

GUARANTY FEDERAL BANCSHARES INC  
Form 10-Q  
August 09, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

(Mark One)  **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2013

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF**  
**THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-23325

**Guaranty Federal Bancshares, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of

**43-1792717**  
(IRS Employer Identification No.)

incorporation or organization)

**1341 West Battlefield**

**Springfield, Missouri**

**65807**

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (417) 520-4333

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

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

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [X]

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding as of August 1, 2013</u>
Common Stock, Par Value \$0.10 per share	2,732,431 Shares

**GUARANTY FEDERAL BANCSHARES, INC.**

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**PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

**GUARANTY FEDERAL BANCSHARES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**  
**JUNE 30, 2013 (UNAUDITED) AND DECEMBER 31, 2012**

<b>ASSETS</b>	<b>6/30/13</b>	<b>12/31/12</b>
Cash	\$3,264,967	\$3,360,102
Interest-bearing deposits in other financial institutions	20,590,221	38,303,303
Cash and cash equivalents	23,855,188	41,663,405
Available-for-sale securities	109,260,193	101,980,644
Held-to-maturity securities	89,213	181,042
Stock in Federal Home Loan Bank, at cost	3,147,400	3,805,500
Mortgage loans held for sale	1,296,003	2,843,757
Loans receivable, net of allowance for loan losses June 30, 2013 - \$8,377,284 - December 31, 2012 - \$8,740,325	459,646,868	465,531,973
Accrued interest receivable:		
Loans	1,603,746	1,674,814
Investments and interest-bearing deposits	400,090	380,555
Prepaid expenses and other assets	5,933,102	6,228,173
Prepaid FDIC deposit insurance premiums	-	1,438,636
Foreclosed assets held for sale	3,896,535	4,529,727
Premises and equipment, net	11,144,196	11,286,410
Bank owned life insurance	13,852,375	13,657,480
Income taxes receivable	832,891	910,174
Deferred income taxes	5,238,914	4,319,928
	\$640,196,714	\$660,432,218

**LIABILITIES AND STOCKHOLDERS' EQUITY****LIABILITIES**

Deposits	\$511,889,458	\$500,014,715
Federal Home Loan Bank advances	52,950,000	68,050,000
Securities sold under agreements to repurchase	10,000,000	25,000,000
Subordinated debentures	15,465,000	15,465,000
Advances from borrowers for taxes and insurance	369,870	152,867
Accrued expenses and other liabilities	790,031	481,382
Accrued interest payable	270,904	399,684
	591,735,263	609,563,648

**COMMITMENTS AND CONTINGENCIES**

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**STOCKHOLDERS' EQUITY**

Capital Stock:

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Series A preferred stock, \$0.01 par value; authorized 2,000,000 shares; issued and outstanding June 30, 2013 and December 31, 2012 - 12,000 shares	11,886,533	11,789,276
Common stock, \$0.10 par value; authorized 10,000,000 shares; issued June 30, 2013 and December 31, 2012 - 6,783,603 and 6,781,803 shares, respectively	678,360	678,180
Common stock warrants; December 31, 2012 - 459,459 shares	-	1,377,811
Additional paid-in capital	57,587,799	58,267,529
Retained earnings, substantially restricted	41,447,428	39,324,292
Accumulated other comprehensive income (loss)		
Unrealized appreciation (depreciation) on available-for-sale securities, net of income taxes	(1,914,338 )	800,826
	109,685,782	112,237,914
Treasury stock, at cost; June 30, 2013 and December 31, 2012 - 4,051,172 and 4,056,862 shares, respectively	(61,224,331 )	(61,369,344 )
	48,461,451	50,868,570
	\$640,196,714	\$660,432,218

See Notes to  
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**GUARANTY FEDERAL BANCSHARES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012 (UNAUDITED)**

	Three months ended		Six months ended	
	6/30/2013	6/30/2012	6/30/2013	6/30/2012
<b>Interest Income</b>				
Loans	\$5,952,456	\$6,330,157	\$11,880,846	\$12,733,995
Investment securities	466,828	471,007	899,457	883,351
Other	47,736	45,195	106,138	94,935
	6,467,020	6,846,359	12,886,441	13,712,281
<b>Interest Expense</b>				
Deposits	731,420	1,045,994	1,492,594	2,188,790
Federal Home Loan Bank advances	307,869	383,985	676,544	767,719
Subordinated debentures	134,322	139,521	268,672	279,366
Other	107,742	162,750	271,697	346,525
	1,281,353	1,732,250	2,709,507	3,582,400
<b>Net Interest Income</b>	5,185,667	5,114,109	10,176,934	10,129,881
<b>Provision for Loan Losses</b>	250,000	2,100,000	650,000	3,000,000
<b>Net Interest Income After Provision for Loan Losses</b>	4,935,667	3,014,109	9,526,934	7,129,881
<b>Noninterest Income</b>				
Service charges	292,049	269,253	553,834	524,343
Gain on sale of investment securities	116,182	69,576	204,983	107,105
Gain on sale of loans	592,086	475,055	1,024,019	837,409
Gain on sale of state low-income housing tax credits	1,441,012	-	1,441,012	-
Loss on foreclosed assets	(75,758 )	(70,771 )	(148,103 )	(171,880 )
Other income	318,973	297,435	628,567	590,583
	2,684,544	1,040,548	3,704,312	1,887,560
<b>Noninterest Expense</b>				
Salaries and employee benefits	2,272,746	2,281,876	4,665,108	4,616,972
Occupancy	449,764	405,014	875,893	796,488
FDIC deposit insurance premiums	141,173	210,883	283,636	427,089
Prepayment penalty on securities sold under agreements to repurchase	1,510,000	-	1,510,000	-
Data processing	184,875	142,215	354,135	274,402
Advertising	106,251	75,000	212,502	150,000
Other expense	867,528	787,864	2,056,663	1,685,409
	5,532,337	3,902,852	9,957,937	7,950,360
<b>Income Before Income Taxes</b>	2,087,874	151,805	3,273,309	1,067,081
<b>Provision (Credit) for Income Taxes</b>	520,134	(192,316 )	752,916	(111,762 )
<b>Net Income</b>	1,567,740	344,121	2,520,393	1,178,843
<b>Preferred Stock Dividends and Discount Accretion</b>	198,630	397,910	397,260	679,301
<b>Net Income (Loss) Available to Common Shareholders</b>	\$1,369,110	\$(53,789 )	\$2,123,133	\$499,542
<b>Basic Income (Loss) Per Common Share</b>	\$0.50	\$(0.02 )	\$0.78	\$0.18
<b>Diluted Income (Loss) Per Common Share</b>	\$0.49	\$(0.02 )	\$0.76	\$0.17

See Notes to  
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**GUARANTY FEDERAL BANCSHARES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012 (UNAUDITED)**

	Three months ended		Six months ended	
	6/30/2013	6/30/2012	6/30/2013	6/30/2012
<b>NET INCOME</b>	\$1,567,740	\$344,121	\$2,520,393	\$1,178,843
<b>OTHER ITEMS OF COMPREHENSIVE INCOME (LOSS):</b>				
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes	(3,722,649)	292,740	(4,104,800)	344,726
Less: Reclassification adjustment for realized gains on investment securities included in net income, before income taxes	(116,182 )	(69,576 )	(204,983 )	(107,105 )
Total other items in comprehensive income (loss)	(3,838,831)	223,164	(4,309,783)	237,621
Income tax expense (credits) related to other items of comprehensive income	(1,420,367)	82,571	(1,594,619)	87,920
Other comprehensive income (loss)	(2,418,464)	140,593	(2,715,164)	149,701
<b>COMPREHENSIVE INCOME (LOSS)</b>	<b>\$(850,724 )</b>	<b>\$484,714</b>	<b>\$(194,771 )</b>	<b>\$1,328,544</b>

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**GUARANTY FEDERAL BANCSHARES, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**SIX MONTHS ENDED JUNE 30, 2013 (UNAUDITED)**

	Preferred Stock	Common Stock	Common Stock Warrants	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
<b>Balance, January 1, 2013</b>	\$11,789,276	\$678,180	\$1,377,811	\$58,267,529	\$-	\$(61,369,344)	\$39,324,292	\$800,826	\$50,000,000
Net income	-	-	-	-	-	-	2,520,393	-	2,520,393
Change in unrealized appreciation (depreciation) on available-for-sale securities, net of income taxes	-	-	-	-	-	-	-	(2,715,164)	(2,715,164)
Preferred stock discount accretion	97,257	-	-	-	-	-	(97,257)	-	-
Preferred stock dividends (5%)	-	-	-	-	-	-	(300,000)	-	(300,000)
Common stock warrants repurchased	-	-	(1,377,811)	(625,439)	-	-	-	-	(2,003,250)
Stock award plans	-	-	-	(63,520)	-	250,795	-	-	183,755
Stock options exercised	-	180	-	9,229	-	-	-	-	9,409
Treasury stock purchased	-	-	-	-	-	(105,782)	-	-	(105,782)
<b>Balance, June 30, 2013</b>	\$11,886,533	\$678,360	\$-	\$57,587,799	\$-	\$(61,224,331)	\$41,447,428	\$(1,914,338)	\$48,000,000

See Notes to  
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**GUARANTY FEDERAL BANCSHARES, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**SIX MONTHS ENDED JUNE 30, 2012 (UNAUDITED)**

	Preferred Stock	Common Stock	Common Stock Warrants	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumula Other Comprehe Income
<b>Balance, January 1, 2012</b>	\$16,425,912	\$677,980	\$1,377,811	\$58,333,614	\$(204,930)	\$(61,623,816)	\$38,456,991	\$791,285
Net income	-	-	-	-	-	-	1,178,843	-
Change in unrealized appreciation on available-for-sale securities, net of income taxes	-	-	-	-	-	-	-	149,701
Preferred stock redeemed	(5,000,000 )	-	-	-	-	-	-	-
Preferred stock discount accretion	266,107	-	-	-	-	-	(266,107 )	-
Preferred stock dividends (5%)	-	-	-	-	-	-	(413,194 )	-
Stock award plans	-	-	-	(100,532 )	-	280,208	-	-
Stock options exercised	-	200	-	12,188	-	-	-	-
Treasury stock purchased	-	-	-	-	-	(25,736 )	-	-
Release of ESOP shares	-	-	-	(26,787 )	114,000	-	-	-
<b>Balance, June 30, 2012</b>	\$11,692,019	\$678,180	\$1,377,811	\$58,218,483	\$(90,930 )	\$(61,369,344)	\$38,956,533	\$940,986

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**GUARANTY FEDERAL BANCSHARES, INC**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**SIX MONTHS ENDED JUNE 30, 2013 AND 2012 (UNAUDITED)**

	<b>6/30/2013</b>	<b>6/30/2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$2,520,393	\$1,178,843
Items not requiring (providing) cash:		
Deferred income taxes	675,633	(491,976 )
Depreciation	414,885	331,454
Provision for loan losses	650,000	3,000,000
Gain on sale of loans and investment securities	(1,229,002 )	(944,514 )
Loss on foreclosed assets held for sale	76,448	191,522
Gain on sale of state low-income housing tax credits	(1,441,012 )	-
Amortization of deferred income, premiums and discounts	274,385	319,991
Stock award plan expense	187,275	179,676
Origination of loans held for sale	(31,553,697)	(35,836,771)
Proceeds from sale of loans held for sale	34,000,714	37,661,818
Release of ESOP shares	-	87,213
Increase in cash surrender value of bank owned life insurance	(194,895 )	(181,776 )
Changes in:		
Prepaid FDIC deposit insurance premiums	1,438,636	407,862
Accrued interest receivable	51,533	(37,764 )
Prepaid expenses and other assets	295,071	350,888
Accounts payable and accrued expenses	179,869	(23,470 )
Income taxes receivable	77,283	469,829
Net cash provided by operating activities	6,423,519	6,662,825
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net change in loans	5,081,769	3,168,345
Principal payments on held-to-maturity securities	91,829	20,359
Principal payments on available-for-sale securities	6,345,815	6,369,983
Proceeds from calls/maturities of available-for-sale securities	9,000,000	1,000,000
Purchase of premises and equipment	(272,671 )	(313,496 )
Purchase of available-for-sale securities	(44,309,342)	(46,523,089)
Proceeds from sale of available-for-sale securities	17,311,228	17,369,774
Proceeds from maturities of interest-bearing deposits	-	5,587,654
Redemption of Federal Home Loan Bank stock	658,100	41,400
Purchase of bank owned life insurance	-	(2,500,000 )
Proceeds from sale of state low-income housing tax credits	1,441,012	-
Proceeds from sale of foreclosed assets held for sale	828,401	2,083,622
Net cash used in investing activities	(3,823,859 )	(13,695,448)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in demand deposits, NOW and savings accounts	25,921,950	14,689,686
Net decrease in certificates of deposit	(14,047,207)	(2,917,711 )
Net decrease of securities sold under agreements to repurchase	(15,000,000)	-
Repayments of FHLB advances	(15,100,000)	-
Stock options exercised	9,409	12,388
Redemption of preferred stock	-	(5,000,000 )

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Repurchase of common stock warrants	(2,003,250 )	-
Advances from borrowers for taxes and insurance	217,003	216,149
Cash dividends paid on preferred stock	(300,000 )	(444,444 )
Treasury stock purchased	(105,782 )	(25,736 )
Net cash provided by (used in) financing activities	(20,407,877)	6,530,332
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(17,808,217)</b>	<b>(502,291 )</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>41,663,405</b>	<b>26,574,082</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$23,855,188</b>	<b>\$26,071,791</b>

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## **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

### **Note 1: Basis of Presentation**

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Guaranty Federal Bancshares, Inc.'s (the "Company") 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC"). The results of operations for the periods are not necessarily indicative of the results to be expected for the full year. The condensed consolidated statement of financial condition of the Company as of December 31, 2012, has been derived from the audited consolidated statement of financial condition of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted.

### **Note 2: Principles of Consolidation**

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Guaranty Bank (the "Bank"). All significant intercompany transactions and balances have been eliminated in consolidation.

### **Note 3: Securities**

The amortized cost and approximate fair values of securities classified as available-for-sale are as follows:

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
<b>As of June 30, 2013</b>				
Equity Securities	\$ 102,212	\$ 5,612	\$(21,145 )	\$ 86,679
Debt Securities:				
U. S. government agencies	41,972,014	3,943	(1,237,109)	40,738,848
Municipals	13,433,828	29,088	(581,823 )	12,881,093
Corporate bonds	988,754	-	(10,650 )	978,104
Government sponsored mortgage-backed securities	55,802,016	575,816	(1,802,363)	54,575,469
	\$ 112,298,824	\$ 614,459	\$(3,653,090)	\$ 109,260,193

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
<b>As of December 31, 2012</b>				
Equity Securities	\$102,212	\$306	\$(31,604)	\$70,914
Debt Securities:				
U. S. government agencies	38,188,554	202,213	(39,706)	38,351,061
Municipals	10,212,376	250,269	(84,456)	10,378,189
Corporate bonds	1,839,976	67,889	-	1,907,865
Government sponsored mortgage-backed securities	50,366,374	1,304,242	(398,001)	51,272,615
	\$100,709,492	\$1,824,919	\$(553,767)	\$101,980,644

Maturities of available-for-sale debt securities as of June 30, 2013:

**Maturities of Available for Sale**

	Amortized Cost	Approximate Fair Value
1-5 years	\$11,295,468	\$11,204,750
6-10 years	36,335,467	35,033,504
Over 10 years	8,763,660	8,359,790
Government sponsored mortgage-backed securities not due on a single maturity date	55,802,016	54,575,469
	\$112,196,612	\$109,173,514

The amortized cost and approximate fair values of securities classified as held to maturity are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
<b>As of June 30, 2013</b>				
Debt Securities:				
Government sponsored mortgage-backed securities	\$89,213	\$5,009	\$-	\$94,222

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
<b>As of December 31, 2012</b>				
Debt Securities:				
Government sponsored mortgage-backed securities	\$181,042	\$12,440	\$-	\$193,482





Maturities of held-to-maturity securities as of June 30, 2013:

	Amortized Cost	Approximate Fair Value
Government sponsored mortgage-backed securities not due on a single maturity date	\$ 89,213	\$ 94,222
	\$ 89,213	\$ 94,222

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$48,874,594 and \$56,022,882 as of June 30, 2013 and December 31, 2012, respectively. The approximate fair value of pledged securities amounted to \$47,753,328 and \$57,384,685 as of June 30, 2013 and December 31, 2012, respectively.

Realized gains and losses are recorded as net securities gains. Gains on sales of securities are determined on the specific identification method. Gross gains of \$204,983 and \$107,105 as of June 30, 2013 and June 30, 2012, respectively, were realized from the sale of available-for-sale securities. The tax effect of these net gains was \$75,844 and \$39,629 as of June 30, 2013 and June 30, 2012, respectively.

The Company evaluates all securities quarterly to determine if any unrealized losses are deemed to be other than temporary. Certain investment securities are valued at less than their historical cost. These declines are primarily the result of the rate for these investments yielding less than current market rates, or declines in stock prices of equity securities. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. It is management's intent to hold the debt securities to maturity or until recovery of the unrealized loss. Should the impairment of any of these debt securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified, to the extent the loss is related to credit issues, and to other comprehensive income to the extent the decline on debt securities is related to other factors and the Company does not intend to sell the security prior to recovery of the unrealized loss.

Certain other investments in debt and equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at June 30, 2013 and December 31, 2012, was \$90,687,341 and \$30,121,495, respectively, which is approximately 83% and 29% of the Company's investment portfolio. These declines primarily resulted from changes in market interest rates and failure of certain investments to meet projected earnings targets.



The following tables show gross unrealized losses and approximate fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2013 and December 31, 2012.

June 30, 2013						
Description of Securities	Less than 12 Months		12 Months or More		Total	
	Approximate	Unrealized	Approximate	Unrealized	Approximate	Unrealized
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Equity Securities	\$-	\$-	\$26,782	\$(21,145 )	\$26,782	\$(21,145 )
U. S. government agencies	38,987,008	(1,237,109)	-	-	38,987,008	(1,237,109)
Municipals	9,804,768	(554,210 )	525,051	(27,613 )	10,329,819	(581,823 )
Corporate Bonds	978,104	(10,650 )	-	-	978,104	(10,650 )
Government sponsored mortgage-backed securities	40,365,628	(1,802,363)	-	-	40,365,628	(1,802,363)
	\$90,135,508	\$(3,604,332)	\$551,833	\$(48,758 )	\$90,687,341	\$(3,653,090)

December 31, 2012						
Description of Securities	Less than 12 Months		12 Months or More		Total	
	Approximate	Unrealized	Approximate	Unrealized	Approximate	Unrealized
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Equity Securities	\$-	\$-	\$39,930	\$(31,604 )	\$39,930	\$(31,604 )
U. S. government agencies	7,298,687	(39,706 )	-	-	7,298,687	(39,706 )
Municipals	2,648,047	(76,318 )	538,300	(8,138 )	3,186,347	(84,456 )
Government sponsored mortgage-backed securities	19,596,531	(398,001 )	-	-	19,596,531	(398,001 )
	\$29,543,265	\$(514,025 )	\$578,230	\$(39,742 )	\$30,121,495	\$(553,767 )

**Note 4: Loans and Allowance for Loan Losses**

Categories of loans at June 30, 2013 and December 31, 2012 include:

	June 30, 2013	December 31, 2012
Real estate - residential mortgage:		
One to four family units	\$97,605,398	\$99,381,934
Multi-family	47,461,634	46,405,034
Real estate - construction	46,279,543	48,917,296
Real estate - commercial	163,708,672	167,760,850
Commercial loans	96,034,123	95,226,762
Consumer and other loans	17,077,653	16,716,858
Total loans	468,167,023	474,408,734
Less:		
Allowance for loan losses	(8,377,284 )	(8,740,325 )
Deferred loan fees/costs, net	(142,871 )	(136,436 )
Net loans	\$459,646,868	\$465,531,973

Classes of loans by aging at June 30, 2013 and December 31, 2012 were as follows:

**As of June 30, 2013**

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
<i>(In Thousands)</i>							
Real estate - residential mortgage:							
One to four family units	\$77	\$490	\$364	\$931	\$96,674	\$97,605	\$ -
Multi-family	-	-	-	-	47,462	47,462	-
Real estate - construction	549	-	216	765	45,514	46,279	-
Real estate - commercial	4,570	-	-	4,570	159,139	163,709	-
Commercial loans	7	-	2,084	2,091	93,943	96,034	-
Consumer and other loans	16	-	-	16	17,062	17,078	-
Total	\$5,219	\$490	\$2,664	\$8,373	\$459,794	\$468,167	\$ -

## As of December 31, 2012

	30-59 Days	60-89 Days	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
<i>(In Thousands)</i>							
Real estate - residential mortgage:							
One to four family units	\$52	\$4	\$-	\$56	\$99,326	\$99,382	\$ -
Multi-family	-	-	-	-	46,405	46,405	-
Real estate - construction	22	28	640	690	48,227	48,917	-
Real estate - commercial	-	352	-	352	167,409	167,761	-
Commercial loans	10	610	785	1,405	93,822	95,227	-
Consumer and other loans	57	-	-	57	16,660	16,717	-
Total	\$141	\$994	\$1,425	\$2,560	\$471,849	\$474,409	\$ -

Nonaccruing loans are summarized as follows:

	June 30, 2013	December 31, 2012
Real estate - residential mortgage:		
One to four family units	\$2,416,321	\$2,280,856
Multi-family	-	-
Real estate - construction	5,933,059	6,274,241
Real estate - commercial	3,381,121	3,663,771
Commercial loans	3,835,206	2,793,457
Consumer and other loans	285,636	318,963
Total	\$15,851,343	\$15,331,288

The following tables present the activity in the allowance for loan losses based on portfolio segment for the three months and six months ended June 30, 2013 and 2012:

<b>Three months ended</b>	Consumer							Total
	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	and Other	Unallocated	
<b>June 30, 2013</b>								
<b>Allowance for loan losses:</b>	<i>(In Thousands)</i>							
Balance, beginning of period	\$2,253	\$ 1,911	\$1,234	\$ 285	\$ 1,460	\$ 275	\$ 694	\$8,112
Provision charged to expense	(282 )	115	66	6	542	(3 )	(194 )	\$250
Losses charged off	-	-	(74 )	-	-	(20 )	-	\$(94 )
Recoveries	28	-	3	-	63	15	-	\$109
Balance, end of period	\$1,999	\$ 2,026	\$1,229	\$ 291	\$ 2,065	\$ 267	\$ 500	\$8,377

<b>Six months ended</b>	Consumer							Total
	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	and Other	Unallocated	
<b>June 30, 2013</b>								
<b>Allowance for loan losses:</b>	<i>(In Thousands)</i>							
Balance, beginning of period	\$2,525	\$ 2,517	\$1,316	\$ 284	\$ 1,689	\$ 255	\$ 154	\$8,740
Provision charged to expense	(126 )	(305 )	40	7	651	37	346	\$650
Losses charged off	(438 )	(186 )	(134 )	-	(373 )	(53 )	-	\$(1,184)
Recoveries	38	-	7	-	98	28	-	\$171

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Balance, end of period      \$1,999    \$ 2,026      \$1,229    \$ 291      \$ 2,065      \$ 267      \$ 500      \$8,377

<b>Three months ended</b>			Commercial	One to			Consumer		
<b>June 30, 2012</b>	Construction	Real Estate	Real Estate	four family	Multi-family	Commercial	and Other	Unallocated	Total
<b>Allowance for loan losses:</b>	<i>(In Thousands)</i>								
Balance, beginning of period	\$3,239	\$ 2,620	\$1,606	\$ 389	\$ 1,816	\$ 387	\$ 917	\$10,974	
Provision charged to expense	(877 )	1,736	(34 )	26	2,156	(25 )	(882 )	\$2,100	
Losses charged off	-	-	-	-	(20 )	(15 )	-	\$(35 )	
Recoveries	6	24	2	-	45	10	-	\$87	
Balance, end of period	\$2,368	\$ 4,380	\$1,574	\$ 415	\$ 3,997	\$ 357	\$ 35	\$13,126	



<b>Six months ended</b>	Commercial		One to	Multi-family	Commercial	Consumer	Unallocated	Total
<b>June 30, 2012</b>	Construction	Real Estate	four family			and Other		
<b>Allowance for loan losses:</b>	<i>(In Thousands)</i>							
Balance, beginning of period	\$2,508	\$ 2,725	\$1,735	\$ 390	\$ 1,948	\$ 372	\$ 935	\$10,613
Provision charged to expense	(156 )	2,095	(58 )	25	1,993	1	(900 )	\$3,000
Losses charged off	-	(478 )	(108 )	-	(20 )	(34 )	-	\$(640 )
Recoveries	16	38	5	-	76	18	-	\$153
Balance, end of period	\$2,368	\$ 4,380	\$1,574	\$ 415	\$ 3,997	\$ 357	\$ 35	\$13,126

The following tables present the recorded investment in loans based on portfolio segment and impairment method as of June 30, 2013 and December 31, 2012:

<b>As of June 30, 2013</b>	Commercial		One to	Multi-family	Commercial	Consumer	Unallocated	Total
<b>Allowance for loan losses:</b>	Construction	Real Estate	four family			and Other		
<b>Ending balance:</b>	<i>(In Thousands)</i>							
individually evaluated for impairment	\$152	\$-	\$5	\$-	\$ 894	\$ 48	\$-	\$1,099
collectively evaluated for impairment	\$1,847	\$ 2,026	\$1,224	\$ 291	\$ 1,171	\$ 219	\$ 500	\$7,278
<b>Loans:</b>								
<b>Ending balance:</b>								
individually evaluated for impairment	\$5,934	\$ 5,127	\$2,480	\$-	\$ 3,835	\$ 400	\$-	\$17,776
collectively evaluated for impairment	\$40,345	\$ 158,582	\$95,125	\$ 47,462	\$ 92,199	\$ 16,678	\$-	\$450,391

<b>December 31, 2012</b>	Commercial		One to	Multi-family	Commercial	Consumer	Unallocated	Total
<b>Allowance for loan losses:</b>	Construction	Real Estate	four family			and Other		
<b>Ending balance:</b>	<i>(In Thousands)</i>							
individually evaluated for	\$608	\$ 180	\$90	\$-	\$ 441	\$ 48	\$-	\$1,367

impairment

Ending balance:

collectively evaluated for	\$2,087	\$2,167	\$1,226	\$284	\$1,248	\$207	\$154	\$7,373
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impairment

**Loans:**

Ending balance:

individually evaluated for	\$6,275	\$5,673	\$2,360	\$-	\$2,555	\$414	\$-	\$17,277
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impairment

Ending balance:

collectively evaluated for	\$42,642	\$162,088	\$97,022	\$46,405	\$92,672	\$16,303	\$-	\$457,132
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impairment

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility 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 collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Bank's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

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

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

The following table summarizes the recorded investment in impaired loans at June 30, 2013 and December 31, 2012:

	June 30, 2013			December 31, 2012		
	Recorded Unpaid Principal Balance	Specific Allowance		Recorded Unpaid Principal Balance	Specific Allowance	
<i>(In Thousands)</i>						
<b>Loans without a specific valuation allowance</b>						
Real estate - residential mortgage:						
One to four family units	\$2,234	\$ 2,394	\$ -	\$2,245	\$ 2,271	\$ -
Multi-family	-	-	-	-	-	-
Real estate - construction	5,464	6,409	-	5,015	5,575	-
Real estate - commercial	5,127	5,452	-	2,430	2,755	-
Commercial loans	1,493	1,796	-	318	689	-

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Consumer and other loans	118	118	-	103	103	-
<b>Loans with a specific valuation allowance</b>						
Real estate - residential mortgage:						
One to four family units	\$246	\$ 246	\$ 5	\$115	\$ 130	\$ 90