

Loans

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 origination fees and costs are capitalized and recognized as an adjustment to the yield on the related loan.

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 and Hoke. The ability of the Bank's debtors to honor their contracts is dependent upon the general economic conditions in the area.

Interest is accrued on a loan and credited to income based on the principal amount outstanding. 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.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Loans, continued

A loan is considered impaired when, based on current information and events, it is probable that the Bank will not be able to collect all amounts due from the borrower in accordance with the contractual terms of the loan, including scheduled interest payments. Impaired loans exclude smaller balance homogeneous loans that are collectively evaluated for impairment.

When a loan has been identified as being impaired, the amount of impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral-dependent. If the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest, net of deferred loan fees or costs, and unamortized premiums or discounts), an impairment is recognized by establishing or adjusting an existing allocation of the allowance, or by recording a partial charge-off of the loan to its fair value. Interest payments made on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest income may be accrued or recognized on a cash basis.

Loans Modified in a Troubled Debt Restructuring

Loans are considered to have been modified in a troubled debt restructuring when, due to a borrower's financial difficulties, the Bank makes certain concessions to the borrower that it would not otherwise consider. Modifications may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Generally, a nonaccrual loan that has been modified in a troubled debt restructuring remains on nonaccrual status for a period of 6 months to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains on nonaccrual status.

Allowance for Loan Losses

An allowance for loan losses is maintained at a level deemed appropriate by management to provide adequately for known and inherent losses in the loan portfolio. The Bank’s judgment as to the adequacy of the allowance for loan losses is based on a number of assumptions about future events, which the Bank believes to be reasonable, but which may or may not prove to be accurate.

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.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Allowance for Loan Losses, continued

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 and 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 Bank. Environmental factors that management of the Bank 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.

Bank Premises 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 Real Estate

Properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less anticipated costs to sell 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 sales are included in foreclosed real estate expense.

Securities Sold Under Agreements to Repurchase

The Bank enters into sales of securities under agreements to repurchase. Fixed-coupon repurchase agreements are treated as financing, with the obligation to repurchase securities sold being reflected as a liability and the securities underlying the agreements remaining as assets.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Postretirement Benefit Plan

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 worked 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.

The Bank recognizes in its balance sheet an asset for a plan's overfunded status or a liability for a plan's underfunded status. The Bank also measures the Plans' assets and obligations that determine its funded status as of the end of the fiscal year and recognizes those changes in other comprehensive income, net of tax.

Stock Based Compensation

The Bank may grant stock based compensation to employees and non-employee directors in the form of stock options and stock awards. The Stock Option Plan is administered by our Personnel Committee, which is authorized to make all determinations regarding the persons to whom, and numbers of shares for which, options and awards will be granted, to specify certain of the terms of options and awards, and to interpret and establish rules, make all determinations, and take all other actions necessary or advisable in the administration of the Stock Option Plan. The Bank recognizes compensation expense related to stock option grants on a straight-line basis over the vesting period. The fair value of stock options is estimated at the date of grant using a Black-Scholes option pricing model and related assumptions.

Employee Stock Ownership Plan

The Bank established an Employee Stock Ownership Plan ("ESOP") for the exclusive benefit of all eligible employees and their beneficiaries subject to authority to amend, from time to time, or terminate, the ESOP. The ESOP is primarily designed to invest in common stock of the Bank and is permitted to purchase Bank common stock with contributions to the ESOP made by the Bank. Also, the ESOP is permitted to borrow money and use the loan proceeds to purchase Bank common stock. The money and Bank common stock in the ESOP is intended to grow tax free until retirement, death, disability or other termination of employment with the Bank.

Advertising and Public Relations Expense

The Bank expenses adverting and public relations costs as they are incurred. Advertising costs were $82,360 and $106,427 for the years ended December 31, 2013 and 2012, respectively.

Income Taxes

Provision for income taxes is based on amounts reported in the statements of operations (after exclusion of non-taxable income such as interest on state and municipal securities) 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.

Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Income per Share

Basic income per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period, assuming conversion of all potentially dilutive common stock equivalents.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income reflects the change in the Bank's equity during the period from transactions and events other than investments by and distributions to shareholders. It consists of certain changes in assets and liabilities that are reported as separate components of shareholders' equity rather than as income or expense. The following table shows the changes in accumulated other comprehensive income by component.

	Unrealized Gains and Losses on Available for Sale Securities	Defined Benefit Pension Items	Total
Balance, December 31, 2012	$ 838,186	$ (1,193,239)	$ (355,053)
Net unrealized losses on investment securities, net of tax			
Other comprehensive loss before reclassifications	(1,810,864)	-	(1,810,864)
Amounts reclassified from accumulated other comprehensive loss	(73,279)	-	(73,279)
Defined benefit pension items, net of tax			
Net actuarial gains arising during the period	-	452,594	452,594
New prior service cost (plan amendment)	-	399,502	399,502
Amortization of transition	-	1,733	1,733
Amortization of prior service cost	-	(24,033)	(24,033)
Amortization of net actuarial losses	-	27,010	27,010
Balance, December 31, 2013	$ (1,045,957)	$ (336,433)	$ (1,382,390)

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank enters into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. These financial instruments are recorded in the financial statements when they become payable by the customer.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Concentrations of Credit Risk

Financial instruments, which potentially subject the Bank to concentrations of credit risk, consist principally of loans, investment securities, federal funds sold and amounts due from banks.

The Bank makes loans to individuals and small businesses for personal and commercial purposes primarily in Robeson, Cumberland, and Hoke counties in North Carolina and surrounding areas. The Bank's loan portfolio is not concentrated in loans to any single borrower or a relatively small number of borrowers. Additionally, management is not aware of any concentrations of loans to classes of borrowers or industries that would be similarly affected by economic conditions.

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk from concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods, etc.) and loans with high loan-to-value ratios. Management has determined that there is no concentration of credit risk associated with its lending policies or practices. Additionally, there are industry practices that could subject the Bank to increased credit risk should economic conditions change over the course of a loan's life. For example, the Bank makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e. balloon payment loans). These loans are underwritten and monitored to manage the associated risks. Therefore, management believes that these particular practices do not subject the Bank to unusual credit risk.

The Bank's investment portfolio consists principally of obligations of the United States, its agencies or its corporations. In the opinion of Management, there is no concentration of credit risk in its investment portfolio. The Bank places its deposits and correspondent accounts with and sells its federal funds to high quality institutions. Management believes credit risk associated with correspondent accounts is not significant.

Risks and Uncertainties

In the normal course of its business, the Bank encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Bank is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different basis, than its interest-earning assets. Credit risk is the risk of default on the Bank's loan portfolio that results from a borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Bank.

The Bank is subject to the regulations of various governmental agencies. These regulations can and do change significantly from period to period. The Bank also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions from the regulators' judgments based on information available to them at the time of their examination.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Reclassifications and Prior Year Adjustments

Certain captions and amounts in the financial statements in the Bank's Form 10-K as of December 31, 2012 were reclassified to conform to the December 31, 2013 presentation. Additionally, the items reported as of December 31, 2012, below, were retrospectively adjusted as a result of the following:

(1) The recording of the liability and the related tax asset to reflect the underfunded position of the Bank's pension plan for years prior to 2012 and to reflect the change in the liability for 2012.
(2) The recording of additional deferred tax assets to remove the prior year income tax reserve as well as adjust the deferred tax assets related to bad debts and fixed assets. The entire adjustment relates to years prior to 2012.
(3) The reversal of stock based compensation that was found by Management to have been over-expensed since 2010.

	Original December 31, 2012	(1)	(2)	(3)	Revised December 31, 2012
Other assets	$ 1,488,671	$ 614,699	$ 300,000	$ -	$ 2,403,370
Total assets	326,136,758	614,699	300,000	-	327,051,457
Other liabilities	82,576	1,807,938	-	19,530	1,910,044
Total liabilities	294,292,406	1,807,938	-	19,530	296,119,874
Surplus	7,109,647	-	-	(65,104)	7,044,543
Undivided profits	17,061,390	-	300,000	45,574	17,406,964
Accumulated other comprehensive income (loss)	838,186	(1,193,239)	-	-	(355,053)
Total shareholders' equity	31,844,352	(1,193,239)	300,000	(19,530)	30,931,583
Total liabilities and shareholders' equity	326,136,758	614,699	300,000	-	327,051,457
Other personnel costs	1,640,381	-	-	(24,416)	1,615,965
Total noninterest expense	10,474,853	-	-	(24,416)	10,450,437
Income before income taxes	2,610,272	-	-	24,416	2,634,688
Net income	2,129,650	-	-	24,416	2,154,066

Omitted Disclosures

Certain disclosures for the year ended December 31, 2012 have been omitted due to the lack of available information needed to draft those disclosures. The omitted disclosures are related to disclosures about troubled debt restructurings, the average recorded investment of impaired loans, interest income recognized on impaired loans and the fair value of plan assets in the Bank's pension plan. Management believes that these omitted disclosures are not material to the financial statements taken as a whole.

Recently Issued Accounting Pronouncements

The following is a summary of recent authoritative pronouncements.

In July 2012, the Intangibles topic was amended to permit an entity to consider qualitative factors to determine whether it is more likely than not that indefinite-lived intangible assets are impaired. If it is determined to be more likely than not that indefinite-lived intangible assets are impaired, then the entity is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. The amendments were effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption was permitted. The amendments did not have a material effect on our financial statements.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Recently Issued Accounting Pronouncements, continued

The Comprehensive Income topic of the ASC was amended in June 2011. The amendment eliminated the option to present other comprehensive income as a part of the statement of changes in stockholders' equity and required consecutive presentation of the statement of net income and other comprehensive income. The amendments were applicable to the Bank on January 1, 2012 and have been applied retrospectively. In December 2011, the topic was further amended to defer the effective date of presenting reclassification adjustments from other comprehensive income to net income on the face of the financial statements while the FASB redeliberated the presentation requirements for the reclassification adjustments.

In February 2013, the FASB further amended the Comprehensive Income topic clarifying the conclusions from such redeliberations. Specifically, the amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments do require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, in certain circumstances an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The amendments were effective for the Bank on a prospective basis for reporting periods beginning after December 15, 2012. These amendments did not have a material effect on our financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Bank's financial position, results of operations or cash flows.

Note 2. 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 $3,911,000 and $3,988,000 for the periods including December 31, 2013 and 2012, respectively.

Note 3. Investment Securities

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2013				
Available for Sale:				
Government sponsored enterprises	$ 13,654,250	$ 11,016	$ (696,060)	$ 12,969,206
FNMA, GNMA, and FHLMC mortgage-backed securities	31,557,157	363,789	(1,263,528)	30,657,418
	$ 45,211,407	$ 374,805	$ (1,959,588)	$ 43,626,624
Held to Maturity:				
State and municipal securities	$ 44,412,280	$ 869,865	$ (1,587,229)	$ 43,694,916
2012				
Available for Sale:				
Government sponsored enterprises	$ 15,479,367	$ 208,395	$ (58,270)	$ 15,629,492
FNMA, GNMA, and FHLMC mortgage-backed securities	40,643,867	1,143,956	(24,102)	41,763,721
	$ 56,123,234	$ 1,352,351	$ (82,372)	$ 57,393,213
Held to Maturity:				
State and municipal securities	$ 39,513,941	$ 2,381,613	$ (56,246)	$ 41,839,308

The scheduled maturities of securities available for sale and securities held to maturity at December 31, 2013, 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	$ 1,009,925	$ 1,020,941	$ 843,138	$ 846,180
Due after one year through five years	15,928,894	15,887,722	14,459,438	14,607,445
Due after five years through ten years	28,272,588	26,717,961	23,511,163	22,969,358
Due after ten years	-	-	5,598,541	5,271,933
	$ 45,211,407	$ 43,626,624	$ 44,412,280	$ 43,694,916

Investment securities with an amortized cost of approximately $31,660,000 and $28,956,000 were pledged at December 31, 2013 and 2012, respectively, to secure certain deposits and for other purposes required by law.

Gross realized gains and losses recognized for the years ended December 31 are as follows:

	2013	2012
Gross realized gains	$ 130,307	$ 16,860
Gross realized losses	(19,278)	(1,742)
Net realized gains	$ 111,029	$ 15,118

Note 3. Investment Securities, continued

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
2013						
Government sponsored enterprises	$ 8,466,333	$ (390,748)	$ 3,481,932	$ (305,312)	$ 11,948,265	$ (696,060)
FNMA, GNMA, and FHLMC						
mortgage-backed securities	20,790,272	(1,115,748)	1,661,309	(147,780)	22,451,581	(1,263,528)
State and municipal securities	13,649,893	(1,283,118)	3,281,093	(304,111)	16,930,986	(1,587,229)
Total temporarily impaired securities	$ 42,906,498	$ (2,789,614)	$ 8,424,334	$ (757,203)	$ 51,330,832	$ (3,546,817)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2012						
Government sponsored enterprises	$ 4,015,712	$ (58,270)	$ -	$ -	$ 4,015,712	$ (58,270)
FNMA, GNMA, and FHLMC						
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	$ (138,618)	$ -	$ -	$ 13,375,272	$ (138,618)

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, 2013, which was comprised of 87 securities, represent an other-than temporary impairment. At December 31, 2013, the Bank had 4 Government sponsored enterprise securities, 3 FNMA, GNMA, and FHLMC mortgage-backed securities and 10 state and municipal securities that had been in an unrealized loss position for more than twelve months. Management believes these losses are temporary and are a result of the current interest rate environment. The Bank does not intend to sell these securities and it is more likely than not that the Bank will not be required to sell these securities before recovery of their amortized cost.

Restricted equity securities, which are carried at cost, consist of investments in stock of the Federal Home Loan Bank of Atlanta ("FHLB"), which is an upstream correspondent 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 FHLB's capital adequacy to ensure it meets regulatory minimum requirements. Bank management does not believe any unrealized losses associated with investments in the FHLB to be anything other than temporary.

Note 4. Loans Receivable

The major segmented components of loans at December 31, 2013 and 2012 are as follows:

	2013	2012
Commercial	$ 10,758,072	$ 9,638,104
Commercial Real Estate	69,701,855	63,241,970
Consumer	9,762,505	11,459,937
Residential Real Estate	90,440,751	91,961,382
Agricultural and Raw Land	2,790,494	2,966,893
Total Principal Balance	183,453,677	179,268,286
Overdrafts	164,386	72,093
Loans in Process	(44,483)	(157,947)
Gross Loans	183,573,580	179,182,432
Unearned Interest	(388,026)	(381,551)
Allowance for Loan Losses	(3,245,667)	(3,453,823)
Net Loans	$ 179,939,887	$ 175,347,058

Loans receivable include $164,386 and $72,093 in overdraft demand deposit accounts at December 31, 2013 and 2012, respectively.

The Bank had no subprime residential loans at December 31, 2013 and 2012.

Note 5. Allowance for Loan Losses

The following table presents activity in the allowance for loan losses for the years-ended December 31, 2013 and 2012 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	Commercial Real Estate	Consumer	Residential Real Estate	Agricultural Raw Land	Commercial	Unallocated	Other	Total
Balance-January 1, 2013	$ 1,123,000	$ 362,346	$ 697,922	$ 2,023	$ 482,556	$ 779,155	$ 6,821	$ 3,453,823
Charge-Offs	-	(161,024)	(169,156)	(126,588)	(35,816)	-	-	(492,584)
Recoveries	-	32,126	301	-	-	-	-	32,427
Provisions	296,683	(163,452)	235,349	129,240	82,494	(380,262)	51,949	252,001
Balance – December 31, 2013	$ 1,419,683	$ 69,996	$ 764,416	$ 4,675	$ 529,234	$ 398,893	$ 58,770	$ 3,245,667
Balance-January 1, 2012	$ 622,686	$ 151,099	$ 1,214,605	$ 6,103	$ 501,094	$ 701,060	$ 11,935	$ 3,208,582
Charge-Offs	(180,820)	(115,143)	(84,994)	-	(58,987)	-	-	(439,944)
Recoveries	-	42,692	33,475	-	9,018	-	-	85,185
Provisions	681,134	283,698	(465,164)	(4,080)	31,431	78,095	(5,114)	600,000
Balance – December 31, 2012	$ 1,123,000	$ 362,346	$ 697,922	$ 2,023	$ 482,556	$ 779,155	$ 6,821	$ 3,453,823
December 31, 2013								
Allowance for Loan Losses ending balance:								
Individually evaluated for impairment	$ 881,407	$ -	$ 580,480	$ 3,038	$ 401,249	$ -	$ -	$ 1,866,174
Collectively evaluated for impairment	$ 538,276	$ 69,996	$ 183,936	$ 1,637	$ 127,985	$ 398,893	$ 58,770	$ 1,379,493
Loans Receivable: Ending Balance – Total	$ 69,701,855	$ 9,762,505	$ 90,440,751	$ 2,790,494	$ 10,758,072	$ -	$ -	$ 183,453,677
Ending balances:								
Individually evaluated for impairment	$ 4,335,937	$ -	$ 2,621,108	$ 51,322	$ 543,045	$ -	$ -	$ 7,551,412
Collectively evaluated for impairment	$ 65,365,918	$ 9,762,505	$ 87,819,643	$ 2,739,172	$ 10,215,027	$ -	$ -	$ 175,902,265
December 31, 2012								
Allowance for Loan Losses ending balance:								
Individually evaluated for impairment	$ 485,171	$ -	$ 292,934	$ -	$ 384,584	$ -	$ -	$ 1,162,689
Collectively evaluated for impairment	$ 637,829	$ 362,346	$ 404,988	$ 2,023	$ 97,972	$ 779,155	$ 6,821	$ 2,291,134
Loans Receivable: Ending Balance – Total	$ 63,241,970	$ 11,459,937	$ 91,961,382	$ 2,966,893	$ 9,638,104	$ -	$ -	$ 179,268,286
Ending balances:								
Individually evaluated for impairment	$ 2,495,051	$ -	$ 1,357,991	$ -	$ 680,962	$ -	$ -	$ 4,534,004
Collectively evaluated for impairment	$ 60,746,919	$ 11,459,937	$ 90,603,391	$ 2,966,893	$ 8,957,142	$ -	$ -	$ 174,734,282

Note 5. Allowance for Loan Losses, continued

Past Due Loans

A loan is considered past due if the required principal and interest payment has not been received as of the due date. The following schedule is an aging of past due loans receivable by portfolio segment as of December 31, 2013 and 2012. *(in thousands)*

December 31, 2013

	30-59 Days Past Due	60-89 Days Past Due	90 Days+ Past Due	Total Past Due	1-29 Days Past Due	Current	Total Loans Receivable	90 Days+ Still Accruing
Commercial	$ -	$ 19	$ 316	$ 335	$ 1,814	$ 8,609	$ 10,758	$ -
Commercial Real Estate	1,008	-	767	1,775	11,264	56,663	69,702	-
Consumer	262	26	91	379	1,297	8,087	9,763	7
Residential Real Estate	5,494	923	1,554	7,971	12,086	70,384	90,441	66
Agricultural and Raw Land	97	-	-	97	189	2,504	2,790	-
	$ 6,861	$ 968	$ 2,728	$ 10,557	$ 26,650	$ 146,247	$ 183,454	$ 73

December 31, 2012

	30-59 Days Past Due	60-89 Days Past Due	90 Days+ Past Due	Total Past Due	1-29 Days Past Due	Current	Total Loans Receivable	90 Days+ Still Accruing
Commercial	$ 261	$ 167	$ 109	$ 537	$ 619	$ 8,482	$ 9,638	$ 2
Commercial Real Estate	2,125	302	531	2,958	12,276	48,008	63,242	-
Consumer	334	32	167	533	1,342	9,585	11,460	-
Residential Real Estate	4,848	970	2,189	8,007	13,097	70,857	91,961	762
Agricultural and Raw Land	13	6	67	86	303	2,578	2,967	-
	$ 7,581	$ 1,477	$ 3,063	$ 12,121	$ 27,637	$ 139,510	$ 179,268	$ 764

Non-accrual Loans

Loans are generally placed in non-accrual status when the collection of interest is 90 days or more past due, when the full collection of all principal and interest is unlikely, (even if the amount and timing of the eventual loss are unknown), when a loan is designated as Troubled Debt Restructure ("TDR"), or when the Borrower has filed for bankruptcy. Loans that are less delinquent may also be placed on non-accrual if so directed by the Chief Credit Officer or President/CEO.

Loans that meet these criteria guidelines may be kept on accrual if approved by the Chief Credit Officer and one of the following apply: 1) The loan is well secured and in the process of collection. A debt is "well secured" if collateralized by liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt in full; or by the guarantee of a financially responsible party. A debt is "in process of collection" if collection is proceeding in due course either through legal action, including judgment enforcement procedures, or, in appropriate circumstances, through collection efforts not involving legal actions which are reasonably expected to result in repayment of the debt or its restoration to a current status, or 2) The loan is past due because of a recent maturity without a timely renewal, but the loan has been approved for renewal and is in the process of being renewed and returned to a paying status. When interest accrual is discontinued, all unpaid accrued interest is reversed.

A non-accrual loan may be returned to accrual status when the Bank can reasonably expect continued timely payments until payment in full. All prior arrearage does not necessarily have to be eliminated, nor do all previously charged off amounts need to have been recovered. The loan can be returned to accrual status if: 1) Approved by the Chief Credit Officer, and 2) The return to sustained, acceptable, payment performance, without subsequent relapse to seriously delinquent or otherwise non-performing, is likely. The two general rules that apply here are: a) All principal and interest amounts contractually due (including arrearage) are reasonably assured of repayment within a reasonable period, and b) There is a sustained period of repayment performance (generally a minimum of six months) by the borrower, in accordance with the contractual terms involving payments of cash or cash equivalents.

Note 5. Allowance for Loan Losses, continued

Nonaccrual loans as of December 31, 2013 and 2012 are as follows:

	December 31, 2013	December 31, 2012
Commercial	$ 352,421	$ 312,399
Commercial Real Estate	3,378,493	1,194,121
Consumer	103,721	236,583
Residential Real Estate	1,479,484	2,212,721
Agricultural and Raw Land	-	218,232
	$ 5,314,119	$ 4,174,056

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

All nonaccrual loans are considered to be impaired however only those meeting certain thresholds are individually evaluated for impairment.

The following tables present impaired loans by class of loan as of December 31, 2013 and 2012:

	Recorded[1] Investment	Unpaid[2] Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2013					
With no related allowance recorded:					
Commercial	$ 137,114	$ 137,114	$ -	$ 94,494	4,948
Commercial Real Estate	1,588,372	1,588,372	-	839,063	53,544
Consumer	117,337	117,337	-	156,044	4,274
Residential Real Estate	2,642,343	2,642,343	-	2,332,112	79,934
Agricultural and Raw Land	-	-	-	-	-
	4,485,166	4,485,166	-	3,421,713	142,700
With an allowance recorded:					
Commercial	543,045	543,045	401,249	492,770	20,735
Commercial Real Estate	2,944,167	2,944,167	881,407	3,380,450	43,728
Consumer	-	-	-	-	-
Residential Real Estate	2,167,327	2,167,327	580,480	1,402,631	59,637
Agricultural and Raw Land	51,322	51,322	3,038	76,361	2,596
	5,705,861	5,705,861	1,866,174	5,352,212	126,696
Combined:					
Commercial	680,159	680,159	401,249	587,264	25,683
Commercial Real Estate	4,532,539	4,532,539	881,407	4,219,513	97,272
Consumer	117,337	117,337	-	156,044	4,274
Residential Real Estate	4,809,670	4,809,670	580,480	3,734,743	139,571
Agricultural and Raw Land	51,322	51,322	3,038	76,361	2,596
	$ 10,191,027	$ 10,191,027	$ 1,866,174	$ 8,773,925	$ 269,396

Note 5. Allowance for Loan Losses, continued

	Recorded[1] Investment	Unpaid[2] Principal Balance	Related Allowance
December 31, 2012			
Commercial Real Estate	$ 716,984	$ 716,984	$ -
Consumer	236,583	236,583	-
Residential Real Estate	1,998,920	1,998,920	-
Agricultural and Raw Land	218,231	218,231	-
Commercial	40,045	40,045	-
	3,210,763	3,210,763	-
With an allowance recorded:			
Commercial Real Estate	2,495,051	2,495,051	485,171
Consumer	-	-	-
Residential Real Estate	1,357,991	1,357,991	292,934
Agricultural and Raw Land	-	-	-
Commercial	680,962	680,962	384,584
	4,534,004	4,534,004	1,162,689
Combined:			
Commercial Real Estate	3,212,035	3,212,035	485,171
Consumer	236,583	236,583	-
Residential Real Estate	3,356,911	3,356,911	292,934
Agricultural and Raw Land	218,231	218,231	-
Commercial	721,007	721,007	384,584
	$ 7,744,767	$ 7,744,767	$ 1,162,689

[1] The Amount of investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment.
[2] The contractual amount due, which reflects paydowns applied in accordance with loan documents, but which does not reflect direct write-downs.

In situations where, for economic or legal reasons related to a borrower's financial difficulties, the Bank may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring ("TDR"). Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. All loan modifications are made on a case-by-case basis.

For the Year Ended December 31, 2013

	TDRs that are in compliance with the terms of the agreement		
	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
Commercial real estate	2	$ 986,336	$ 994,859
Consumer	1	4,319	4,319
Residential real estate	10	2,293,199	2,296,816
Agricultural and raw land	1	51,519	51,519
Commercial	2	124,005	124,946
Total	16	$ 3,459,378	$ 3,472,459

There were no TDRs that subsequently defaulted during the year ended December 31, 2013. During 2013, we modified 16 loans that were considered to be TDRs. We renewed 1 loan without a defined exit strategy, modified 1 loan to interest-only, extended the term for 5 loans and provided other modifications for 9 loans.

Note 5. Allowance for Loan Losses, continued

Credit Quality

The Bank uses several metrics as credit quality indicators of current or potential risks as part of the ongoing monitoring of the credit quality of its portfolio. The credit quality indicators are periodically reviewed and updated on a case-by-case basis. The Bank uses the following definitions for the internal risk rating grades, listed from the least risk to the highest risk.

Pass

Loans that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. Management believes that there is a low likelihood of loss related to those loans that are considered pass.

Weak Pass

This grade is given to acceptable loans that show signs of weakness in either adequate sources of repayment or collateral, but have demonstrated mitigating factors that minimize the risk of delinquency or loss. Loans assigned Weak Pass may demonstrate some or all of the following characteristics: a) Additional exceptions to the Bank's policy requirements, product guidelines or underwriting standards that present a higher degree of risk to the Bank. Although the combination and/or severity of identified exceptions is greater, all exceptions have been properly mitigated by other factors; b) Unproved, insufficient or marginal primary sources of repayment that appear sufficient to service the debt at this time. Repayment weaknesses may be due to minor operational issues, financial trends, or reliance on projected (not historic) performance; and c) Marginal or unproven secondary sources to liquidate the debt, including combinations of liquidation of collateral and liquidation value to the net worth of the borrower or guarantor.

For existing loans, payments have generally been made as agreed with only minor and isolated delinquencies.

Special Mention

Watch List or Special Mention loans include the following characteristics: a) Loans with underwriting guideline tolerances and/or exceptions with no identifiable mitigating factors; b) Extending loans that are currently performing satisfactorily but with potential weaknesses that may, if not corrected, weaken the asset or inadequately protect the Bank's position at some future date. Potential weaknesses are the result of deviations from prudent lending practices; and c) Loans where adverse economic conditions that develop subsequent to the loan origination do not jeopardize liquidation of the debt, but do substantially increase the level of risk, may also warrant this rating.

Substandard

A substandard loan is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt; they are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Loans consistently not meeting the repayment schedule should be downgraded to substandard.
Loans in this category are characterized by deterioration in quality exhibited by any number of well-defined weaknesses requiring corrective action. The weaknesses may include, but are not limited to: high debt to worth ratios, declining or negative earnings trends, declining or inadequate liquidity, improper loan structure, questionable repayment sources, lack of well-defined secondary repayment source, and unfavorable competitive comparisons.

Note 5. Allowance for Loan Losses, continued

Such loans are no longer considered to be adequately protected due to the borrower's declining net worth, lack of earnings capacity, declining collateral margins and/or unperfected collateral positions. A possibility of loss of a portion of the loan balance cannot be ruled out. The repayment ability of the borrower is marginal or weak and the loan may have exhibited excessive overdue status or extensions and/or renewals.

Doubtful

Loans classified Doubtful have all the weaknesses inherent in loans classified Substandard, plus the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable and improbable. However, these loans are not yet rated as loss because certain events may occur which would salvage the debt. Among these events are: the injection of capital, alternative financing, or the liquidation of assets or the pledging of additional collateral.

The ability of the borrower to service the debt is extremely weak, overdue status is constant, the debt has been placed on non-accrual status, and no definite repayment schedule exists.

Doubtful is a temporary grade where a loss is expected but is presently not quantified with any degree of accuracy. Once the loss position is determined, the amount is charged off.

Loss

Loans classified Loss are considered uncollectable and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this worthless loan even though partial recovery may be affected in the future.

Probable Loss portions of Doubtful assets should be charged against the Allowance for Loan Losses. Loans may reside in this classification for administrative purposes for a period not to exceed the earlier of thirty (30) days or calendar quarter-end.

The following is a schedule of the credit quality of loans receivable, by portfolio segment, as of December 31, 2013 and 2012.

<u>December 31, 2013</u>

	Commercial Real Estate	Consumer	Residential Real Estate	Agricultural and Raw Land	Commercial	Total
Pass or better	$ 29,088,201	$ 7,665,398	$ 29,063,211	$ 1,303,478	$ 7,522,203	$ 74,642,491
Weak Pass	23,013,485	1,891,623	47,432,408	1,346,527	1,647,335	75,331,378
Special Mention	7,274,006	61,842	4,201,234	79,194	752,634	12,368,910
Substandard or worse	10,326,163	143,642	9,743,898	61,295	835,900	21,110,898
Total	$ 69,701,855	$ 9,762,505	$ 90,440,751	$ 2,790,494	$ 10,758,072	$ 183,453,677

<u>December 31, 2012</u>

	Commercial Real Estate	Consumer	Residential Real Estate	Agricultural and Raw Land	Commercial	Total
Pass or better	$ 24,627,966	$ 9,033,921	$ 33,134,511	$ 1,457,788	$ 5,718,334	$ 73,972,520
Weak Pass	27,314,471	2,010,860	46,354,090	1,230,161	3,297,474	80,207,056
Special Mention	3,470,131	93,368	5,388,069	-	622,296	9,573,864
Substandard or worse	7,829,402	321,788	7,084,712	278,944	-	15,514,846
Total	$ 63,241,970	$ 11,459,937	$ 91,961,382	$ 2,966,893	$ 9,638,104	$ 179,268,286

Note 6. Premises and Equipment

A summary of premises and equipment at December 31, 2013 and 2012 follows:

	2013	2012
Land	$ 2,225,595	$ 2,225,595
Buildings	9,361,160	9,313,514
Equipment	3,709,629	4,400,452
	15,296,384	15,939,561
Less accumulated depreciation	5,057,567	5,212,939
	$ 10,238,817	$ 10,726,622

Depreciation expense for 2013 and 2012 was $499,346 and $466,084 respectively.

Leases

The Bank is obligated on a month to month lease of its retail banking location at 6313 Raeford Road in Fayetteville, North Carolina. The lease calls for monthly payments of $2,100 and can be terminated at any time by either party.

The Bank is also 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 and can be terminated at any time by either party.

Note 7. 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 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.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	Acquired Book Value	Fair Value Adjustments	As Recorded by the Company
Assets:			
Loans	$ 342,146	$ 4,748	$ 346,894
Fixed Assets	1,112,808	10,141	1,122,949
Goodwill	-	591,147	591,147
Core Deposit Intangible	-	117,355	117,355
Total	$ 1,454,954	$ 723,391	$ 2,178,345
Liabilities:			
Deposits	$ 14,579,479	$ 36,199	$ 14,615,678
Total	$ 14,579,479	$ 36,199	$ 14,615,678
Premium paid for deposits			$ 687,192
Cash paid by seller			$ 12,437,333

Note 7. Intangible Assets, continued

In order to value the goodwill and core deposit intangible, the Bank acquired the services of a third party. 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.

A summary of intangible assets at December 31, 2013 and 2012 follows:

	2013		2012	
	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangibles	$ 117,355	$ (28,820)	$ 117,355	$ (13,200)
Goodwill	$ 591,147		$ 591,147	

Management reviews goodwill on an annual basis for impairment and adjusts accordingly. As of December 31, 2013, management did not consider goodwill to be impaired.

The core deposit premium is amortized over 10 years using a 150% declining balance. Amortization expense for 2013 and 2012 was $15,620 and $13,200, respectively.

Note 8. Foreclosed Real Estate

Transactions in other real estate owned for the years ended December 31, 2013 and 2012:

	2013	2012
Balance, beginning of year	$ 1,461,467	$ 1,227,001
Additions	513,879	832,780
Sales	(1,240,619)	(591,755)
Write-downs	(8,332)	(6,559)
Balance, end of period	$ 726,395	$ 1,461,467

Note 9. Deposits

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2013 and 2012 was $52,459,449 and $58,890,281, respectively.

Maturities of time deposits are scheduled as follows:

	Less Than $100,000	$100,000 or More	Total
2014	$ 56,199,724	$ 35,955,879	$ 92,155,603
2015 thru 2016	20,031,935	15,908,701	35,940,636
2017 - 2021	1,065,999	594,869	1,660,868
2022 and beyond	15,641	-	15,641
	$ 77,313,299	$ 52,459,449	$ 129,772,748

Note 10. Borrowings

Securities Sold under Agreements to Repurchase

Securities sold under repurchase agreements are summarized as follows for the years ended December 31, 2013 and 2012:

	2013	2012
Amount outstanding at year end	$ 3,245,506	$ 2,546,398
Average amount outstanding during year	$ 2,822,316	$ 1,794,683
Maximum amount outstanding at any month-end	$ 3,245,506	$ 3,480,861
Weighted average rate paid at year-end	0.12%	0.15%
Weighted average rate paid during the year	0.14%	0.22%

Federal Home Loan Bank Advances

The following information is provided for balances, rates, and maturities with the FHLB as of December 31:

	2013			2012	
Advance Type	Maturity	Rate	Amount	Rate	Amount
Fixed Rate	3/26/14	3.15%	$ 1,000,000	3.15%	$ 1,000,000
Fixed Rate	5/5/15	4.73%	1,500,000	4.73%	1,500,000
Principal Reducing Rate	12/14/20	5.17%	1,322,776	5.17%	1,426,011
Principal Reducing Rate	3/27/24	2.00%	302,993	2.00%	325,525
			$ 4,125,769		$ 4,251,536

As of December 31, 2013 and 2012, the Bank had investment securities with an amortized cost of $4.6 million for both years pledged to the FHLB.

Unsecured Lines of Credit

The Bank has unsecured lines of credit with correspondent banks available for overnight borrowing totaling approximately $8.0 million. The Bank has credit availability of approximately $58.7 million through a secured borrowing facility.

Note 11. 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 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, 2013, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2013, 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.

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

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2013						
Total Capital						
(to Risk-Weighted Assets)	$ 34,403	17.24%	$ 15,963	8.00%	$ 19,954	10.00%
Tier I Capital						
(to Risk-Weighted Assets)	$ 31,899	15.99%	$ 7,982	4.00%	$ 11,973	6.00%
Tier I Capital						
(to Average Assets)	$ 31,899	10.10%	$ 12,634	4.00%	$ 15,792	5.00%
December 31, 2012						
Total Capital						
(to Risk-Weighted Assets)	$ 33,035	16.99%	$ 15,553	8.00%	$ 19,441	10.00%
Tier I Capital						
(to Risk-Weighted Assets)	$ 30,592	15.74%	$ 7,776	4.00%	$ 11,665	6.00%
Tier I Capital						
(to Average Assets)	$ 30,592	9.44%	$ 12,964	4.00%	$ 16,205	5.00%

Note 12. Income per Share

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

	2013	2012
Net income attributable to common shareholders	$ 1,837,293	$ 2,154,066
Weighted average basic shares outstanding	3,417,565	3,417,565
Common stock equivalents:		
Stock options	-	48,849
Weighted average diluted shares outstanding	3,417,565	3,466,414
Basic net income per common share	$ 0.54	$ 0.63
Diluted net income per common share	$ 0.54	$ 0.62

Note 13. Income Taxes

The provision for income taxes for 2013 and 2012 consists of the following:

	2013	2012
Income tax expense		
Current tax expense		
Federal	$ 359,474	$ 453,323
State	103,561	164,979
Total	463,035	618,302
Deferred tax (benefit)		
Federal	(153,402)	(114,457)
State	54,131	(23,223)
Total	(99,271)	(137,680)
	$ 363,764	$ 480,622

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:

	2013	2012
Federal statutory income tax at 34%	$ 748,359	$ 887,491
Tax exempt interest	(428,605)	(402,329)
Non-taxable life insurance income	(73,021)	(63,718)
Effect of state income taxes	104,077	93,559
Other	12,954	(34,381)
	$ 363,764	$ 480,622

Note 13. Income Taxes, continued

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

	2013	2012
Deferred tax assets:		
Allowance for loan losses	$ 1,046,385	$ 1,179,295
Net unrealized losses on available for sale securities	538,827	-
Postretirement obligations	173,314	668,713
Stock compensation	58,144	59,238
Alternative minimum tax ("AMT") carryforward	171,631	37,977
Other	43,693	44,154
Total deferred tax assets	2,031,994	1,989,377
Deferred tax liabilities:		
Accumulated depreciation	(80,194)	(180,276)
Net unrealized gains on available for sale securities	-	(431,793)
Total deferred tax liabilities	(80,194)	(612,069)
Net deferred tax assets	$ 1,951,800	$ 1,377,308

The Bank has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions in accordance with applicable FIN 48 regulations.

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 14. Employee Benefit Plans

Pension Plan

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. The plan was amended in 2013 to revise the future benefit formula.

Under the amended plan, a participant may retire at normal retirement age with the greater of (1) 1.0% of "2012 Average Annual Compensation" multiplied by years of benefit service prior to August 15, 2013 (max 35 years) or (2) 0.65% of "Final Average Annual Compensation" multiplied by years of benefit service (max 35).

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, 2013 and 2012, contributions of $60,000 and $343,030 were made to the Plan, respectively.

Pension expense charged to operations was $23,222 in 2013 and $333,420 in 2012.

Note 14. Employee Benefit Plans, continued

The following table provides a reconciliation of changes in benefit obligation and fair value of plan assets, as well as the funded status recognized in the Bank's balance sheets for the plan for the years ended December 31:

	2013	2012
Benefit obligation, beginning of year	$ (5,824,103)	$ (5,318,746)
Service cost	(84,688)	(276,226)
Interest cost	(241,976)	(262,764)
Plan amendment	605,306	-
Actuarial losses (gains)	478,080	(19,420)
Employer benefits paid	81,119	67,529
Benefit obligation, end of year	(4,986,262)	(5,809,627)
Fair value of plan assets, beginning of year	3,731,186	3,204,794
Actual return on plan assets	499,418	250,891
Employer contributions	60,000	343,030
Employer benefits paid	(81,119)	(67,529)
Fair value of plan assets, end of year	4,209,485	3,731,186
Funded status, end of year	$ (776,777)	$ (2,078,441)

The following represents the amounts included on the Bank's Balance Sheets as of December 31:

	2013	2012
Funded status, end of year	$ (776,777)	$ (2,078,441)
Accrued pension cost	267,030	270,503
Defined benefit pension plan liability	$ (509,747)	$ (1,807,938)

The following presents the amounts recognized in accumulated other comprehensive income ("AOCI") for the plan as of December 31:

	2013	2012
Transition obligation	$ 13,863	$ 15,595
Net prior service cost	(394,992)	(19,523)
Net loss	717,562	1,197,167
Amount recognized in AOCI, net of tax	$ 336,433	$ 1,193,239

Components of net periodic pension cost are presented in the following table:

	2013	2012
Service cost	$ 84,688	$ 276,226
Interest cost	241,976	262,764
Expected return on plan assets	(291,750)	(231,246)
Amortization of:		
Transition obligation	2,625	2,626
Prior service cost	(36,414)	(4,219)
Net actuarial losses	55,402	72,157
Net pension expense	$ 56,527	$ 378,308

The estimated transition, prior service cost, and net (gain)/loss that will be amortized from accumulated other comprehensive income into net periodic pension cost over the next fiscal year are $2,600, $36,400, and $32,200, respectively.

Note 14. Employee Benefit Plans, continued

Assumptions used to determine the benefit obligations as of December 31, 2013 and 2012 for the Plan were as follows:

	2013	2012
Weighted Average Assumptions		
Discount rate	5.25%	5.00%
Compensation Rate Increase	3.50%	3.50%

Assumptions used to determine the net periodic cost for the Plan for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Weighted Average Assumptions		
Discount rate	5.00%	5.00%
Expected Long-term Rate of Return on Plan Assets	8.00%	7.00%
Compensation Rate Increase	3.00%	3.00%

The Bank's overall investment strategy is to maintain the purchasing power of the current assets and all future contributions by producing positive rates of return on plan assets; maximize returns within reasonable and prudent levels of risk; and control costs of administering the plan and managing the investments.

The fair values of the Retirement Plan assets as of December 31, 2013 by asset category were as follows:

			Fair Value Measurements		
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total at December 31, 2013	Total at December 31, 2012
Cash and Equivalents	$ 98,394	$ -	$ -	$ 98,394	
Domestic Equity Mutual Funds	2,139,403	-	-	2,139,403	
Domestic Bond Mutual Funds	1,335,532	-	-	1,335,532	
International Equity Mutual Funds	388,838	-	-	388,838	
Lumbee Guaranty Bank Common Stock	110,880	-	-	110,880	
Certificates of Deposit	136,438	-	-	136,438	
Total	$ 4,209,485	$ -	$ -	$ 4,209,485	$ 3,731,186

Quoted prices for these investments were available in active markets, and therefore were classified as Level 1 measurements in the fair value hierarchy.

The Bank expects to contribute $80,000 to the Plan in 2014.

Estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year	Amount
2014	$ 172,000
2015	184,000
2016	221,000
2017	225,000
2018	276,000
2019 - 2023	1,528,000

Note 14. Employee Benefit Plans, continued

Long-Term Stock Option Compensation Plan

Under our Long-Term Stock Compensation Plan (the "Stock Option Plan"), the Bank is authorized to grant stock options and stock awards to our officers, other key employees and directors. The Stock Option Plan is administered by our Personnel Committee, which is authorized to make all determinations regarding the persons to whom, and numbers of shares for which, options and awards will be granted, to specify certain of the terms of options and awards, and to interpret and establish rules, make all determinations, and take all other actions, necessary or advisable in the administration of the Plan.

At the Personnel Committee's discretion, options granted to officers and employees may be incentive stock options ("ISOs") pursuant to Section 422(a) of the Internal Revenue Code of 1986, as amended, or they may be nonqualified stock options ("NQSOs"). Only NQSOs may be granted to directors. To date, only stock options that qualify as ISOs have been granted under the Stock Option Plan.

The Stock Option Plan will expire, if not renewed, on May 23, 2016, and no new options or stock awards may be granted after that date. Options and awards granted prior to that date will continue to exist and may be exercised or become vested according to their terms until they have expired by their own separate terms, even if after the Stock Option Plan expiration date.

For the years ended December 31, 2013 and 2012, no stock options or other awards were granted under the Stock Option Plan, 22,400 options expired, and no previously granted options were exercised. As of December 31, 2013, 42,000 stock options were outstanding and exercisable, with an exercise price of $12.86 per share, all of which will expire in 2016. As of December 31, 2012, 60,200 stock options were outstanding and exercisable with an exercise price of $12.17 per share.

401k Plan

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 of $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 $57,000 and $72,000 as of December 31, 2013 and 2012, respectively.

Employee Stock Ownership Plan

The Bank formed an Employee Stock Ownership Plan ("ESOP"), for its employees in 2013. The ESOP will purchase shares of the Bank's common stock on the open market from time to time with funds borrowed from a loan from a third party lender. All employees of the Bank meeting certain tenure requirements are entitled to participate in the ESOP. Employer contributions are discretionary. Employee contributions are not permitted. There was no activity in the ESOP during 2013.

Note 15. Deferred Compensation Plan for Directors/Executives

The Bank has established a deferred compensation plan for non-employee directors of the Bank (the "Director Plan"). Each participating director may defer up to 100% of their monthly Board fees 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 $267,960 and $238,356 in 2013 and 2012, respectively for the annual administration of the plan.

Note 16. Related Party Transactions

The Bank has entered into transactions with its directors, significant shareholders and their affiliates (related parties). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

Aggregate loan transactions with related parties were as follows:

	2013
Balance, beginning	$ 646,513
New loans and advances	1,061,560
Repayments	(288,178)
Balance, ending	$ 1,419,895

Note 17. 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 financial statements.

Note 18. 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 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 balance sheet.

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

	2013	2012
Commitments to extend credit	$ 16,358,408	$ 16,285,010
Standby letters of credit	136,894	192,072

Note 18. Financial Instruments with Off-Balance-Sheet Risk, continued

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

Note 19. Fair Value

Financial Instruments

For assets and liabilities that are not presented on the balance sheet at fair value, the Bank uses the following methods to determine fair value:

The fair value of net loans is based on estimated cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. This does not include consideration of liquidity that market participants would use to value such loans. The estimated fair values of deposits are based on estimated cash flows discounted at market interest rates.

The fair value of off-balance sheet financial instruments is considered immaterial. These off-balance sheet financial instruments are commitments to extend credit and are either short-term in nature or subject to immediate repricing.

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Bank's financial instruments as of December 31, 2013 and 2012. These tables exclude financial instruments for which the carrying amount approximates fair value and which would be classified as Level 1. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization.

Note 19. Fair Value, continued

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

			Fair Value Measurements		
(dollars in thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2013					
Financial Instruments - Assets					
Investment securities, held to maturity	$ 44,412	$ 43,695	$ -	$ 43,695	$ -
Loans, net of allowance for loan losses	179,940	179,911	-	-	179,911
Financial Instruments – Liabilities					
Deposits	275,629	276,343	-	276,343	-
December 31, 2012					
Financial Instruments - Assets					
Investment securities, held to maturity	$ 39,514	$ 41,839	$ -	$ 41,839	$ -
Loans, net of allowance for loan losses	175,347	175,744	-	-	175,744
Financial Instruments – Liabilities					
Deposits	284,872	284,872	-	284,872	-

Fair Value Hierarchy

Under FASB ASC Topic 820 "Fair Value Measurements and Disclosures" ("FASB ASC 820"), the Bank groups assets and liabilities at fair values in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted price for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Note 19. Fair Value, continued

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

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. If 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 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. Once a loan is identified as individually impaired, management measures impairment. The fair value of impaired loans is estimated using one of several methods, including the collateral value, market value of similar debt and discounted cash flows. Those impaired loans not requiring a specific allowance represents loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At December 31, 2013 and 2012, substantially all of the impaired loans were evaluated based upon the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. The fair value of Impaired Loans is generally based on judgment and therefore classified as nonrecurring Level 3.

Foreclosed Real Estate

Foreclosed real estate is adjusted to fair value upon transfer of the loans to foreclosed real estate. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charges to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. The fair value of foreclosed assets is generally based on judgment and therefore is classified as nonrecurring Level 3.

Note 19. Fair Value, continued

Fair value of assets and liabilities measured on a recurring basis at December 31, 2013 and 2012 are as follows (dollars in thousands):

	Fair Value	Level 1	Level 2	Level 3
December 31, 2013				
Available for sale securities				
Government sponsored entities	$ 12,969,206	$ -	$ 12,969,206	$ -
FNMA, GNMA, AND FHLMC				
mortgage-backed securities	30,657,418	-	30,657,418	-
Total assets at fair value	$ 43,626,624	$ -	$ 43,626,624	$ -
December 31, 2012				
Available for sale securities				
Government sponsored entities	$ 15,629,492	$ -	$ 15,629,492	$ -
FNMA, GNMA, AND FHLMC				
mortgage-backed securities	41,763,721	-	41,763,721	-
Total assets at fair value	$ 57,393,213	$ -	$ 57,393,213	$ -

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Bank may be required from time to time, to measure certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower cost or market that were recognized at fair value below cost at the end of the period. Balances are net of specific reserves. Assets measured at fair value on a nonrecurring basis are included in the table below.

	Total	Level 1	Level 2	Level 3
December 31, 2013				
Impaired loans	$ 5,685,238	$ -	$ -	$ 5,685,238
Foreclosed real estate	726,395	-	-	726,395
Total assets at fair value	$ 6,411,633	$ -	$ -	$ 6,411,633
December 31, 2012				
Impaired loans	$ 3,371,315	$ -	$ -	$ 3,371,315
Foreclosed real estate	1,461,467	-	-	1,461,467
Total assets at fair value	$ 4,832,782	$ -	$ -	$ 4,832,782

Note 19. Fair Value, continued

Level 3 Valuation Techniques

For Level 3 assets measured at fair value on a recurring or nonrecurring basis as of December 31, 2013 and 2012, the valuation techniques and the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value at December 31,		Valuation	Significant Unobservable	Significant Unobservable
	2013	2012	Technique	Inputs	Input Value
Impaired Loans					
Commercial Real Estate	$ 3,454,530	$ 2,009,880	Appraised Value/ Discounted Cash Flows	Discounts on appraisals/ Selling costs	15-30%
Residential Real Estate	2,040,628	1,065,057	Appraised Value/ Discounted Cash Flows	Discounts on appraisals/ Selling costs	30%
Agricultural and Raw Land	48,284	-	Appraised Value/ Discounted Cash Flows	Discounts on appraisals/ Selling costs	30%
Commercial	141,796	296,378	Discounted Cash Flows	Selling costs	30%
Foreclosed real estate	726,395	1,461,467	Appraised Value/ Comparable Sales	Discounts on appraisals/ Selling costs	8%

Note 20. 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.

In February, 2014 Lumbee Guaranty Bank entered into a definitive Branch Purchase and Assumption Agreement (the "Agreement") with Southern Bankshares, Inc. to purchase a branch location in Red Springs, North Carolina, along with certain assets and liabilities associated with the branch location. In accordance with the terms of the Agreement, Lumbee Guaranty Bank will assume approximately $5.0 million in loans and $23.0 million in deposits. The transaction contemplated in the Agreement is expected to close in the second quarter of 2014.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we 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 our outsourced internal auditor 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 not effective as of December 31, 2013 because of the material weaknesses in internal control over financial reporting described below.

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, 2013 based on the criteria established in the 1992 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 not effective as of December 31, 2013.

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.

Identification of Material Weaknesses

As part of our quarterly evaluation of the effectiveness of our internal control over financial reporting described above, we identified the following deficiencies which we consider to be a material weakness in internal control over financial reporting:

The deficiencies described below resulted in material adjusting entries and restatement of our financial statements as of and for the year ended December 31, 2012, in addition to the restatement and amendment of our quarterly filings on Form 10-Q for the quarters ended March 31, 2013 and June 30, 2013:

a) During 2013 and 2012, our pension plan which was implemented in 1973 was in an underfunded position; however, no liability had been recorded by the Bank until the third quarter of 2013. The liability to the plan at December 31, 2013, and 2012 was $509,747, and $1,807,938, respectively. The December 31, 2012 financial statements were revised to accurately reflect the underfunded status and record the liability.

b) Our financial statements as of and for the year ended December 31, 2012 did not contain a number of material required disclosures that we were required to begin providing on January 1, 2011, including:
   - expanded disclosures related to the allowance for loan losses, loans receivable disclosed on a disaggregated basis, credit quality indicators, the aging of past due loans receivable, troubled debt restructurings, and significant purchases and sales of loans receivable; and
   - expanded disclosures related to Level 3 fair value measurements, including information about the valuation process and sensitivity and interrelationships associated with unobservable inputs, use of a nonfinancial asset in a way that differs from the highest and best use, and the categorization by level of the fair value hierarchy for items that are not measured at fair value in the balance sheet but for which the fair value is required to be disclosed.

c) Our December 31, 2012 Form 10-K did not include various other required disclosures provided for in Article 9 of Regulation S-X for our financial statements, and in Industry Guide 3 of the Exchange Act for our MD&A, as well as material historical and prospective textual disclosure in our MD&A designed to assist investors in assessing our financial condition and results of operations through the eyes of management.

d) We did not use disclosure checklists when preparing our December 31, 2012 Form 10-K. The preparation of disclosure checklists is generally considered to be a key control over financial reporting that helps ensure that all required disclosures are identified and included.

Management's Remediation Plan

During 2014, we utilized an outside accounting consultant to assist with our financial reporting, and we are assessing the needs of our accounting department and will hire additional staff as needed and monitor the staff's continuing education. Also, in preparing this December 31, 2013 10-K, we began using the following disclosure checklists:

- Financial Statement Disclosures Checklist
- Industry-Specific Disclosures Checklist: Depository & Lending Institutions
- SEC Financial Statement Disclosures Checklist
- MD&A Disclosures Checklist

We believe the above actions will substantially decrease the possibility of the occurrence of errors in our financial statements.

Changes in Internal Control over Financial Reporting

Other than the changes implemented to address the material weaknesses identified above, there were no changes in our internal control over financial reporting during the three months ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 2014 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 2014 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 2014 annual meeting of stockholders.

The following table summarizes all compensation plans and individual compensation arrangements which were in effect on December 31, 2013 and under which shares of the Bank's common stock have been authorized for issuance.

Equity Compensation Plan Information

Plan Category	Number of shares to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)
Equity compensation plans approved by security holders	42,000	$ 12.86	56,157
Equity compensation plans not approved by security holders	-	-	-
Total	42,000	$ 12.86	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 2014 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 heading or caption "Current Accountant's Services and Fees for 2013" in the Bank's proxy statement for its 2014 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
   Balance Sheets
   Statements of Income
   Statements of Comprehensive Income
   Statements of Changes in Shareholders' Equity
   Statements of Cash Flows
   Notes to Financial Statements

2. Financial Statement Schedules:

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

3. Exhibits

3.1	Articles of Incorporation (incorporated herein by reference to the 2012 Annual Report on Form 10-K)
3.2	Bylaws of Lumbee Guaranty Bank (incorporated herein by reference to the 2012 Annual Report on Form 10-K)
10.1	Severance Compensation Agreement (filed herewith)
10.2	Grant of Incentive Stock Option (filed herewith)
10.3	Split Dollar Life Insurance Agreement (filed herewith)
10.4	Executive Salary Continuation Agreement (filed herewith)
21	Subsidiaries of Lumbee Guaranty Bank (incorporated herein by reference to the 2012 Annual Report on Form 10-K)
31.1	Certification of Chief Executive Officer pursuant to Rule 13 a-14(a) under the Securities Exchange Act of 1934 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Rule 13 a-14(a) under the Securities Exchange Act of 1934 (filed herewith)
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 (filed herewith)
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 (filed herewith)

99	Definitive Proxy Statement (as filed with the Federal Deposit Insurance Corporation)

Signatures

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

Lumbee Guaranty Bank

Date: March 31, 2014

By: /s/Chadwick R. Hammond
Chadwick R. Hammond
VP, Accounting Office & Controller

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons, on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/Larry R. Chavis Larry R. Chavis	Director; President and Chief Executive Officer	March 31, 2014
/s/Arnold Locklear Arnold Locklear	Chairman	March 31, 2014
/s/Larry T. Brooks Larry T. Brooks	Director	March 31, 2014
/s/Martin L. Brooks Dr. Martin L. Brooks	Director	March 31, 2014
/s/Sybil J. Bullard Sybil J. Bullard	Director	March 31, 2014
/s/Redell Collins Redell Collins	Director	March 31, 2014
/s/Charles A. Maynor Charles A. Maynor	Director	March 31, 2014

_/s/Derrick R. Staten____________ Derrick R. Staten, Sr.	Director	March 31, 2014
_/s/James E. Thomas___________ James E. Thomas	Director	March 31, 2014
_/s/Chadwick R. Hammond_____ Chadwick R. Hammond	Vice President, Accounting Officer and Controller (chief financial and accounting officer)	March 31, 2014

Exhibit 31.1
Certification by Chief Executive Officer
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Larry R. Chavis, certify that:

1. I have reviewed this annual report on Form 10-K of Lumbee Guaranty Bank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
c) c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2014

_/s/Larry R. Chavis
Larry R. Chavis
President and Chief Executive Officer

Exhibit 31.2
Certification by Chief Financial Officer
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Chadwick R. Hammond, certify that:

1. I have reviewed this annual report on Form 10-K of Lumbee Guaranty Bank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules
13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **March 31, 2014**

/s/Chadwick R. Hammond
Chadwick R. Hammond
VP, Accounting Officer & Controller

Exhibit 32.1

Certification by the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned hereby certifies that, (i) the Form 10-K filed by Lumbee Guaranty Bank (the "Issuer") for the year ended December 31, 2013 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer on the dates and for the periods presented therein.

LUMBEE GUARANTY BANK

Date: **March 31, 2014**

By: **/s/Larry R. Chavis**
Larry R. Chavis
President and Chief Executive Officer

This Certification is being furnished solely to accompany this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed "filed" by the Bank for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be incorporated by reference into any filing of the Bank under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.

A signed original of this written statement required by Section 906 has been provided to the Bank and will be retained by the Bank and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Certification by the Chief Financial Officer (or equivalent) Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned hereby certifies that, (i) the Form 10-K filed by Lumbee Guaranty Bank (the "Issuer") for the year ended December 31, 2013 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer on the dates and for the periods presented therein.

LUMBEE GUARANTY BANK

Date: **March 31, 2014**

By: **/s/Chadwick R. Hammond**
Chadwick R. Hammond
VP, Accounting Officer & Controller

This Certification is being furnished solely to accompany this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed "filed" by the Bank for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be incorporated by reference into any filing of the Bank under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.

A signed original of this written statement required by Section 906 has been provided to the Bank and will be retained by the Bank and furnished to the Securities and Exchange Commission or its staff upon request.