TRUSTATLANTIC
FINANCIAL CORPORATION

2012 Audited Financial Statements

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DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors
TrustAtlantic Financial Corporation and Subsidiary
Raleigh, North Carolina

We have audited the accompanying consolidated balance sheets of TrustAtlantic Financial Corporation and Subsidiary (the "Company") as of December 31, 2012 and 2011 and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TrustAtlantic Financial Corporation and Subsidiary at December 31, 2012 and 2011 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Raleigh, North Carolina
April 18, 2013

TRUSTATLANTIC FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2012 and 2011

(In thousands, except share data)	**2012**	**2011**
Assets		
Cash and due from banks:		
Interest-earning	$ 9,878	$ 13,216
Noninterest earning	1,496	8,347
Federal funds sold and short term investments	879	7,559
Investment securities - available for sale, at fair value	58,152	56,690
Investment securities - held to maturity, at amortized cost	2,892	2,154
Loans-net of unearned income and deferred fees	282,649	267,423
Allowance for loan losses	(6,116)	(6,314)
Net Loans	276,533	261,109
Bank premises and equipment, net	3,159	3,521
Goodwill and other intangibles, net	3,609	3,648
Other investments	1,369	1,390
Bank owned life insurance	7,914	1,713
Other assets	7,147	5,855
Total Assets	$ 373,028	$ 365,202
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing demand	$ 33,414	$ 25,319
Savings, money market accounts, and interest checking	111,773	98,644
Time deposits	174,204	191,783
Total Deposits	319,391	315,746
Long-term borrowings	2,200	4,200
Other liabilities	3,312	2,191
Total Liabilities	324,903	322,137
Stockholders' Equity:		
Preferred stock, no par value; 20,000,000 shares authorized; none issued and outstanding.	-	-
Common stock, no par value; 100,000,000 shares authorized; 4,777,515 and 5,015,015 issued and outstanding as of December 31, 2012 and 2011, respectively	47,395	48,466
Accumulated other comprehensive (loss) income	1,625	1,257
Retained (deficit) earnings	(895)	(6,658)
Total Stockholders' Equity	48,125	43,065
Total Liabilities and Stockholders' Equity	$ 373,028	$ 365,202

See accompanying notes.

TRUSTATLANTIC FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2012 and 2011

(In thousands)	2012	2011
Interest Income		
Loans and fees on loans	$ 15,317	$ 15,297
Investment securities	1,910	2,138
Federal funds sold and other short-term investments	41	30
Total Interest Income	17,268	17,465
Interest Expense		
Deposits	3,596	3,971
Borrowings	30	39
Total Interest Expense	3,626	4,010
Net Interest Income	13,642	13,455
Provision for loan losses	2,263	4,295
Net Interest Income after Provision for Loan Losses	11,379	9,160
Non-Interest Income		
Service charges and fees	297	256
BOLI Income	201	68
Gain (loss) on sale of securities	17	-
Total other-than-temporary impairment losses	-	-
Portion of other-than-temporary impairment recognized in other comprehensive income	-	109
Net impairment losses recognized in earnings	-	109
Other fees and income	109	46
Total Non-Interest Income	624	479
Non-Interest Expense		
Salaries and employee benefits	5,340	4,596
Occupancy and equipment expense	1,219	1,170
Director fees and expenses	104	132
Data processing	362	352
Advertising	183	264
Amortization of deposit premiums	39	39
Professional fees	513	359
Telecommunications	111	111
Other real estate owned losses and expenses	359	789
FDIC Insurance	302	408
Other	618	710
Total Non-Interest Expense	9,150	8,930
Income before Income Taxes	2,853	709
Income Tax Expense (Benefit)	(2,910)	-
Net Income	$ 5,763	$ 709

See accompanying notes.

TRUSTATLANTIC FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2012 and 2011

(In thousands)	**2012**	**2011**
Net income	$ 5,763	$ 709
Other comprehensive income:		
Investment securities available for sale		
Unrealized holding gains	581	805
Tax effect	(224)	(311)
Reclassification of gains recognized in net income	17	109
Tax effect	(6)	(42)
	368	561
Comprehensive Income	$ 6,131	$ 1,270

See accompanying notes.

TRUSTATLANTIC FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2012 and 2011

(In thousands, except share data)	Common Stock Shares	Common Stock Amount	Retained (Deficit) Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
Balance at January 1, 2011	5,015,015	$ 48,318	$ (7,367)	$ 696	$ 43,065
Stock based compensation		148			148
Net income			709		709
Net unrealized gain on securities				561	
Balance at December 31, 2011	5,015,015	$ 48,466	$ (6,658)	$ 1,257	$ 43,065
Stock based compensation		46			46
Shares repurchased	(237,500)	(1,117)			(1,117)
Net income			5,763		5,763
Net unrealized gain on securities				368	
Balance at December 31, 2012	4,777,515	$ 47,395	$ (895)	$ 1,625	$ 48,125

See accompanying notes.

TRUSTATLANTIC FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

(In thousands)	**2012**	**2011**
Net income	$ 5,763	$ 709
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of deposit premium	39	39
Depreciation and amortization	387	399
Provision for loan losses	2,263	4,295
Loss on sale of foreclosed assets	-	160
Loss on disposal of equipment	1	-
Increase in cash surrender value of bank owned life insurance	(201)	(68)
Amortization of premiums/discounts on securities, net	499	301
Gains on sale of securities available for sale	(17)	-
Impairment charge on investment securities	-	(109)
Deferred tax benefit	(2,910)	-
Stock based compensation	46	148
Changes in assets and liabilities:		
Accrued interest receivable and other assets	575	190
Accrued interest payable and other liabilities	891	29
Net cash provided by (used in) operating activities	7,336	6,093
Cash flows from investing activities:		
Loan originations, net of principal repayments	(18,287)	(7,827)
Proceeds from sale of foreclosed assets	1,664	9,932
Additions to premises and equipment	(26)	(56)
Purchase of bank owned life insurance	(6,000)	-
Net (decrease) increase in federal funds sold and short-term investments	6,680	(4,842)
Purchases of securities available for sale	(22,005)	(24,170)
Purchases of securities held to maturity	(1,449)	(600)
Proceeds from maturities of securities available for sale	20,263	16,846
Proceeds from sale of securities available for sale	408	3,053
Proceeds from call of securities held to maturity	699	722
Net cash provided by (used in) investing activities	(18,053)	(6,942)
Cash flows from financing activities:		
Net (decrease) increase deposits	3,645	10,106
Repurchase of common stock	(1,117)	-
Net increase (decrease) in borrowings	(2,000)	2,200
Net cash provided by(used in) financing activities	528	12,306
Net change increase in cash and cash equivalents	(10,189)	11,457
Cash and cash equivalents at beginning of year	21,563	10,106
Cash and cash equivalents at end of year	$ 11,374	$ 21,563

See accompanying notes.

NOTE A - *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

Organization and Nature of Operations

On April 13, 2006, TrustAtlantic Financial Corporation (the "Company") was formed. The Company was anticipated to be a bank holding company upon the acquisition of a bank. The Company acquired Millennia Community Bank ("Millennia") on June 8, 2007 and subsequently changed the name of the subsidiary bank to TrustAtlantic Bank (the "Bank").

Millennia was established in May 2000 and commenced operations serving the Greenville, North Carolina and Pitt County markets. After the acquisition by the Company, the Bank's headquarters was relocated to Raleigh, North Carolina in September 2007. The Bank operated four branches as of December 31, 2012. The Bank is engaged in general commercial banking in Wake and Pitt Counties in North Carolina, operating under the banking laws of North Carolina and the rules and regulations of the Federal Deposit Insurance Corporation and the North Carolina Commissioner of Banks. The Bank undergoes periodic examinations by those regulatory authorities.

Basis of Presentation

The accompanying consolidated financial statements include the accounts and transactions of TrustAtlantic Financial Corporation and TrustAtlantic Bank. All significant intercompany transactions and balances are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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, determination of fair value for financial instruments and certain other assets, and other-than-temporary-impairment ("OTTI") of investment securities.

Cash and Cash Equivalents

For the purpose of presentation in the statements of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption "Cash and due from banks". The Bank is required to maintain reserves and clearing balances with the Federal Reserve Bank ("FRB"). As of December 31, 2012 and 2011, respectively, the Bank had $1.2 million and $1.3 million of restricted cash balances on deposit with the FRB.

Securities Held to Maturity

Debt securities for which the Bank has the positive intent and ability to hold to maturity are classified as "held to maturity" and are reported at amortized cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities Available for Sale

Available-for-sale ("AFS") securities are reported at fair value and consist of debt securities not classified as trading securities nor as held-to-maturity securities. Unrealized holding gains and losses on AFS securities are reported as a net amount in accumulated other comprehensive (loss) income net of income taxes. Gains and losses on the sale of AFS securities are determined using the specific-identification method. Declines in the fair value of individual held-to-maturity and AFS securities below their cost that are other than temporary would result in write-downs of the individual securities to their fair value. Such write-downs would be included in earnings as realized losses. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

At each reporting date, the Company evaluates each investment security in a loss position for other-than-temporary impairment ("OTTI"). The review includes an analysis of the facts and circumstances of each individual investment such as (1) the length of time and the extent to which the fair value has been below cost, (2) changes in the earnings performance, credit ratings, asset quality, or business prospects of the issuer, (3) the ability of the issuer to make principal and interest payments, and (4) changes in the general market condition of either the geographic area or industry in which the issuer operates.

Regardless of these factors, if the Company has developed a plan to sell the security or it is likely that the Company will be forced to sell the security in the near future then the impairment is considered other-than-temporary and the carrying value of the security is permanently written down to the current fair value with the difference between the new carrying value and the amortized cost charged to earnings. If the Company does not intend to sale the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis less any current period credit loss, the OTTI is separated into the following: (1) the amount representing the credit loss and (2) the amount related to all other factors. The amount of the OTTI related to the credit loss is recognized in earnings, and the amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to earnings.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses

The allowance for loan losses ("ALLL") is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. The provision for loan losses is based upon management's best estimate of the amount needed to maintain the allowance for loan losses at an adequate level. Loan losses are charged against the allowance when management believes the un-collectability of a loan balance is confirmed. 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 the current status of the portfolio, 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. Management segments the loan portfolio by loan type in considering each of the aforementioned factors and their impact upon the level of the allowance for loan losses.

Loans are considered impaired when it is probable that all amounts due will not be collected in accordance with the contractual terms of the loan agreement. The measurement of impaired loans is based upon the fair value of collateral if the loan is collateral dependent. For impaired loans not collateral dependent the measurement of the impairment is generally the fair value of collateral or the present value of expected future cash flows discounted at the historical effective interest rate. If the recorded investment in the loan exceeds the measure of fair value, a valuation allowance is established as a component of the allowance for loan losses. While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the assumptions used in making the evaluations. In addition, regulatory examiners may require the Bank to recognize adjustments to the allowance for loan losses based on their judgments about information available to them at the time of their examination.

A modification of a loan's terms constitutes a TDR if the creditor grants a concession to the borrower for economic or legal reasons related to the borrower's financial difficulties that it would not otherwise consider. All TDRs are considered impaired for evaluation of credit losses.

Foreclosed and Repossessed Assets

Any assets acquired as a result of foreclosure or repossession are initially valued at fair value less estimated costs to sell. The recorded investment is the sum of the outstanding principal loan balance and foreclosure costs associated with the loan. Any excess of the recorded investment over the fair value of the asset received is charged to the allowance for loan losses. Valuations will be periodically performed by management and any subsequent write-downs due to the carrying value of an asset or property exceeding its estimated fair value less estimated costs to sell are charged against other expenses. As of December 31, 2012 and 2011, there was $1.09 million and $2.71 million of foreclosed assets and repossessed assets included in other assets in the consolidated balance sheets.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets which range from 3 to 10 years for furniture and equipment and approximately 37 years for buildings. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter.

Repairs and maintenance costs are charged to operations as incurred, and additions and improvements to premises and equipment are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts and any gains or losses are reflected in current earnings.

Federal Home Loan Bank Stock

As a requirement for membership, the Bank invests in stock of the Federal Home Loan Bank of Atlanta ("FHLB"). This investment is carried at cost and included in other investments on the consolidated balance sheets.

Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are also recognized for operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized.

Goodwill and Other Intangible Assets

Net assets of companies acquired in purchase transactions are recorded at fair value at the date of acquisition. As such, the historical cost basis of individual assets and liabilities are adjusted to reflect their fair value. Identified intangibles, such as core deposit intangibles, are amortized on an accelerated or straight-line basis over the period benefited. Goodwill is not amortized but is reviewed for potential impairment at least annually, or if events or circumstances indicate a potential impairment. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The Company concluded that no goodwill impairment was warranted for the year ended December 31, 2012; however future events impacting financial institutions such as ability to raise capital and other market events could negatively impact the Company's goodwill asset in the future.

Other intangible assets subject to amortization are evaluated for impairment. An impairment loss will be recognized if the carrying amount of the intangible asset is not recoverable and exceeds fair value. The carrying amount of the intangible is considered not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset.

Premiums or discounts on assets and liabilities acquired are amortized over their respective lives using methods which approximate the effective yield method.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bank Owned Life Insurance

The Company has purchased life insurance policies on certain current employees where the insurance benefits and ownership are retained by the employer. These policies are recorded at their cash surrender value. Income from these policies and changes in the net cash surrender value are recorded in non-interest income as earnings on bank owned life insurance ("BOLI").

The cash value accumulation is permanently tax deferred if the policy is held to the insured person's death and certain other conditions are met.

Stock Compensation Plans

The Company has a stock-based compensation plan covering certain officers and directors. The Company grants stock options under the plan for a fixed number of shares with an exercise price equal to the fair value of the shares on the date of grant. Expense is recognized related to the fair value of stock-based compensation awards, including employee stock options and stock awards.

The Company's pre-tax compensation cost for stock-based employee and director compensation was approximately $60,000 and ($14,000) for the year ended December 31, 2012 and $112,000 and $36,000 for the year ended December 31, 2011, respectively.

Derivatives

The Company carries derivative financial instruments on its balance sheet as either an asset or liability at their respective fair values. For derivatives which qualify as hedges, the fair value adjustments are recorded through accumulated other comprehensive (loss) income. For derivatives which do not qualify as a hedge according to generally accepted accounting principles, the changes in fair value are recorded through earnings. The Company may use certain derivatives for risk management purposes, which will generally be treated as hedges, to manage the Company's exposure to changes in interest rates and other market risks.

Comprehensive Income

Comprehensive income is the change in total stockholders' equity during a period for non-owner transactions and is divided into net income and other comprehensive income. Other comprehensive income includes revenues, expenses, gains, and losses that are excluded from net income under current accounting standards. The Company's only component of other comprehensive income is unrealized gains and losses on investment securities AFS, net of income taxes.

Reclassifications

Certain items included in the 2011 financial statements have been reclassified to conform to the 2012 presentation. These reclassifications have no effect on net income or stockholders' equity previously reported.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

Effective January 2012, the Company adopted ASU No. 2011-05, Presentation of Comprehensive Income (ASU 2011-05). ASU 2011-05 is intended to increase the prominence of items reported in other comprehensive income and to facilitate convergence of accounting guidance in this area with that of the IASB. The amendments require that all non-owner changes in stockholders' equity be presented in a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 (ASU 2011-12). ASU 2011-12 defers the provisions of ASU 2011-05 that require the presentation of reclassification adjustments on the face of both the statement of income and statement of other comprehensive income. Amendments under ASU 2011-05 that were not deferred under ASU 2011-12 will be applied retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this update did not have a material impact on the consolidated financial statements.

Effective January 2012, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2011-03, Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements (ASU 2011-03). ASU 2011-03 is intended to improve financial reporting of repurchase agreements and refocus the assessment of effective control on a transferor's contractual rights and obligations rather than practical ability to perform those rights and obligations. The guidance in ASU 2011-03 was effective for the first interim or annual period beginning on or after December 15, 2011. The adoption of this update did not have a material impact on the consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, an update to ASC 350, Intangibles – Goodwill and Other. This update allows an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessment, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, it will have to perform the first step of the two-step impairment test. Under the amendments in this update, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The Company adopted ASU 2011-08 in the third quarter of 2011, which did not have a significant impact on the Company's consolidated financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effective January 2012, the Company adopted ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 represents the converged guidance of the FASB and the International Accounting Standards Board (IASB) on fair value measurement. A variety of measures are included in the update intended to either clarify existing fair value measurement requirements, change particular principles requirements for measuring fair value or for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend to change the application of existing requirements under Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements. ASU 2011-04 was effective for interim and annual periods beginning after December 15, 2011. The adoption of this update did not have a material impact on the consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive (ASU 2013-02). This guidance is the culmination of the FASB's deliberation on reporting reclassification adjustments from accumulated other comprehensive income (AOCI). The amendments in ASU 2013-02 do not change the current requirements for reporting net income or other comprehensive income. However, the amendments require disclosure of amounts reclassified out of AOCI in its entirety, by component, on the face of the statement of operations or in the notes thereto. Amounts that are not required to be reclassified in their entirety to net income must be cross-referenced to other disclosures that provide additional detail. This standard is effective prospectively for public entities for annual and interim reporting periods beginning after December 15, 2012. The Company is evaluating the effect if any, adoption of ASU 2013-02 will have on the consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, Intangibles – Goodwill and Other (Topic 350) – Testing Indefinite-Lived Intangible Assets for Impairment. The amendments in this update give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that an indefinite-lived intangible asset, other than goodwill, is impaired. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that an indefinite-lived intangible asset is impaired, then the entity must perform the quantitative impairment test. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in ASU 2011-08. The amendments are effective beginning January 1, 2013 with early adoption permitted. Adoption of this update is not expected have a material impact on the Company's financial position or results of operations.

From time to time, the FASB issues exposure drafts for proposed statements of financial accounting standards. Such exposure drafts are subject to comment from the public, to revisions by the FASB and to final issuance by the FASB as statements of financial accounting standards. Management considers the effect of the proposed statements on the consolidated financial statements of the Corporation and monitors the status of changes to and proposed effective dates of exposure drafts.

NOTE B – INTANGIBLES

On June 8, 2007, the Company acquired 100% of the common stock of Millennia for total consideration of approximately $8.4 million, which includes approximately $8.2 million in cash and transaction costs of $.2 million. The results of operations of Millennia are included in the consolidated statement of income beginning June 8, 2007. The Company acquired Millennia to expand its banking franchise in North Carolina. As of December 31, 2012 and 2011, all intangible assets were from the June 2007 acquisition of Millennia. Goodwill and core deposit intangibles were as follows as of December 31, 2012 and 2011:

(In thousands)	Gross	Accumulated Amortization	Net
2012			
Deposit premium (1)	$ 254	$ (225)	$ 29
Goodwill (2)	3,580	-	3,580
	$ 3,834	$ (225)	$ 3,609
2011			
Deposit premium (1)	$ 254	$ (186)	$ 68
Goodwill (2)	3,580	-	3,580
	$ 3,834	$ (186)	$ 3,648

(1) Expected to be amortized over total life of approximately seven years.
(2) The majority of the Goodwill is not expected to be deductible for tax purposes.

Amortization expense was $39,000 and $39,000 for the years ended December 31, 2012 and 2011, respectively. The deposit premium will be amortized straight line through approximately the end of 2013.

NOTE C - INVESTMENT SECURITIES

The following is a summary of the securities portfolio by major classification at December 31, 2012 and 2011.

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2012				
Available for sale:				
U.S. Agency obligations	$ 3,008	$ 43	$ 4	$ 3,047
Collateralized mortgage obligations	11,454	371	21	11,804
Mortgage-backed securities	18,472	810	-	19,282
State and municipalities	2,450	112	6	2,556
SBA securities	18,239	1,479	-	19,718
Corporate bonds	1,885	19	159	1,745
	$ 55,508	$ 2,834	$ 190	$ 58,152
Held to Maturity:				
U.S. Agency obligations	$ 1,762	$ 37	$ -	$ 1,799
Mortgage-backed securities	1,130	79	-	1,209
	$ 2,892	$ 116	$ -	$ 3,008

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2011				
Available for sale:				
U.S. Agency obligations	$ 5,151	$ 65	$ 1	$ 5,215
Collateralized mortgage obligations	7,354	256	107	7,503
Mortgage-backed securities	19,188	789	-	19,977
State and municipalities	1,387	102	-	1,489
SBA securities	18,464	1,095	-	19,559
Corporate bonds	3,100	34	187	2,947
	$ 54,644	$ 2,341	$ 295	$ 56,690
Held to Maturity:				
U.S. Agency obligations	$ 916	$ 34	$ -	$ 950
Mortgage-backed securities	1,238	44	-	1,282
	$ 2,154	$ 78	$ -	$ 2,232

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

NOTE C - INVESTMENT SECURITIES (Continued)

(In thousands)	Amortized Cost	Fair Value
Available for Sale:		
Due within one year	$ -	$ -
Due after one year through five years	1,848	1,895
Due after five years through ten years	11,082	11,245
Due after ten years	42,578	45,012
	$ 55,508	$ 58,152

(In thousands)	Amortized Cost	Fair Value
Held to Maturity:		
Due within one year	$ -	$ -
Due after one year through five years	-	-
Due after five years through ten years	612	647
Due after ten years	2,280	2,361
	$ 2,892	$ 3,008

The following tables show gross unrealized losses and fair values of investment securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2012 and 2011. At December 31, 2012, the unrealized losses on available for sale securities related to 2 U.S. Agency obligations, 1 collateralized mortgage obligation, 1 mortgage backed security, 2 state and municipalities, and 3 corporate bonds. All 3 corporate bonds had continuous unrealized losses for more than 12 months. At December 31, 2012 and December 31, 2011 there were no unrealized losses on held to maturity securities. The unrealized losses relate to debt securities that have incurred fair value reductions due to higher market interest rates and other prevailing market conditions, such as liquidity, since the securities were purchased. The unrealized losses are not likely to reverse unless and until the market changes revert to the conditions and levels that existed when the securities were purchased.

NOTE C - INVESTMENT SECURITIES (Continued)

	Less Than 12 Months		12 Months or Greater		Total	
(In thousands)		Unrealized		Unrealized		Unrealized
December 31, 2012	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Securities available for sale:						
U.S. Agency Obligations	$ 596	$ 4	$ -	$ -	$ 596	$ 4
Collateralized mortgage obligations	671	21	-	-	671	21
Mortgage backed securities	743	-	-	-	743	-
State and municipalities	786	6	-	-	786	6
Corporate bonds	-	-	1,087	159	1,087	159
Total available for sale securities	$ 2,796	$ 31	$ 1,087	$ 159	$ 3,883	$ 190

	Less Than 12		12 Months or		Total	
(In thousands)		Unrealized		Unrealized		Unrealized
December 31, 2011	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Securities available for sale:						
U.S. Agency Obligations	$ 300	$ 1	$ -	$ -	$ 300	$ 1
Collateralized mortgage obligations	875	29	1,402	78	2,277	107
Corporate bonds	-	-	1,413	187	1,413	187
Total available for sale securities	$ 1,175	$ 30	$ 2,815	$ 265	$ 3,990	$ 295

As described in Note A, the Company evaluated its investment securities with unrealized losses and determined that six of its nine private residential CMOs ("Private CMOs") and one corporate bond were other-than-temporarily-impaired. The Company then evaluated which portion of the OTTI was attributable to credit losses and as a result would be recognized into the Company's net income. All of these seven securities have ratings by a national credit rating agency below investment grade. The cash flows for these Private CMOs are derived from 15-30 year residential mortgages, the majority of which were originated between late 2005 and early 2007. We generally considered loss severities of 35-75% in our evaluation and used default and prepayment rates based on historical trends for the individual security and loans of a comparable maturity. The loss severity rates considered such factors as loan to value ratios, remaining life of the loan and historical severity for similar loans.

For the year ended December 31, 2011, the Company recognized into net income OTTI attributable to two Private CMOs which are subordinate to the most senior tranche of securities but more senior than the securities providing the primary credit support ("Junior Senior Securities"). These Junior Senior Securities were more sensitive to credit losses than the other Private CMOs owned by the Company. During 2011, the par value of the Junior Senior Securities was exhausted due to credit losses and thus no further proceeds, other than possible litigation proceeds, will be realized on the Junior Senior Securities and they had no net book value at December 31, 2012 and 2011.

NOTE C - INVESTMENT SECURITIES (Continued)

In addition to the OTTI recognized into net income during 2011 for the Junior Senior Securities, the Company determined that three additional Private CMOs had OTTI which was attributable to credit losses. As of December 31, 2012 and 2011, two of these securities are incurring losses as problem loans are liquidated and subordinate securities have been exhausted. The other security was sold during 2012 and a gain of approximately $15 thousand recognized based on the net book value of the security at the time of sale. The Company determined that the OTTI on the other four Private CMOs and the corporate bond was attributable to other non-credit related factors as it expects to receive its recorded principal and interest on these securities.

Aggregate OTTI recognized into earnings for credit losses associated with the two remaining securities with credit impairment in the 2012 table below were approximately $100,000 as of December 31, 2012. The following table summarizes securities with OTTI as of December 31, 2012 and 2011 and related impairment losses recognized into earnings for the years then ended.

2012	Number of Securities	Par Value	Amortized Cost	Impairment to Earnings	Unrealized Gain (Loss)
		(Dollars in thousands)			
Private CMOs with credit impairment	2	$ 502	$ 375	$ -	$ -
Private CMOs without credit impairment	4	1,176	1,111	-	-
Corporate security without credit impairment	1	350	246	-	(71)
Total		$ 2,028	$ 1,732	$ -	$ (71)
2011					
Junior Senior Securities	-	$ -	$ -	$ (193)	$ -
Private CMOs with credit impairment	3	1,435	999	84	5
Private CMOs without credit impairment	4	1,751	1,682	-	(97)
Corporate security without credit impairment	1	350	246	-	(71)
Total		$ 3,536	$ 2,927	$ (109)	$ (163)

The Company had pledged approximately $3.5 million of securities as of December 31, 2012 consisting of primarily agency and mortgage backed securities for public deposits and as collateral for other purposes.

NOTE D – LOANS

Following is a summary of loans at December 31, 2012 and 2011:

	2012	2011
(In thousands)	Amount	Amount
Commercial real estate:		
Construction and land development	$ 55,024	$ 55,754
Income producing and other commercial real estate	137,793	127,828
Total commercial real estate	192,817	183,582
Commercial and industrial	31,733	28,913
Consumer:		
Secured by 1-4 family residential, secured by first deeds of trust	36,077	33,875
Secured by 1-4 family residential, secured by junior deeds of trust	21,994	20,240
Other consumer	546	1,294
Total consumer real estate	58,617	55,409
Total loans	283,167	267,904
Deferred loan costs	(518)	(481)
Allowance for loans losses	(6,116)	(6,314)
Net loans	$ 276,533	$ 261,109

Loans are primarily made in Wake and Pitt County, North Carolina. Real estate loans can be affected by the condition of the local commercial and residential real estate markets. Commercial and installment loans can be affected by the local economic conditions.

Related party loans

The Bank has granted loans to certain directors and executive officers of the Bank and their related interests. Such loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other borrowers and, in management's opinion, do not involve more than the normal risk of collectability. All loans to directors and executive officers or their interests are submitted to the Board of Directors for approval. A summary of loans to directors, executive officers and their related interests follows:

(In thousands)	
Loans to directors and officers as a group at December 31, 2011	$ 10,762
Disbursements during 2012	223
Amounts collected during 2012	(552)
Loans to directors and officers as a group at December 31, 2012	$ 10,433

Impaired loans totaled $11.9 million and $14.9 million at December 31, 2012 and 2011, respectively. Included in the $11.9 million at December 31, 2012 is $8.2 million of loans classified as troubled debt restructurings ("TDRs"). Included in the $14.9 million at December 31, 2011 is $8.6 million of loans classified as TDRs.

NOTE D – LOANS (Continued)

The following table provides information on performing and nonperforming restructures for the years ended December 31, 2012.

(In thousands)	Number of Contracts	2012
Performing restructurings:		
Commercial real estate:		
Construction and land development	3	$ 2,245
Income producing and other commercial real estate	1	117
Commercial and industrial	1	377
Consumer:		
Secured by 1-4 family residential, secured by first deeds of trust	2	1,282
Secured by 1-4 family residential, secured by junior deeds of trust	4	313
Other consumer	-	-
Total performing restructuring	11	4,334
Nonperforming restructurings:		
Commercial real estate:		
Construction and land development	5	719
Income producing and other commercial real estate	5	3,138
Commercial and industrial		-
Consumer:		
Secured by 1-4 family residential, secured by first deeds of trust	-	-
Secured by 1-4 family residential, secured by junior deeds of trust	-	-
Other consumer	-	-
Total nonperforming restructuring	10	3,857
Total restructuring	21	$ 8,191

NOTE D – LOANS (Continued)

During the year ended December 31, 2012, the Bank modified 6 loans that were considered to be TDRs. The Bank extended the terms for all of these loans. No other material terms were modified for any of these loans. The following table is a summary of information related to loan modifications during 2012:

(Dollars In thousands))	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Modifications for the period ended December 31, 2012			
Commercial real estate:			
Construction and land development	1	$ 118	$ 98
Income producing and other commercial real estate	4	3,905	3,081
Commercial and industrial	-	-	-
Consumer:		-	
Secured by 1-4 family residential, secured by first deeds of trust	-	-	-
Secured by 1-4 family residential, secured by junior deeds of trust	1	35	35
Other consumer	-	-	-
Total Troubled Debt Restructurings	6	$ 4,058	$ 3,214

There were not any troubled debt restructurings modified during the current period that subsequently defaulted in the year ending December 31, 2012.

Interest is not typically accrued on loans where impairment exists. For loans classified as TDRs, the Company further evaluates the loans as performing or non-performing. If, at the time of restructure, it is determined that no impairment exists, the loan will be classified as performing. At December 31, 2012 and 2011, $4.3 million and $5.5 million of TDRs were accruing interest as they were classified as performing. Interest income recognized on performing TDRs was $234,000 and $145,000 for the years ended December 31, 2012 and 2011, respectively.

NOTE D – LOANS (Continued)

In order to quantify the value of impairment, the Company evaluates impaired loans individually. The detail of loans evaluated for impairment at December 31, 2012 is presented below:

(In thousands)	Recorded Investment	Unpaid Contractual Principal Balance	Allocated Allowance
December 31, 2012			
Loans without a specific valuation allowance:			
Commercial real estate:			
Construction and land development	$ 4,244	$ 4,870	$ -
Income producing and other commercial real estate	3,402	4,222	-
Commercial and industrial	-	163	-
Consumer:			
Secured by 1-4 family residential, secured by first deeds of trust	19	19	-
Secured by 1-4 family residential, secured by junior deeds of trust	430	492	-
Other consumer	-	-	-
Loans with a specific valuation allowance:			
Commercial real estate:			
Construction and land development	1,055	1,055	278
Income producing and other commercial real estate	102	102	62
Commercial and industrial	377	377	147
Consumer:			
Secured by 1-4 family residential, secured by first deeds of trust	1,994	1,994	296
Secured by 1-4 family residential, secured by junior deeds of trust	251	251	161
Other consumer	-	-	-
Total	$ 11,874	$ 13,545	$ 944

NOTE D – LOANS (Continued)

In 2011, the Company had $14.9 million of impaired loans. The detail of loans evaluated for impairment as of December 31, 2011 is presented below:

(In thousands)	Recorded Investment	Unpaid Contractual Principal Balance	Allocated Allowance
December 31, 2011			
Loans without a specific valuation allowance:			
Commercial real estate:			
Construction and land development	$ 3,187	$ 3,187	$ -
Income producing and other commercial real estate	3,412	5,362	-
Commercial and industrial	100	100	-
Consumer:			
Secured by 1-4 family residential, secured by first deeds of trust	44	44	-
Secured by 1-4 family residential, secured by junior deeds of trust	406	406	-
Other consumer	-	-	-
Loans with a specific valuation allowance:			
Commercial real estate:			
Construction and land development	3,967	3,967	582
Income producing and other commercial real estate	791	891	260
Commercial and industrial	545	545	245
Consumer:			
Secured by 1-4 family residential, secured by first deeds of trust	2,283	2,321	381
Secured by 1-4 family residential, secured by junior deeds of trust	129	129	129
Other consumer	-	-	-
Total	$ 14,864	$ 16,952	$ 1,597

NOTE D – LOANS (Continued)

The average recorded investment balance of impaired loans and interest income recognized during 2012 and 2011 is as follows:

(In thousands)	Average Recorded Investment	Interest Income Recognized
December 31, 2012		
Commercial real estate:		
Construction and land development	$ 6,126	$ 248
Income producing and other commercial real estate	3,890	22
Commercial and industrial	533	37
Consumer:		
Secured by 1-4 family residential, secured by first deeds of trust	2,185	112
Secured by 1-4 family residential, secured by junior deeds of trust	629	18
Other consumer	-	
Total loans	$ 13,363	$ 437

(In thousands)	Average Recorded Investment	Interest Income Recognized
December 31, 2011		
Commercial real estate:		
Construction and land development	$ 4,921	$ 120
Income producing and other commercial real estate	4,812	197
Commercial and industrial	621	31
Consumer:		
Secured by 1-4 family residential, secured by first deeds of trust	1,026	49
Secured by 1-4 family residential, secured by junior deeds of trust	456	8
Other consumer	3	1
Total loans	$ 11,839	$ 406

When the Bank cannot reasonably expect full and timely repayment of a loan, it is placed on non-accrual. The Bank will continue to track the contractual interest for purposes of customer reporting and any potential litigation or later collection of the loan but accrual of interest for the Bank's financial statement purposes is to be discontinued. Subsequent payments of interest can be recognized as income on a cash basis provided that full collection of principal is expected. Otherwise, all payments received are to be applied to principal only. At the time of non-accrual, past due or accrued interest is reversed from income.

Loans over 90 days past due will automatically be placed on non-accrual. Loans that are less delinquent may also be placed on non-accrual if full collection of principal and interest is unlikely.

NOTE D – LOANS (Continued)

The following table presents the recorded investment in non-accrual and loans past due more than 90 days still accruing by portfolio segment as of December 31, 2012 and 2011:

(In thousands)	Nonaccrual		Loans Past Due Over 90 Days Still Accruing	
	2012	2011	2012	2011
Commercial real estate:				
Construction and land development	$ 1,310	$ 2,239	$ -	$ -
Income producing and other commercial real estate	2,972	3,974	-	-
Commercial and industrial	-	-	-	-
Consumer:				
Secured by 1-4 family residential, secured by first deeds of trust	35	108	-	-
Secured by 1-4 family residential, secured by junior deeds of trust	364	243	-	-
Other consumer	-	-	-	-
Total	$ 4,681	$ 6,564	$ -	$ -

If interest had been earned on non-accrual loans, such income would have approximated $434,000 and $500,000 for the years ended December 31, 2012 and 2011, respectively.

NOTE D – LOANS (Continued)

The following table presents the aging of recorded investment in past due loans as of December 31, 2012 and 2011 by portfolio segment:

(In thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Nonaccrual	Current	Total Loans
December 31, 2012							
Commercial real estate:							
Construction and land development	$ -	$ -	$ -	$ -	$ 1,310	$ 53,714	$ 55,024
Income producing and other commercial real estate	-	37	-	37	2,972	134,784	137,793
Commercial and industrial	-	-	-	-	-	31,733	31,733
Consumer:							
Secured by 1-4 family residential, secured by first deeds of trust	19	-	-	19	35	36,023	36,077
Secured by 1-4 family residential, secured by junior deeds of trust	141	130	-	271	364	21,359	21,994
Other consumer	-	-	-	-	-	546	546
Total	$ 160	$ 167	$ -	$ 327	$ 4,681	$278,159	$283,167
December 31, 2011							
Commercial real estate:							
Construction and land development	$ -	$ -	$ -	$ -	$ 2,239	$ 53,515	$ 55,754
Income producing and other commercial real estate	-	-	-	-	3,974	123,854	127,828
Commercial and industrial	-	-	-	-	-	28,913	28,913
Consumer:							
Secured by 1-4 family residential, secured by first deeds of trust	-	-	-	-	108	33,767	33,875
Secured by 1-4 family residential, secured by junior deeds of trust	38	-	-	38	243	19,959	20,240
Other consumer	-	-	-	-	-	1,294	1,294
Total	$ 38	$ -	$ -	$ 38	$ 6,564	$261,302	$267,904

Credit Quality Indicators

As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management examines certain credit quality indicators which consider the risk of performance, overall portfolio quality utilizing weighted-average risk rating, general economic factors, net charge-offs, non-performing loans and the level of classified loans. All loans risk rated "substandard", "doubtful" and "loss" are reviewed on an individual basis for probable losses.

NOTE D – LOANS (Continued)

A description of our credit quality indicators follows:

Pass – loans with acceptable credit quality and moderate risk.

Watch – This grade is intended to be temporary and includes loans (1) where borrower's ability to repay from primary repayment source is marginally adequate but is not clearly sufficient and (2) loan is currently performing as contractually agreed and (3) secondary repayment sources such as guarantees, are clearly sufficient to protect against risk of principal and income loss.

Substandard – These loans have a well defined weakness where the accrual of interest has not been stopped. The defined weakness may make default or principal exposure a distinct possibility that a loss could be sustained if the weakness is not corrected. These loans are no longer considered to be adequately protected due to the borrower's declining net worth, lack of earnings capacity, declining collateral margins or unperfected collateral positions.

Doubtful – These loans have all the weakness of 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.

Loss – These loans are considered uncollectable and of such little value that their continuance as a bankable asset 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 effected in the future.

NOTE D – LOANS (Continued)

As of December 31, and based on the most recent analysis performed, the risk category of loans is as follows:

	Risk Grade					
(In thousands)	Pass	Watch	Substandard	Doubtful	Loss	Total
Balance at December 31, 2012						
Commercial real estate:						
Construction and land development	$ 47,702	$ 3,384	$ 3,938	$ -	$ -	$ 55,024
Income producing and other commerical real estate	128,359	5,587	3,847	-	-	137,793
Commercial and industrial loans	31,338	377	18	-	-	31,733
Consumer:						
Secured by 1-4 family residential, secured by first deeds of trust	33,850	233	1,994	-	-	36,077
Secured by 1-4 family residential, secured by junior deeds of trust	20,993	311	690	-	-	21,994
Other Consumer	546	-	-	-	-	546
Total	$ 262,788	$ 9,892	$ 10,487	$ -	$ -	$ 283,167

	Risk Grade					
(In thousands)	Pass	Watch	Substandard	Doubtful	Loss	Total
Balance at December 31, 2011						
Commercial real estate:						
Construction and land development	$ 44,977	$ 4,796	$ 5,981	$ -	$ -	$ 55,754
Income producing and other commerical real estate	118,979	4,040	4,809	-	-	127,828
Commercial and industrial loans	23,625	4,588	700	-	-	28,913
Consumer:						
Secured by 1-4 family residential, secured by first deeds of trust	30,867	682	2,326	-	-	33,875
Secured by 1-4 family residential, secured by junior deeds of trust	19,458	131	651	-	-	20,240
Other Consumer	1,294	-	-	-	-	1,294
Total	$ 239,200	$ 14,237	$ 14,467	$ -	$ -	$ 267,904

Note E – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses for the years ended December 31, 2012 and 2011 are as follows:

	Commerical real estate			Consumer			
(In thousands)	Construction and Land Development	Income producing and other commercial real estate	Commercial & Industrial	Secured by 1-4 family residential, secured by first deeds of trust	Secured by 1-4 family residential, secured by junior deeds of trust	Other Consumer	Total Loans
Balance at January 1, 2011	$ 3,653	$ 1,634	$ 431	$ 409	$ 253	$ 26	$ 6,406
Provision for loan losses	(226)	3,543	267	433	272	6	4,295
Loans charged off	(1,591)	(2,503)	(118)	(199)	(135)	(1)	(4,547)
Recoveries	145	-	3	12	-	-	160
Net chargeoffs	(1,446)	(2,503)	(115)	(187)	(135)	(1)	(4,387)
Balance at Dec. 31, 2011	1,981	2,674	583	655	390	31	6,314
Provision for loan losses	561	948	50	87	622	(5)	2,263
Loans charged off	(1,136)	(824)	(163)	(140)	(323)	(4)	(2,590)
Recoveries	83	-	-	40	6	-	129
Net chargeoffs	(1,053)	(824)	(163)	(100)	(317)	(4)	(2,461)
Balance at Dec. 31, 2012	$ 1,489	$ 2,798	$ 470	$ 642	$ 695	$ 22	$ 6,116

The allowance for probable loan losses is a reserve established through a provision for probable loan losses charged to expense for estimated loan losses inherent in the loan portfolio. The allowance is maintained at a level which management considers adequate to provide for probable loan losses based on our assessment of various factors affecting the loan portfolio. Additional information regarding the Company's policies and methodology used to estimate the allowance for possible loans losses is presented in Note A – Summary of Significant Accounting Policies.

Note E – ALLOWANCE FOR LOAN LOSSES (Continued)

The balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and by class and based on the impairment method as of December 31, 2012 and 2011 were as follows:

	Commercial real estate			Consumer			
(In thousands)	Construction and Land Development	Income producing and other commercial real estate	Commercial & Industrial	Secured by 1-4 family residential, secured by first deeds of trust	Secured by 1-4 family residential, secured by junior deeds of trust	Other Consumer	Total Loans
December 31, 2012							
Allowance for Loan Losses:							
Individually evaluated for impairment	$ 278	$ 62	$ 147	$ 296	$ 161	$ -	$ 944
Collectively evaluated for impairment	1,211	2,736	323	346	534	22	5,172
Total ending allowance	$ 1,489	$ 2,798	$ 470	$ 642	$ 695	$ 22	$ 6,116
Loans:							
Individually evaluated for impairment	$ 5,299	$ 3,504	$ 377	$ 2,013	$ 681	$ -	$ 11,874
Collectively evaluated for impairment	49,725	134,289	31,356	34,064	21,313	546	271,293
Total loans	$ 55,024	$ 137,793	$ 31,733	$ 36,077	$ 21,994	$ 546	$ 283,167
December 31, 2011							
Allowance for Loan Losses:							
Individually evaluated for impairment	$ 582	$ 260	$ 244	$ 382	$ 129	$ -	$ 1,597
Collectively evaluated for impairment	1,399	2,414	339	273	261	31	4,717
Total ending allowance	$ 1,981	$ 2,674	$ 583	$ 655	$ 390	$ 31	$ 6,314
Loans:							
Individually evaluated for impairment	$ 7,154	$ 4,202	$ 646	$ 2,326	$ 536	$ -	$ 14,864
Collectively evaluated for impairment	48,600	123,626	28,267	31,549	19,704	1,294	253,040
Total loans	$ 55,754	$ 127,828	$ 28,913	$ 33,875	$ 20,240	$ 1,294	$ 267,904

NOTE F - BANK PREMISES AND EQUIPMENT

Following is a summary of bank premises and equipment at December 31, 2012 and 2011:

(In thousands)	**2012**	**2011**
Land	$ 875	$ 875
Buildings and leasehold improvements	2,443	2,516
Furniture and equipment	1,330	1,441
Construction in process	43	49
Sub-total	4,691	4,881
Less accumulated depreciation and amortization	(1,532)	(1,360)
	$ 3,159	$ 3,521

NOTE F - BANK PREMISES AND EQUIPMENT (Continued)

Depreciation and amortization amounting to $387,000 and $399,000 for the years ended December 31, 2012 and 2011 are included in occupancy and equipment expense.

NOTE G - DEPOSITS

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

(In thousands)	
2013	$ 101,388
2014	31,455
2015	10,764
2016	9,789
2017 and thereafter	20,808
	$ 174,204

At December 31, 2012 and 2011 time deposits in denominations of $100,000 or more were $121.4 million and $133.7 million respectively. Interest expense on time deposits in denominations of $100,000 or totaled were $2.3 million in 2012 and $2.4 million in 2011.

NOTE H – BORROWINGS

Short-Term Borrowings

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of the underlying securities.

Federal funds purchased generally mature within one to four days from the transaction date. The Bank has approved fed fund lines with several institutions totaling approximately $27.5 million of which the entire amount remains unused at December 31, 2012.

Borrowings from Federal Reserve Bank

The Bank had pledged a blanket lien on its eligible construction and development, land and commercial and industrial loans to collateralize borrowings from the Federal Reserve Bank (“FRB”). The Bank had approximately $44.6 million of remaining available borrowing at December 31, 2012 based on eligible collateral.

Federal Home Loan Bank Advances

The Bank is a member of the FHLB. At December 31, 2012, the Bank had pledged a blanket lien on its eligible one to four family mortgage loans, commercial mortgages and home equity lines of credit to collateralize borrowings from the FHLB. These lines are subject to annual renewal and are at varying interest rates.

NOTE H – BORROWINGS (Continued)

At December 31, 2012, the scheduled maturities of the FHLB advances were as follows:

(In thousands)	Balance	Weighted Average Rate
2013	$ 1,000	0.89%
2014	1,200	1.14%
Total	$ 2,200	1.03%

Interest expense on FHLB borrowings were $29,000 and $39,000 for the years ended December 31, 2012 and 2011, respectively. The Bank had approximately $33.4 million available for borrowing at December 31, 2012 based on eligible collateral.

NOTE I - LEASES

The Bank has entered into non-cancelable operating leases for its corporate office and certain branch locations of up to ten years. The facility leases also contain renewal options of 6 months to 10 years which are excluded from the future minimum lease payments. The Bank subleases certain office space to outside parties. Future minimum lease payments under these leases and sublease receipts for the years ending December 31 are as follows:

	Lease Payments	Sublease Receipts
(In thousands)		
2013	$ 711	$ 50
2014	713	-
2015	713	-
2016	713	-
2017	713	-
Thereafter	2,317	-
Total	$ 5,880	$ 50

The Bank leases a branch office in Raleigh under an operating lease with a company whose owners and principals include a director of the Company and Bank. The lease is for an initial ten year term expiring March 1, 2018, with annual rental payments ranging from $43,200 to $50,400 over the term of the lease. Upon maturity, the Company has two five year renewal options.

Total rent expense for the years ended December 31, 2012 and 2011 amounted to $702,000 and $660,000, respectively. Total rental income under the sublease for the years end December 31, 2012 and 2011 was $83,000 and $88,000, respectively.

NOTE J - EMPLOYEE BENEFIT PLANS

401(k) Retirement Plan

The Bank has adopted a 401(k) retirement plan that covers all eligible employees. The Bank's contribution is limited to 6% of each employee's salary. Matching contributions are funded when accrued. Matching expenses totaled $132,000 and $114,000 for the years ended December 31, 2012 and 2011, respectively.

Stock Option Plans

During 2007 the Company adopted, with shareholder approval, the TrustAtlantic Financial Corporation 2006 Stock Incentive Plan. The plan made available options to purchase 650,000 shares of the Company's common stock. The plan allows for the issuance of incentive stock options, non-qualified stock options, restricted stock units, performance unit awards and stock appreciation rights.

Options granted under the plan become exercisable in accordance with the vesting schedule specified in the stock option agreements which is generally three to five years except for options issued with specific performance criteria. Approximately 96,000 of the unvested option awards have unsatisfied performance criteria based on the Company achieving cumulative profitability. All unexercised options expire ten years after the date of grant.

A summary of the transactions for the Company's option plans as of and for the year ended December 31, 2012 and 2011, including the weighted average exercise price ("WAEP") is as follows:

	2012			2011		
	Available for Future Grants	Shares	WAEP	Available for Future Grants	Shares	WAEP
Outstanding at beginning of year	258,250	391,750	$ 9.35	8,250	391,750	$ 9.35
Options authorized	-	-	-	250,000	-	-
Granted	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Expired and forfeited	-	-	-	-	-	-
Outstanding at end of year	258,250	391,750	$ 9.35	258,250	391,750	$ 9.35
Options exercisable at year-end		267,510	$ 9.36		231,772	$ 9.63

The expected life of these options is based on evaluations of expected future employee exercise behavior. The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life of the grant. Volatility is based on the historical volatility of certain public entities whose operations are similar to those of the Company, as the Company does not possess sufficient historical transactions of its own shares on which to base expected volatility. The Company has not issued dividends since the date of inception.

There were no options granted in 2012 and 2011.

NOTE J - EMPLOYEE BENEFIT PLANS (Continued)

The following table summarizes information about the Company's stock options at December 31, 2012:

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Number Exercisable
$10.00	306,750	4.41	210,835
$7.00	85,000	7.94	56,675
	391,750		267,510

At December 31, 2012 and December 31, 2011, there was no aggregate intrinsic value of options outstanding and exercisable.

As of December 31, 2012, the Company did not have any unrecognized compensation expense related to the Company's stock option plans. If this cost had existed then it would have been recognized over a weighted average period of approximately 2 years.

Supplemental Retirement Plan

During 2012, the Company and Bank established the TrustAtlantic Supplemental Retirement Plan ("SERP") for the benefit of certain executive officers. Under the SERP, the participants receive 25% of their salary for a period of fifteen years of retirement. The benefits vest over twelve years with five years of service required before any amount is vested. As of December 31, 2012, there were five participants in the SERP and expense for 2012 was $275,000 of which $261,000 was service and prior service cost.

The plan is an unfunded plan and utilized the following assumptions:

Discount rate:	5.50%
Rate of annual compensation increase:	0% - 1.50%

NOTE K - INCOME TAXES

Allocation of federal and state income tax expense (benefit) between current and deferred portions for the year ended December 31 is as follows:

(In thousands)	2012	2011
Current	$ -	$ -
Deferred	1,097	-
Decrease in Valuation Allowance	(4,007)	-
	$ (2,910)	$ -

A reconciliation of income tax expense (benefit) computed at the statutory federal income tax rate to income tax expense included in the consolidated statements of operations is as follows:

(In thousands)	2012	2011
Tax computed at Federal statutory rate of 34%	$ 970	$ 241
Effect of state income taxes	133	38
Tax exempt income	(86)	-
Valuation allowance deferred taxes	(4,007)	(254)
Other	80	(25)
	$ (2,910)	$ -

The components of the net deferred tax asset, included in other assets or liabilities, are as follows as of December 31, 2012 and 2011, respectively:

(In thousands)	2012	2011
Deferred tax assets:		
Allowance for loan losses	$ 1,612	$ 1,731
Stock options and awards	222	217
Nonqualified retirement plans	106	-
Carrying value of other real estate owned	83	90
Investment writedowns and reserves AFS	77	194
Net operating loss carry forwards	953	2,051
Other	105	54
Total deferred tax assets	3,158	4,337
Valuation allowance	(132)	(4,139)
Total deferred tax assets	3,026	198
Deferred tax liabilities:		
Depreciation	97	157
Deposit premium	11	26
Net unrealized gain on AFS securities	1,019	789
Other	8	15
Total deferred tax liabilities	1,135	987
Net recorded deferred tax asset (liability)	$ 1,891	$ (789)

NOTE K - INCOME TAXES (Continued)

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax assets will not be realized. In management's opinion, based on the pre-tax earnings of the Company over the last three years, the forecasted future earnings, increases in pre-tax income and stabilized asset quality that it is more likely than not that the Company will substantially realize all of its deferred tax assets. The Company continues to maintain a valuation allowance principally on the deferred tax assets of the parent company for state income tax purposes.

The Company has federal net operating loss carry forwards of approximately $2.5 million and state net operating loss carry forwards of approximately $2.1 million available to offset taxable income expiring through December 31, 2012.

As of December 31, 2012 and 2011, there were no significant uncertain tax positions. The amount of uncertain tax positions may increase or decrease in the future for various reasons including adding amounts for current tax positions, expiration of open tax returns due to status of limitations, changes in management's judgment about the level of uncertainty, status examinations, litigation and legislative activity. Interest and penalties, if any, related to uncertain tax positions are reported in income tax expense in the Consolidated Statements of Operations. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years ended December 31, 2009 and earlier.

NOTE L - REGULATORY MATTERS

The Company (on a consolidated basis) and the Bank are subject to various regulatory requirements, including capital requirements, administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2012, that the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2012, the Bank's most recent notification from the Federal Deposit Insurance Corporation categorized TrustAtlantic Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios as of December 31, 2012 and 2011 are presented in the table below.

			Minimum Requirements To Be:			
	Actual		Adequately Capitalized		Well Capitalized	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
2012						
Total Capital (to Risk Weighted Assets)						
Bank	$ 41,227	14.4%	$ 22,964	8.0%	$ 28,706	10.0%
Tier I Capital (to Risk Weighted Assets)						
Bank	37,607	13.1%	11,482	4.0%	17,223	6.0%
Tier I Capital (to Average Assets)						
Bank	37,607	10.3%	14,635	4.0%	18,294	5.0%
2011						
Total Capital (to Risk Weighted Assets)						
Bank	$ 37,255	13.9%	$ 21,506	8.0%	$ 26,882	10.0%
Tier I Capital (to Risk Weighted Assets)						
Bank	33,858	12.6%	10,753	4.0%	16,129	6.0%
Tier I Capital (to Average Assets)						
Bank	33,858	9.4%	14,418	4.0%	18,023	5.0%

NOTE M - OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company maintains a reserve for off-balance sheet losses which as of December 31, 2012 and 2011 was approximately $60,000 and $60,000, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some 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 of the borrower. Collateral obtained varies but may include real estate, stocks, bonds, and certificates of deposit.

A summary of the contract amounts of the Bank's exposure to off-balance sheet credit risk as of December 31, 2012 and 2011 are as follows (amounts in thousands):

Financial instruments whose contract amounts represent credit risk:	2012	2011
Commitments to extend credit	$ 32,749	$ 22,436
Standby letters of credit	2,240	2,419
Commitment to invest in Small Business Investment Corporations	400	538

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is a market-based measurement and is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the assets or owes the liability. In general, the transaction price will equal the exit price and, therefore, represent the fair value of the asset or liability at initial recognition. In determining whether a transaction price represents the fair value of the asset or liability at initial recognition, each reporting entity is required to consider factors specific to the transaction and the asset or liability, the principal or most advantageous market for the asset or liability, and market participants with whom the entity would transact in the market.

In order to determine the fair value or the exit price, entities must determine the unit of account, highest and best use, principal market, and market participants. These determinations allow the reporting entity to define the inputs for fair value and level of hierarchy.

Outlined below is the application of the fair value hierarchy established by ASC 820 to the Company's financial assets that are carried at fair value.

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Level 1 – Valuations based on quoted prices (unadjusted) for identical assets or liabilities in active markets. An active market for the asset or liability is a market in which the transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Valuations based on quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Valuations are obtained from third party services for similar or comparable assets or liabilities.

Level 3 – Valuations are based on inputs that are unobservable and significant to the fair value measurement. Valuations are derived from other valuation methodologies, including discounted cash flow models and similar techniques, and not based on market exchange, dealer or brokered traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Fair Value on a Recurring Basis

The Company measures certain assets at fair value on a recurring basis, as described below.

Investment Securities Available-for-Sale

Investment securities AFS 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.

The types of instruments valued based on quoted market prices in active markets include, but not limited to, all of the Company's U.S. government and agency securities. Such instruments are generally classified with level 1 or level 2 of the fair value hierarchy. The Company's mortgage-backed securities and more liquid non-agency mortgage-backed securities are valued using Level 2 methodology. Level 3 valuations are for instruments that are not traded in active markets or are subject to transfer restrictions, and may be adjusted to reflect illiquidity and/or non-transferability. Generally Level 3 valuations are substantiated by estimated cash flows from the investment and estimated current market interest rates for similar securities. In the absence of such evidence, management's best estimate is used. Such instruments in this category include certain corporate debt securities.

Derivatives

Derivative instruments include interest rate swaps and are valued using models developed by third-party providers. This type of derivative is classified as Level 2 within the hierarchy.

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unoberservable inputs. Additional information about the fair value of Securities AFS are contained in Note C.

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

As of December 31, 2012, Level 1 securities consist of one publicly traded corporate bonds and Level 3 securities consist of three thinly traded corporate securities. Below is a table that presents information about assets and liabilities measured at fair value on a recurring basis at December 31, 2012 and 2011:

			Fair Value Measurements Using		
Description	Total Carrying Amount in the Consoldated Balance Sheet	Assets/ (Liabilities) Measured at Fair value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012					
Securities available for sale	$ 58,152	$ 58,152	$ 304	$ 56,761	$ 1,087
December 31, 2011					
Securities available for sale	$ 56,690	$ 56,690	$ 1,534	$ 54,070	$ 1,086
Pay fixed interest rate contracts	(117)	(117)	-	(117)	-
Pay variable interest rate contracts	117	117	-	117	-

The following table presents additional information about Level 3 investment securities measured at fair value on a recurring basis for the year ended December 31, 2012.

	Beginning Balance	Net Transfers In and/or (Out) of Level 3	Total Unrealized Gains or (Losses)	Total Realized Gains or (Losses)	Ending Balance
Securities available for sale:					
Corporate bonds	$ 1,086	$ -	$ 1	$ -	$ 1,087
	$ 1,086	$ -	$ 1	$ -	$ 1,087

Fair Value on a Nonrecurring Basis

The Company measures certain assets at fair value on a nonrecurring basis, as described below.

Loans

The Company 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 losses 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 agreement 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 collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows.

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2012, substantially all of the total impaired loans were evaluated based on the realizable fair value of the collateral. Impaired loans where an allowance is established based on the realizable fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as Level 2. When current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as Level 3. The unobservable inputs include collateral discounts in range of 0-37.5% of appraised value as well as cost of sells rate in a range from 5-11%. The valuation techniques for Level 3 other real estate are consistent with techniques used in prior periods.

Foreclosed Assets

Other real estate, which includes foreclosed assets, is adjusted to fair value upon transfer of loans and premises to other real estate. Subsequently, other real estate is carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records other real estate as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company classifies other real estate as on Level 3. The unobservable inputs include collateral discounts in range from 0-40% of appraised values as well as cost of sells rate in a range from 6-10%. The valuation techniques for Level 3 other real estate are consistent with techniques used in prior periods.

Below is a table that presents information about assets at fair value on a nonrecurring basis as of December 31, 2012 and 2011:

		Fair Value Measurements Using		
(In thousands) Description	Assets/ (Liabilities) Measured at Fair value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012				
Impaired loans	$ 6,610	$ -	$ -	$ 6,610
Foreclosed assets	1,086	-	-	1,086
December 31, 2011				
Impaired loans	$ 8,812	$ -	$ 2,215	$ 6,597
Foreclosed assets	2,711	-	-	2,711

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

ASC Topic 825 (Financial Instruments) requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows.

In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. ASC Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Bank. In addition to the valuation methods previously described for investments available for sale and derivatives, the following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and Due from Banks and Fed Funds and Short-term Investments

The carrying amounts for cash and due from banks approximate fair value because of the short maturities of those instruments.

Investment Securities

Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or other methods.

Federal Home Loan Bank Stock

The carrying value of FHLB stock approximates fair value based on the redemption provisions of the FHLB and as such, there was no impairment at December 31, 2012.

Bank owned life insurance ("BOLI")

The carrying value of BOLI approximates fair value because this investment is carried at cash surrender value, as determined by the insurer.

Loans

The fair value of loans is estimated by discounting the future 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. The secondary market for selling loans has become increasingly illiquid or for certain loan types, nonexistent, so estimating fair value requires significant judgment. For 2012, the Company has applied a market risk and illiquidity discount ranging from 1% to 20% depending on the loan type due to market conditions.

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Deposits

The fair value of demand deposits is the amount payable on demand at the reporting date. The fair value of time deposits is estimated by discounting expected cash flows using the rates currently offered for instruments of similar remaining maturities.

Accrued Interest

The carrying amount is a reasonable estimate of fair value.

Short-Term Borrowings and Long-Term Debt

The fair values are based on discounting expected cash flows using the current interest rates for debt with the same or similar remaining maturities and collateral requirements.

Financial Instruments with Off-Balance Sheet Risk

With regard to financial instruments with off-balance sheet risk discussed in Note L, it is not practicable to estimate the fair value of future financing commitments.

The following table presents the estimated fair values and carrying amounts of the Bank's financial instruments, none of which are held for trading purposes, at December 31:

	2012		2011	
(In thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	$ 11,374	$ 11,375	$ 21,563	$ 21,563
Federal funds sold and short term investments	879	879	7,559	7,559
Investment securities AFS	58,152	58,152	56,690	56,690
Investment securities held to maturity	2,892	3,008	2,154	2,232
Loans, net	276,533	261,668	261,109	246,103
Accrued interest receivable	1,246	1,246	1,309	1,309
FHLB Stock	642	642	720	720
BOLI	7,914	7,914	1,713	1,713
Other investments	727	727	670	670
Financial liabilities:				
Non-maturing deposits	145,187	145,187	123,963	123,963
Time deposits	174,204	175,148	191,783	193,087
Borrowings	2,200	2,210	4,200	4,212
Accrued interest payable	95	95	110	110

NOTE O - PARENT COMPANY FINANCIAL DATA

Following are the condensed financial statements of TrustAtlantic Financial Corporation as of December 31, 2012 and 2011 and for years then ended:

Condensed Balance Sheets

(In thousands)	2012	2011
Assets		
Cash and due from banks	$ 1,524	$ 1,040
Investment securities available for sale, at fair value	1,457	2,911
Loans-net of unearned income and deferred fees	-	-
Investment in TrustAtlantic Bank	44,359	38,784
Other assets	885	414
Total Assets	$ 48,225	$ 43,149
Liabilities and Stockholders' Equity		
Other liabilites	$ 100	$ 84
Total Liabilities	100	84
Stockholders' Equity:		
Common stock	47,395	48,466
Accumulated other comprehensive (loss) income	1,625	1,257
Retained deficit	(895)	(6,658)
Total Stockholders' Equity	48,125	43,065
Total Liabilities and Stockholders' Equity	$ 48,225	$ 43,149

Condensed Statements of Income

(In thousands)	2012	2011
Equity in income of subsidiary	$ 5,280	$ 764
Interest income - AFS securities	135	35
Other interest income	11	32
Other operating income	15	(10)
Personnel expense	(30)	(30)
Other operating expenses	(86)	(82)
Income tax benefit	438	-
Net income	$ 5,763	$ 709

NOTE O - PARENT COMPANY FINANCIAL DATA (Continued)

Condensed Statements of Cash Flows

(In thousands)	2012	2011
Cash flows from operating activities:		
Net income	$ 5,763	$ 709
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in earnings of subsidiary	(5,280)	(764)
Stock based compensation	46	148
Gain on sale of investments available for sale	(15)	-
Other	-	10
Changes in assets and liabilities:		
(Increase) decrease in other assets	(502)	(162)
Increase (decrease) in other liabilities	2	2
Net cash (used in) provided by operating activities	14	(57)
Cash flows from investing activities:		
Investment in subsidiary	-	-
Proceeds from sale of securities available for sale	296	-
Proceeds from maturities of securities available for sale	1,291	98
Purchases of securities available for sale from Bank	-	(3,053)
Net cash (used in) investing activities	1,587	(2,955)
Cash flows from financing activities:		
Repurchase of common stock	(1,117)	-
Net cash (used for) provided by financing activities	(1,117)	-
Net increase (decrease) in cash and cash equivalents	484	(3,012)
Cash and cash equivalents, beginning of year	1,040	4,052
Cash and cash equivalents, end of year	$ 1,524	$ 1,040

NOTE P – SUPPLEMENTAL CASH FLOW DISCLOSURE

(In thousands)	2012	2011
Supplemental Disclosures of Cash Flow Information:		
Transfer from loans to real estate acquired through foreclosure	$ 600	$ 10,255
Transfer from loans to other assets acquired through reposession	$ -	$ 12
Unrealized gains (losses) on AFS securities, net of deferred taxes	$ 368	$ 561
Cash paid for:		
Income taxes	$ 300	$ -
Interest	$ 3,641	$ 4,014

NOTE Q – SUBSEQUENT EVENTS

On January 31, 2013, the Bank entered into an agreement to acquire certain assets and liabilities associated with a branch banking office of another institution. The Bank will acquire approximately $25 million of deposits and $10 million in loans in addition to other assets and liabilities. This acquisition is subject to regulatory approval and the Bank anticipates it will close in the second quarter of 2013.

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through April 18, 2013, the date the financial statements were available to be issued.