GUARANTY FEDERAL BANCSHARES INC
Form 10-Q
November 07, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

(Mark One) [X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 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** | **43-1792717** |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |
| **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.

| Class | Outstanding as of November 1, 2013 |
|---|---|
| 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**

**SEPTEMBER 30, 2013 (UNAUDITED) AND DECEMBER 31, 2012**

| **ASSETS** | **9/30/13** | **12/31/12** |
|---|---|---|
| Cash | $8,150,691 | $3,360,102 |
| Interest-bearing deposits in other financial institutions | 21,926,683 | 38,303,303 |
| Cash and cash equivalents | 30,077,374 | 41,663,405 |
| Available-for-sale securities | 105,870,922 | 101,980,644 |
| Held-to-maturity securities | 84,188 | 181,042 |
| Stock in Federal Home Loan Bank, at cost | 2,909,100 | 3,805,500 |
| Mortgage loans held for sale | 1,108,314 | 2,843,757 |
| Loans receivable, net of allowance for loan losses of September 30, 2013 - $8,472,838 - December 31, 2012 - $8,740,325 | 458,486,044 | 465,531,973 |
| Accrued interest receivable: | | |
| Loans | 1,500,552 | 1,674,814 |
| Investments and interest-bearing deposits | 321,150 | 380,555 |
| Prepaid expenses and other assets | 5,652,181 | 6,228,173 |
| Prepaid FDIC deposit insurance premiums | - | 1,438,636 |
| Foreclosed assets held for sale | 3,875,903 | 4,529,727 |
| Premises and equipment, net | 11,010,376 | 11,286,410 |
| Bank owned life insurance | 13,949,946 | 13,657,480 |
| Income taxes receivable | 521,565 | 910,174 |
| Deferred income taxes | 5,135,420 | 4,319,928 |
| | $640,503,035 | $660,432,218 |

**LIABILITIES AND STOCKHOLDERS' EQUITY**

| **LIABILITIES** | | |
|---|---|---|
| Deposits | $510,723,980 | $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 | 482,746 | 152,867 |
| Accrued expenses and other liabilities | 954,644 | 481,382 |
| Accrued interest payable | 262,892 | 399,684 |
| | 590,839,262 | 609,563,648 |

| | | |
|---|---|---|
| **COMMITMENTS AND CONTINGENCIES** | - | - |
| | | |
| **STOCKHOLDERS' EQUITY** | | |
| Capital Stock: | | |
| Series A preferred stock, $0.01 par value; authorized 2,000,000 shares; issued and outstanding at September 30, 2013 and December 31, 2012 - 12,000 shares | 11,935,162 | 11,789,276 |
| Common stock, $0.10 par value; authorized 10,000,000 shares; issued September 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 | 57,619,722 | 58,267,529 |
| Retained earnings, substantially restricted | 42,594,785 | 39,324,292 |
| Accumulated other comprehensive income (loss) | | |
| Unrealized appreciation (depreciation) on available-for-sale securities, net of income taxes | (1,939,925 ) | 800,826 |
| | 110,888,104 | 112,237,914 |
| Treasury stock, at cost; September 30, 2013 and December 31, 2012 - 4,051,172 and 4,056,862 shares, respectively | (61,224,331 ) | (61,369,344 ) |
| | 49,663,773 | 50,868,570 |
| | $640,503,035 | $660,432,218 |

See Notes to Condensed Consolidated Financial Statements

**GUARANTY FEDERAL BANCSHARES, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012 (UNAUDITED)**

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | 9/30/2013 | 9/30/2012 | 9/30/2013 | 9/30/2012 |
| **Interest Income** | | | | |
| Loans | $5,866,225 | $6,385,397 | $17,747,071 | $19,119,392 |
| Investment securities | 452,645 | 421,453 | 1,352,102 | 1,304,804 |
| Other | 31,025 | 39,654 | 137,163 | 134,589 |
| | 6,349,895 | 6,846,504 | 19,236,336 | 20,558,785 |
| **Interest Expense** | | | | |
| Deposits | 717,324 | 1,006,771 | 2,209,918 | 3,195,561 |
| Federal Home Loan Bank advances | 311,210 | 388,323 | 987,754 | 1,156,042 |
| Subordinated debentures | 134,474 | 139,313 | 403,146 | 418,679 |
| Other | 66,700 | 168,777 | 338,397 | 515,302 |
| | 1,229,708 | 1,703,184 | 3,939,215 | 5,285,584 |
| **Net Interest Income** | 5,120,187 | 5,143,320 | 15,297,121 | 15,273,201 |
| **Provision for Loan Losses** | 200,000 | 2,600,000 | 850,000 | 5,600,000 |
| **Net Interest Income After Provision for Loan Losses** | 4,920,187 | 2,543,320 | 14,447,121 | 9,673,201 |
| **Noninterest Income** | | | | |
| Service charges | 299,708 | 292,221 | 853,542 | 816,564 |
| Gain on sale of investment securities | 14,149 | 30,610 | 219,132 | 137,715 |
| Gain on sale of loans | 262,210 | 506,593 | 1,286,229 | 1,344,002 |
| Gain on sale of state low-income housing tax credits | - | 281,561 | 1,441,012 | 281,561 |
| Loss on foreclosed assets held for sale | (27,643) | (1,033,421) | (175,746) | (1,205,301) |
| Other income | 327,674 | 298,899 | 956,241 | 889,482 |
| | 876,098 | 376,463 | 4,580,410 | 2,264,023 |
| **Noninterest Expense** | | | | |
| Salaries and employee benefits | 2,257,469 | 2,336,622 | 6,922,577 | 6,953,594 |
| Occupancy | 437,879 | 416,432 | 1,313,772 | 1,212,920 |
| FDIC deposit insurance premiums | 141,089 | 119,400 | 424,725 | 546,489 |
| Prepayment penalty on securities sold under agreements to repurchase | - | - | 1,510,000 | - |
| Data processing | 164,719 | 141,714 | 518,854 | 416,116 |
| Advertising | 106,251 | 75,000 | 318,753 | 225,000 |
| Other expense | 903,045 | 1,013,811 | 2,959,708 | 2,699,220 |
| | 4,010,452 | 4,102,979 | 13,968,389 | 12,053,339 |
| **Income (Loss) Before Income Taxes** | 1,785,833 | (1,183,196) | 5,059,142 | (116,115) |
| **Provision (Credit) for Income Taxes** | 439,847 | (466,108) | 1,192,763 | (577,870) |
| **Net Income (Loss)** | 1,345,986 | (717,088) | 3,866,379 | 461,755 |
| **Preferred Stock Dividends and Discount Accretion** | 198,630 | 198,630 | 595,890 | 877,931 |
| **Net Income (Loss) Available to Common Shareholders** | $1,147,356 | $(915,718) | $3,270,489 | $(416,176) |

| | | | | |
|---|---|---|---|---|
| **Basic Income (Loss) Per Common Share** | $0.42 | $(0.34) | $1.20 | $(0.15) |
| **Diluted Income (Loss) Per Common Share** | $0.41 | $(0.34) | $1.16 | $(0.15) |

See Notes to Condensed Consolidated Financial Statements

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**GUARANTY FEDERAL BANCSHARES, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012 (UNAUDITED)**

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | 9/30/2013 | 9/30/2012 | 9/30/2013 | 9/30/2012 |
| **NET INCOME (LOSS)** | $1,345,986 | $(717,088) | $3,866,379 | $461,755 |
| **OTHER ITEMS OF COMPREHENSIVE INCOME (LOSS):** | | | | |
| Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes | (26,465) | 621,689 | (4,131,266) | 966,415 |
| Less: Reclassification adjustment for realized gains on investment securities included in net income, before income taxes | (14,149) | (30,610) | (219,132) | (137,715) |
| Total other items in comprehensive income (loss) | (40,614) | 591,079 | (4,350,398) | 828,700 |
| Income tax expense (credit) related to other items of comprehensive income | (15,027) | 218,699 | (1,609,647) | 306,619 |
| Other comprehensive income (loss) | (25,587) | 372,380 | (2,740,751) | 522,081 |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | $1,320,399 | $(344,708) | $1,125,628 | $983,836 |

See Notes to Condensed Consolidated Financial Statements

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**GUARANTY FEDERAL BANCSHARES, INC.**

**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

**NINE MONTHS ENDED SEPTEMBER 30, 2013 (UNAUDITED)**

| | Preferred Stock | Common Stock | Common Stock Warrants | Additional Paid- In Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Income (loss) | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance, January 1, 2013** | $11,789,276 | $678,180 | $1,377,811 | $58,267,529 | $(61,369,344) | $39,324,292 | $800,826 | $50,86 |
| Net income | - | - | - | - | - | 3,866,379 | - | 3,866, |
| Change in unrealized appreciation depreciation) on available-for-sale securities, netof income taxes | - | - | - | - | - | - | (2,740,751) | (2,740 |
| Preferred stock discount accretion | 145,886 | - | - | - | - | (145,886) | - | - |
| Preferred stock dividends (5%) | - | - | - | - | - | (450,000) | - | (450,0 |
| Common stock warrants repurchased | - | - | (1,377,811) | (625,439) | - | - | - | (2,003 |
| Stock award plans | - | - | - | (31,597) | 250,795 | - | - | 219,1 |
| Stock options exercised | - | 180 | - | 9,229 | - | - | - | 9,409 |
| Treasury stock purchased | - | - | - | - | (105,782) | - | - | (105,7 |
| **Balance, September 30, 2013** | $11,935,162 | $678,360 | $- | $57,619,722 | $(61,224,331) | $42,594,785 | $(1,939,925) | $49,66 |

See Notes to Condensed Consolidated Financial Statements

**GUARANTY FEDERAL BANCSHARES, INC.**

**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

**NINE MONTHS ENDED SEPTEMBER 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 |
|---|---|---|---|---|---|---|---|---|
| **Balance, January 1, 2012** | $16,425,912 | $677,980 | $1,377,811 | $58,333,614 | $(204,930) | $(61,623,816) | $38,456,991 | $791,285 |
| Net income | - | - | - | - | - | - | 461,755 | - |
| Change in unrealized appreciation on available-for-sale securities, net of income taxes | - | - | - | - | - | - | - | 522,081 |
| Preferred stock redeemed | (5,000,000 ) | - | - | - | - | - | - | - |
| Preferred stock discount accretion | 314,735 | - | - | - | - | - | (314,735 ) | - |
| Preferred stock dividends (5%) | - | - | - | - | - | - | (563,195 ) | - |
| Stock award plans | - | - | - | (60,476 ) | - | 280,208 | - | - |
| Stock options exercised | - | 200 | - | 12,188 | - | - | - | - |
| Treasury stock purchased | - | - | - | - | - | (25,736 ) | - | - |
| Release of ESOP shares | - | - | - | (41,787 ) | 171,000 | - | - | - |
| **Balance, September 30, 2012** | $11,740,647 | $678,180 | $1,377,811 | $58,243,539 | $(33,930 ) | $(61,369,344) | $38,040,816 | $1,313,36 |

See Notes to Condensed Consolidated Financial Statements

**GUARANTY FEDERAL BANCSHARES, INC**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012 (UNAUDITED)**

| | **9/30/2013** | **9/30/2012** |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | $3,866,379 | $461,755 |
| Items not requiring (providing) cash: | | |
| Deferred income taxes | 794,155 | (86,811) |
| Depreciation | 619,530 | 537,986 |
| Provision for loan losses | 850,000 | 5,600,000 |
| Gain on loans and investment securities | (1,505,361) | (1,481,717) |
| Loss on sale of foreclosed assets held for sale | 80,957 | 1,211,718 |
| Gain on sale of state low-income housing tax credits | (1,441,012) | (281,561) |
| Amortization of deferred income, premiums and discounts | 480,426 | 470,945 |
| Stock award plan expense | 219,199 | 219,732 |
| Origination of loans held for sale | (44,234,389) | (57,474,261) |
| Proceeds from sale of loans held for sale | 47,131,305 | 58,155,072 |
| Release of ESOP shares | - | 129,213 |
| Increase in cash surrender value of bank owned life insurance | (292,466) | (285,142) |
| Changes in: | | |
| Prepaid FDIC deposit insurance premiums | 1,438,636 | 517,612 |
| Accrued interest receivable | 233,667 | 70,853 |
| Prepaid expenses and other assets | 575,992 | 584,054 |
| Accounts payable and accrued expenses | 336,470 | 247,274 |
| Income taxes receivable | 388,609 | (596,444) |
| Net cash provided by operating activities | 9,542,097 | 8,000,278 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Net change in loans | 5,968,759 | 11,126,480 |
| Principal payments on held-to-maturity securities | 96,854 | 29,293 |
| Principal payments on available-for-sale securities | 8,840,250 | 10,607,814 |
| Proceeds from maturities of available-for-sale securities | 9,000,000 | 1,000,000 |
| Purchase of premises and equipment | (343,496) | (471,155) |
| Purchase of available-for-sale securities | (50,890,798) | (53,279,303) |
| Proceeds from sale of available-for-sale securities | 24,628,847 | 24,808,516 |
| Proceeds from maturities of interest-bearing deposits | - | 5,587,654 |
| Redemption of Federal Home Loan Bank stock | 896,400 | 41,400 |
| Purchase of bank owned life insurance | - | (2,500,000) |
| Proceeds on sale of state low-income housing tax credits | 1,441,012 | 281,561 |
| Proceeds from sale of foreclosed assets held for sale | 844,524 | 3,337,207 |
| Net cash provided by investing activities | 482,352 | 569,467 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Net increase in demand deposits, NOW and savings accounts | 29,026,691 | 10,680,780 |
| Net decrease in certificates of deposit | (18,317,426) | (1,887,125) |

| | | |
|---|---|---|
| Net decrease of securities sold under agreements to repurchase | (15,000,000) | - |
| Repayments of FHLB advances | (15,100,000) | - |
| Stock options exercised | 9,408 | 12,388 |
| Repayment of preferred stock | - | (5,000,000) |
| Repurchase of common stock warrants | (2,003,250) | - |
| Advances from borrowers for taxes and insurance | 329,879 | 312,074 |
| Cash dividends paid on preferred stock | (450,000) | (594,445) |
| Treasury stock purchased | (105,782) | (25,736) |
| Net cash provided by (used in) financing activities | (21,610,480) | 3,497,936 |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | (11,586,031) | 12,067,681 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | 41,663,405 | 26,574,082 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | $30,077,374 | $38,641,763 |

See Notes to Condensed Consolidated Financial Statements

**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:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Approximate Fair Value |
|---|---|---|---|---|
| **As of September 30, 2013** | | | | |
| Equity Securities | $102,212 | $6,640 | $(21,207) | $87,645 |
| Debt Securities: | | | | |
| U. S. government agencies | 38,811,258 | 6,082 | (1,238,748) | 37,578,592 |
| Municipals | 13,908,184 | 21,746 | (570,508) | 13,359,422 |
| Corporates | 989,707 | - | (4,680) | 985,027 |
| Government sponsored mortgage-backed securities | 55,138,807 | 446,536 | (1,725,107) | 53,860,236 |
| | $108,950,168 | $481,004 | $(3,560,250) | $105,870,922 |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Approximate Fair Value |
|---|---|---|---|---|
| **As of December 31, 2012** | | | | |
| 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 |
| Corporates | 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 September 30, 2013:

| | Amortized Cost | Approximate Fair Value |
|---|---|---|
| 1-5 years | $14,794,810 | $14,626,622 |
| 6-10 years | 30,073,248 | 28,849,588 |
| Over 10 years | 8,841,091 | 8,446,831 |
| Government sponsored mortgage-backed securities not due on a single maturity date | 55,138,807 | 53,860,236 |
| | $108,847,956 | $105,783,277 |

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 |
|---|---|---|---|---|
| **As of September 30, 2013** | | | | |
| Debt Securities: | | | | |
| Government sponsored mortgage-backed securities | $ 84,188 | $ 3,875 | $ - | $ 88,063 |

| | | | |
|---|---|---|---|
| $ 84,188 | $ 3,875 | $ - | $ 88,063 |

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

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

| | Amortized Cost | Approximate Fair Value |
|---|---|---|
| Government sponsored mortgage-backed securities not due on a single maturity date | $ 84,188 | $ 88,063 |
| | $ 84,188 | $ 88,063 |

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to $49,095,490 and $56,022,882 as of September 30, 2013 and December 31, 2012, respectively. The approximate fair value of pledged securities amounted to $47,751,211 and $57,384,685 as of September 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 $219,132 and $137,715 as of September 30, 2013 and September 30, 2012, respectively, were realized from the sale of available-for-sale securities. The tax effect of these net gains was $81,079 and $50,955 as of September 30, 2013 and September 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 September 30, 2013 and December 31, 2012, was $86,897,001 and $30,121,495, respectively, which is approximately 82% 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 September 30, 2013 and December 31, 2012.

| | September 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or More | | Total | |
| Description of Securities | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Equity Securities | $- | $- | $26,720 | $(21,207) | $26,720 | $(21,207) |
| U. S. government agencies | 35,825,183 | (1,238,747) | - | - | 35,825,183 | (1,238,747) |
| Municipals | 10,303,846 | (536,812) | 516,704 | (33,696) | 10,820,550 | (570,508) |
| Corporates | 985,026 | (4,680) | - | - | 985,026 | (4,680) |
| Government sponsored mortgage-backed securities | 32,685,494 | (1,470,320) | 6,554,028 | (254,788) | 39,239,522 | (1,725,108) |
| | $79,799,549 | $(3,250,559) | $7,097,452 | $(309,691) | $86,897,001 | $(3,560,250) |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or More | | Total | |
| Description of Securities | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized 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 September 30, 2013 and December 31, 2012 include:

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| Real estate - residential mortgage: | | |
| One to four family units | $93,413,523 | $99,381,934 |
| Multi-family | 48,680,101 | 46,405,034 |
| Real estate - construction | 39,385,606 | 48,917,296 |
| Real estate - commercial | 171,855,505 | 167,760,850 |
| Commercial loans | 96,993,237 | 95,226,762 |
| Consumer and other loans | 16,847,615 | 16,716,858 |
| Total loans | 467,175,587 | 474,408,734 |
| Less: | | |
| Allowance for loan losses | (8,472,838 ) | (8,740,325 ) |
| Deferred loan fees/costs, net | (216,705 ) | (136,436 ) |
| Net loans | $458,486,044 | $465,531,973 |

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

**As of September 30, 2013**

| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or Greater | Total Past Due | Current | Total Loans Receivable | Total Loans > 90 Days and Accruing |
|---|---|---|---|---|---|---|---|
| | *(In Thousands)* | | | | | | |
| Real estate - residential mortgage: | | | | | | | |
| One to four family units | $- | $ 59 | $ 454 | $ 513 | $ 92,901 | $ 93,414 | $ - |
| Multi-family | - | - | - | - | 48,680 | 48,680 | - |
| Real estate - construction | 578 | - | - | 578 | 38,808 | 39,386 | - |
| Real estate - commercial | 4,320 | - | - | 4,320 | 167,535 | 171,855 | - |
| Commercial loans | - | 20 | 2,072 | 2,092 | 94,901 | 96,993 | - |
| Consumer and other loans | 116 | 13 | - | 129 | 16,719 | 16,848 | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total | $5,014 | $ 92 | $ 2,526 | $7,632 | $459,544 | $ 467,176 | $ - |

**As of December 31, 2012**

| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or Greater | Total Past Due | Current | Total Loans Receivable | Total Loans > 90 Days and Accruing |
|---|---|---|---|---|---|---|---|
| | *(In Thousands)* | | | | | | |
| 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:

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| Real estate - residential mortgage: | | |
| One to four family units | $2,392,537 | $2,280,856 |
| Multi-family | - | - |
| Real estate - construction | 5,473,379 | 6,274,241 |
| Real estate - commercial | 5,253,511 | 3,663,771 |
| Commercial loans | 5,229,846 | 2,793,457 |
| Consumer and other loans | 293,722 | 318,963 |
| Total | $18,642,995 | $15,331,288 |

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

| **Three months ended September 30, 2013** | Construction | Commercial Real Estate | One to four family | Multi-family | Commercial | Consumer and Other | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| **Allowance for loan losses:** | *(In Thousands)* | | | | | | | |
| Balance, beginning of period | $1,999 | $ 2,026 | $1,229 | $ 291 | $ 2,065 | $ 267 | $ 500 | $8,377 |
| Provision charged to expense | 571 | (24 ) | (178 ) | (71 ) | (189 ) | (52 ) | 143 | $200 |
| Losses charged off | (117 ) | - | (6 ) | - | - | (17 ) | - | $(140 ) |
| Recoveries | 5 | - | 5 | - | 8 | 18 | - | $36 |
| Balance, end of period | $2,458 | $ 2,002 | $1,050 | $ 220 | $ 1,884 | $ 216 | $ 643 | $8,473 |

| **Nine months ended September 30, 2013** | Construction | Commercial Real Estate | One to four family | Multi-family | Commercial | Consumer and Other | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| **Allowance for loan losses:** | *(In Thousands)* | | | | | | | |
| Balance, beginning of period | $2,525 | $ 2,517 | $1,316 | $ 284 | $ 1,689 | $ 255 | $ 154 | $8,740 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Provision charged to expense | 445 | (329 ) | (138 ) | (64 ) | 462 | (15 ) | 489 | $850 |
| Losses charged off | (555 ) | (186 ) | (140 ) | - | (373 ) | (70 ) | - | $(1,324) |
| Recoveries | 43 | - | 12 | - | 106 | 46 | - | $207 |
| Balance, end of period | $2,458 | $ 2,002 | $1,050 | $ 220 | $ 1,884 | $ 216 | $ 643 | $8,473 |

| **Three months ended September 30, 2012** | Construction | Commercial Real Estate | One to four family | Multi-family | Commercial | Consumer and Other | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| **Allowance for loan losses:** | *(In Thousands)* | | | | | | | |
| Balance, beginning of period | $2,368 | $ 4,380 | $1,574 | $ 415 | $ 3,997 | $ 357 | $ 35 | $13,126 |
| Provision charged to expense | 732 | (1,403 ) | (251 ) | (136 ) | 2,901 | (59 ) | 816 | $2,600 |
| Losses charged off | (1,295) | (507 ) | (22 ) | - | (5,518 ) | (15 ) | - | $(7,357 ) |
| Recoveries | - | 28 | 11 | - | 58 | 10 | - | $107 |
| Balance, end of period | $1,805 | $ 2,498 | $1,312 | $ 279 | $ 1,438 | $ 293 | $ 851 | $8,476 |

| **Nine months ended September 30, 2012** | Construction | Commercial Real Estate | One to four family | Multi-family | Commercial | Consumer and Other | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| **Allowance for loan losses:** | *(In Thousands)* | | | | | | | |
| Balance, beginning of period | $2,508 | $ 2,725 | $1,735 | $ 390 | $ 1,948 | $ 372 | $ 935 | $10,613 |
| Provision charged to expense | 576 | 692 | (309 ) | (111 ) | 4,894 | (58 ) | (84 ) | $5,600 |
| Losses charged off | (1,295) | (985 ) | (130 ) | - | (5,538 ) | (49 ) | - | $(7,997 ) |
| Recoveries | 16 | 66 | 16 | - | 134 | 28 | - | $260 |
| Balance, end of period | $1,805 | $ 2,498 | $1,312 | $ 279 | $ 1,438 | $ 293 | $ 851 | $8,476 |

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

| **As of September 30, 2013** | Construction | Commercial Real Estate | One to four family | Multi-family | Commercial | Consumer and Other | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| **Allowance for loan losses:** | *(In Thousands)* | | | | | | | |
| Ending balance: individually evaluated for impairment | $1,135 | $ - | $1 | $ - | $ 826 | $44 | $ - | $2,006 |
| Ending balance: collectively evaluated for impairment | $1,323 | $ 2,002 | $1,049 | $ 220 | $ 1,058 | $172 | $ 643 | $6,467 |
| **Loans:** | | | | | | | | |
| Ending balance: individually evaluated for impairment | $5,474 | $ 5,253 | $2,463 | $ - | $ 5,230 | $658 | $ - | $19,078 |
| Ending balance: collectively evaluated for impairment | $33,912 | $ 166,602 | $90,951 | $ 48,680 | $ 91,763 | $16,190 | $ - | $448,098 |

| **December 31, 2012** | Construction | Commercial Real Estate | One to four | Multi-family | Commercial | Consumer | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|

| | | | family | | | and Other | | |
|---|---|---|---|---|---|---|---|---|
| **Allowance for loan losses:** | *(In Thousands)* | | | | | | | |
| Ending balance: individually evaluated for impairment | $608 | $ 180 | $90 | $ - | $ 441 | $48 | $ - | $1,367 |
| Ending balance: collectively evaluated for impairment | $2,087 | $ 2,167 | $1,226 | $ 284 | $ 1,248 | $207 | $ 154 | $7,373 |
| **Loans:** | | | | | | | | |
| Ending balance: individually evaluated for impairment | $6,275 | $ 5,673 | $2,360 | $ - | $ 2,555 | $414 | $ - | $17,277 |
| Ending balance: collectively evaluated for impairment | $42,642 | $ 162,088 | $97,022 | $ 46,405 | $ 92,672 | $ 16,303 | $ - | $457,132 |

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 September 30, 2013 and December 31, 2012:

| | September 30, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Recorded Balance | Unpaid Principal Balance | Specific Allowance | Recorded Balance | Unpaid Principal Balance | Specific Allowance |
| | *(In Thousands)* | | | | | |
| **Loans without a specific valuation allowance** | | | | | | |
| Real estate - residential mortgage: | | | | | | |
| One to four family units | $2,046 | $2,161 | $ - | $2,245 | $2,271 | $ - |
| Multi-family | - | - | - | - | - | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| Real estate - construction | 277 | 277 | - | 5,015 | 5,575 | - |
| Real estate - commercial | 4,862 | 5,187 | - | 2,430 | 2,755 | - |
| Commercial loans | 1,100 | 1,403 | - | 318 | 689 | - |
| Consumer and other loans | 133 | 133 | - | 103 | 103 | - |
| **Loans with a specific valuation allowance** | | | | | | |
| Real estate - residential mortgage: | | | | | | |
| One to four family units | $241 | $241 | $ 1 | $115 | $130 | $ 90 |
| Multi-family | - | - | - | - | - | - |
| Real estate - construction | 5,101 | 5,621 | 1,135 | 1,260 | 1,260 | 608 |
| Real estate - commercial | - | - | - | 3,243 | 3,243 | 180 |
| Commercial loans | 3,807 | 4,118 | 826 | 2,237 | 2,237 | 441 |
| Consumer and other loans | 280 | 280 | 44 | 311 | 311 | 48 |
| **Total** | | | | | | |
| Real estate - residential mortgage: | | | | | | |
| One to four family units | $2,287 | $2,402 | $ 1 | $2,360 | $2,401 | $ 90 |
| Multi-family | - | - | - | - | - | - |
| Real estate - construction | 5,378 | 5,898 | 1,135 | 6,275 | 6,835 | 608 |
| Real estate - commercial | 4,862 | 5,187 | - | 5,673 | 5,998 | 180 |
| Commercial loans | 4,907 | 5,521 | 826 | 2,555 | 2,926 | 441 |
| Consumer and other loans | 413 | 413 | 44 | 414 | 414 | 48 |
| **Total** | $17,847 | $19,421 | $ 2,006 | $17,277 | $18,574 | $ 1,367 |

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The following tables summarize average impaired loans and related interest recognized on impaired loans for the three months and nine months ended September 30, 2013 and 2012:

| | For the Three Months Ended September 30, 2013 | | For the Three Months Ended September 30, 2012 | |
|---|---|---|---|---|
| | Average Investment in Impaired Loans | Interest Income Recognized | Average Investment in Impaired Loans | Interest Income Recognized |
| | *(In Thousands)* | | | |
| **Loans without a specific valuation allowance** | | | | |
| Real estate - residential mortgage: | | | | |
| One to four family units | $1,782 | $ 1 | $2,601 | $ 5 |
| Multi-family | - | - | - | - |
| Real estate - construction | 1,703 | - | 4,953 | - |
| Real estate - commercial | 5,091 | 4 | 4,273 | 18 |
| Commercial loans | 1,343 | - | 2,719 | 4 |
| Consumer and other loans | 123 | - | 151 | 1 |
| **Loans with a specific valuation allowance** | | | | |
| Real estate - residential mortgage: | | | | |
| One to four family units | $599 | $ - | $106 | $ - |
| Multi-family | - | - | - | - |
| Real estate - construction | 3,829 | - | 770 | - |
| Real estate - commercial | - | - | 9,085 | - |
| Commercial loans | 2,712 | - | 4,774 | - |
| Consumer and other loans | 252 | - | 417 | - |
| **Total** | | | | |
| Real estate - residential mortgage: | | | | |
| One to four family units | $2,381 | $ 1 | $2,707 | $ 5 |
| Multi-family | - | - | - | - |
| Real estate - construction | 5,532 | - | 5,723 | - |
| Real estate - commercial | 5,091 | 4 | 13,358 | 18 |
| Commercial loans | 4,055 | - | 7,493 | 4 |
| Consumer and other loans | 375 | - | 568 | 1 |
| **Total** | $17,434 | $ 5 | $29,849 | $ 28 |

| | For the Nine Months Ended September 30, 2013 | | For the Nine Months Ended September 30, 2012 | |
|---|---|---|---|---|
| | Average Investment in Impaired Loans | Interest Income Recognized | Average Investment in Impaired Loans | Interest Income Recognized |
| | *(In Thousands)* | | | |
| **Loans without a specific valuation allowance** | | | | |
| Real estate - residential mortgage: | | | | |
| One to four family units | $2,028 | $ 4 | $1,807 | $ 17 |
| Multi-family | - | - | - | - |
| Real estate - construction | 4,044 | - | 3,046 | - |
| Real estate - commercial | 4,458 | 40 | 4,626 | 49 |
| Commercial loans | 878 | 1 | 2,342 | 15 |
| Consumer and other loans | 107 | - | 230 | 11 |
| **Loans with a specific valuation allowance** | | | | |
| Real estate - residential mortgage: | | | | |
| One to four family units | $296 | $ - | $334 | $ - |
| Multi-family | - | - | - | - |
| Real estate - construction | 1,849 | - | 4,111 | - |
| Real estate - commercial | 748 | - | 7,800 | - |
| Commercial loans | 2,741 | - | 3,693 | - |
| Consumer and other loans | 310 | - | 316 | - |
| **Total** | | | | |
| Real estate - residential mortgage: | | | | |
| One to four family units | $2,324 | $ 4 | $2,141 | $ 17 |
| Multi-family | - | - | - | - |
| Real estate - construction | 5,893 | - | 7,157 | - |
| Real estate - commercial | 5,206 | 40 | 12,426 | 49 |
| Commercial loans | 3,619 | 1 | 6,035 | 15 |
| Consumer and other loans | 417 | - | 546 | 11 |
| **Total** | $17,459 | $ 45 | $28,305 | $ 92 |

At September 30, 2013, the Bank's impaired loans shown in the table above included loans that were classified as troubled debt restructurings (TDR). The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

In assessing whether or not a borrower is experiencing financial difficulties, the Bank considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the debtor is currently in payment default on any of its debt; (ii) a payment default is probable in the foreseeable future without the modification; (iii) the debtor has declared or is in the process of declaring bankruptcy and (iv) the debtor's projected cash flow is sufficient to satisfy the contractual payments due under the original terms of the loan without a modification.

The Bank considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by the Bank include the debtor's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by the Bank generally include one or more modifications to the terms of the debt, such as (i) a reduction in the interest rate for the remaining life of the debt, (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (iii) a reduction on the face amount or maturity amount of the debt as stated in the original loan, (iv) a temporary period of interest-only payments, (v) a reduction in accrued interest, and (vi) an extension of amortization.

The following table summarizes, by class, loans that were newly classified as TDRs for the three months ended September 30, 2013:

| | Number of Loans | Pre-Modification Outstanding Recorded Balance | Post-Modification Outstanding Recorded Balance |
|---|---|---|---|
| Real estate - residential mortgage: | | | |
| One to four family units | - | $ - | $ - |
| Multi-family | - | - | - |
| Real estate - construction | 1 | 73,845 | 73,845 |
| Real estate - commercial | - | - | - |
| Commercial loans | 2 | 1,892,006 | 1,891,410 |
| Consumer and other loans | - | - | - |
| Total | 3 | $ 1,965,851 | $ 1,965,255 |

The following table summarizes, by type of concession, loans that were newly classified as TDRs for the three months ended September 30, 2013:

| | Interest Rate | Term | Combination | Total Modification |
|---|---|---|---|---|
| Real estate - residential mortgage: | | | | |
| One to four family units | $ - | $ - | $ - | $ - |
| Multi-family | - | - | - | - |
| Real estate - construction | - | 73,845 | - | 73,845 |
| Real estate - commercial | - | - | - | - |
| Commercial loans | - | - | 1,891,410 | 1,891,410 |
| Consumer and other loans | - | - | - | - |
| Total | $ - | $73,845 | $ 1,891,410 | $ 1,965,255 |

During the three months ended September 30, 2012, there was one new commercial real estate loan modified that met the definition of a troubled debt restructuring that totaled $389,993. The concession granted on this loan was an extension of amortization. As of September 30, 2012 the Bank also had $5.7 million of construction loans, $1.7 million of one-to-four family and $1.9 million of commercial real estate loans that were classified as troubled debt restructurings.

The following table presents the carrying balance of TDRs as of September 30, 2013 and December 31, 2012:

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| Real estate - residential mortgage: | | |
| One to four family units | $1,837,765 | $1,653,934 |
| Multi-family | - | - |
| Real estate - construction | 5,665,630 | 6,229,201 |
| Real estate - commercial | 5,139,025 | 2,246,508 |
| Commercial loans | 4,579,444 | 1,851,099 |
| Consumer and other loans | - | - |
| Total | $17,221,865 | $11,980,742 |

The Bank has allocated $1,525,708 and $169,538 of specific reserves to customers whose loan terms have been modified in TDRs as of September 30, 2013 and December 31, 2012, respectively.

There were two one to four family TDRs totaling $330,000 for which there was a payment default within twelve months following the modification during the nine months ending September 30, 2013. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

As part of the on-going monitoring of the credit quality of the Bank's loan portfolio, management tracks loans by an internal rating system. All loans are assigned an internal credit quality rating based on an analysis of the borrower's financial condition. The criteria used to assign quality ratings to extensions of credit that exhibit potential problems or well-defined weaknesses are primarily based upon the degree of risk and the likelihood of orderly repayment, and their effect on the Bank's safety and soundness. The following are the internally assigned ratings:

Pass-This rating represents loans that have strong asset quality and liquidity along with a multi-year track record of profitability.

Special mention-This rating represents loans that are currently protected but are potentially weak. The credit risk may be relatively minor, yet constitute an increased risk in light of the circumstances surrounding a specific loan.

Substandard-This rating represents loans that show signs of continuing negative financial trends and unprofitability and therefore, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.

Doubtful-This rating represents loans that have all the weaknesses of substandard classified loans with the additional characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Risk characteristics applicable to each segment of the loan portfolio are described as follows.

Real estate-Residential 1-4 family: The residential 1-4 family real estate loans are generally secured by owner-occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Bank’s market areas that might impact either property values or a borrower’s personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Real estate-Construction: Construction and land development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Bank until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Bank's market areas.

Real estate-Commercial: Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Bank's market areas.

Commercial: The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Consumer: The consumer loan portfolio consists of various term and line of credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Bank's market area) and the creditworthiness of a borrower.

The following tables provide information about the credit quality of the loan portfolio using the Bank's internal rating system as of September 30, 2013 and December 31, 2012:

| **September 30, 2013** | Construction | Commercial Real Estate | One to four family | Multi-family | Commercial | Consumer and Other | Total |
|---|---|---|---|---|---|---|---|
| | *(In Thousands)* | | | | | | |
| Rating: | | | | | | | |
| Pass | $26,800 | $ 161,855 | $85,324 | $ 48,258 | $ 85,833 | $ 16,054 | $424,124 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Special Mention | 7,155 | 3,004 | 5,176 | 422 | 5,043 | 90 | 20,890 |
| Substandard | 866 | 6,996 | 2,914 | - | 3,766 | 704 | 15,246 |
| Doubtful | 4,565 | - | - | - | 2,351 | - | 6,916 |
| Total | $39,386 | $ 171,855 | $93,414 | $ 48,680 | $ 96,993 | $ 16,848 | $467,176 |

| **December 31, 2012** | Construction | Commercial Real Estate | One to four family | Multi-family | Commercial | Consumer and Other | Total |
|---|---|---|---|---|---|---|---|
| | *(In Thousands)* | | | | | | |
| Rating: | | | | | | | |
| Pass | $35,775 | $ 156,448 | $94,209 | $ 45,133 | $ 88,230 | $ 15,840 | $435,635 |
| Special Mention | 6,868 | 4,976 | 1,636 | 1,272 | 2,255 | 93 | 17,100 |
| Substandard | 5,581 | 6,337 | 3,507 | - | 4,742 | 784 | 20,951 |
| Doubtful | 693 | - | 30 | - | - | - | 723 |
| Total | $48,917 | $ 167,761 | $99,382 | $ 46,405 | $ 95,227 | $ 16,717 | $474,409 |

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**Note 5: Benefit Plans**

The Company has stock-based employee compensation plans, which are described in the Company's 2012 Annual Report on Form 10-K.

The table below summarizes transactions under the Company's stock option plans for the nine months ended September 30, 2013:

| | Number of shares Incentive Stock Option | Non-Incentive Stock Option | Weighted Average Exercise Price |
|---|---|---|---|
| Balance outstanding as of January 1, 2013 | 174,500 | 167,000 | $ 16.38 |
| Granted | - | - | - |
| Exercised | (1,800 ) | - | 5.23 |
| Forfeited | (2,200 ) | (44,500 ) | 16.86 |
| Balance outstanding as of September 30, 2013 | 170,500 | 122,500 | 16.42 |
| Options exercisable as of September 30, 2013 | 149,500 | 104,250 | 18.15 |

Stock-based compensation expense, consisting of stock options and restricted stock awards, recognized for the three months ended September 30, 2013 and 2012 was $31,923 and $40,056, respectively. Stock-based compensation expense recognized for the nine months ended September 30, 2013 and 2012 was $219,199 and $219,732, respectively. As of September 30, 2013, there was $99,815 of unrecognized compensation expense related to nonvested stock options and restricted stock awards, which will be recognized over the remaining vesting period.

In January 2013 and 2012, the Company granted restricted stock to directors pursuant to the 2010 Equity Plan that was fully vested as of the date of the grant and thus, expensed in full on the date of the grant. The amount expensed was $116,032 and $110,009 for 2013 and 2012, respectively, which represents 16,576 shares of common stock at a market price of $7.00 at the date of grant in 2013 and 18,520 shares of common stock at a market price of $5.94 at the date of grant in 2012.

**Note 6: Income (Loss) Per Common Share**

| | For three months ended September 30, 2013 | | | For nine months ended September 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Income Available to Common Shareholders | Common Shares Outstanding | Per Common Share | Income Available to Common Shareholders | Common Shares Outstanding | Per Common Share |
| Basic Income (Loss) Per Common Share | $1,147,356 | 2,732,431 | $ 0.42 | $3,270,489 | 2,734,487 | $ 1.20 |
| Effect of Dilutive Securities | | 87,377 | | | 78,072 | |
| Diluted Income (Loss) Per Common Share | $1,147,356 | 2,819,808 | $ 0.41 | $3,270,489 | 2,812,559 | $ 1.16 |

| | For three months ended September 30, 2012 | | | For nine months ended September 30, 2012 | | |
|---|---|---|---|---|---|---|
| | Income Available to Common Shareholders | Common Shares Outstanding | Per Common Share | Income Available to Common Shareholders | Common Shares Outstanding | Per Common Share |
| Basic Income (Loss) Per Common Share | $(915,718) | 2,717,789 | $ (0.34) | $(416,176) | 2,712,446 | $ (0.15) |
| Effect of Dilutive Securities | | - | | | - | |
| Diluted Income (Loss) Per Common Share | $(915,718) | 2,717,789 | $ (0.34) | $(416,176) | 2,712,446 | $ (0.15) |

Stock options to purchase 155,000 of common stock were outstanding during the three and nine months ended September 30, 2013 but were not included in the computation of diluted income per common share because their exercise prices were greater than the average market price of the common shares. Due to the Company's net loss available to common shareholders for the three and nine month periods ended September 30, 2012, no potentially dilutive shares were included in the computation of diluted loss per common share.

**Note 7: New Accounting Pronouncements**

In January 2013, FASB issued ASU No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The update clarifies the scope of transactions that are subject to the disclosures about offsetting. The update clarifies that ordinary trade receivables and receivables are not in the scope of Accounting Standards Update No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. Specifically, update 2011-11 applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in FASB Accounting Standards Codification or subject to a master netting arrangement or similar agreement. The update was effective for the Company January 1, 2013, and did not have a material impact on the Company's financial position or results of operations.

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. The amendments in the update do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this update requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP. The new amendments will require an organization to present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income–but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. Or, the organization may cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. The update was effective for the Company January 1, 2013, and did not have a material impact on the Company's financial position or results of operations.

**Note 8: Disclosures about Fair Value of Assets and Liabilities**

ASC Topic 820, *Fair Value Measurements*, defines fair value 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. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1**: Quoted prices in active markets for identical assets or liabilities

**Level 2**: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**Level 3**: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The following is a description of the inputs and valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying condensed consolidated statements of financial condition, as well as the general classification of such assets pursuant to the valuation hierarchy.

*Available-for-sale securities:* Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For these investments, the inputs used by the pricing service to determine fair value may include one or a combination of observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bid offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. Level 2 securities include U.S. government agencies and government sponsored mortgage-backed securities. The Company has no Level 3 securities.

The following table presents the fair value measurements of assets recognized in the accompanying condensed consolidated statements of financial condition measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2013 and December 31, 2012 (dollar amounts in thousands):

**September 30, 2013**

Financial assets:

| | Level 1 inputs | Level 2 inputs | Level 3 inputs | Total fair value |
|---|---|---|---|---|
| Equity securities | $ 88 | $- | $ - | $88 |
| Debt securities: | | | | |
| U.S. government agencies | - | 37,579 | - | 37,579 |
| Municipals | - | 13,359 | - | 13,359 |
| Corporate Bonds | - | 985 | - | 985 |
| Government sponsored mortgage-backed securities | - | 53,860 | - | 53,860 |
| Available-for-sale securities | $ 88 | $105,783 | $ - | $105,871 |

**December 31, 2012**

Financial assets:

| | Level 1 inputs | Level 2 inputs | Level 3 inputs | Total fair value |
|---|---|---|---|---|
| Equity securities | $ 71 | $- | $ - | $71 |
| Debt securities: | | | | |
| U.S. government agencies | - | 38,351 | - | 38,351 |
| U.S. corporate | - | 1,908 | - | 1,908 |
| Municipals | - | 10,378 | - | 10,378 |
| Government sponsored mortgage-backed securities | - | 51,273 | - | 51,273 |
| Available-for-sale securities | $ 71 | $101,910 | $ - | $101,981 |

The following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying condensed consolidated statements of financial condition, as well as the general classification of such assets pursuant to the valuation hierarchy.

*Foreclosed Assets Held for Sale:* Fair value is estimated using recent appraisals, comparable sales and other estimates of value obtained principally from independent sources, adjusted for selling costs. Foreclosed assets held for sale are classified within Level 3 of the valuation hierarchy.

*Impaired loans (Collateral Dependent):* Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral dependent loans.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires the Company to obtain a current independent appraisal or observable market price of the collateral as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2013 and December 31, 2012 (dollar amounts in thousands):

Impaired loans:

| | Level 1 inputs | Level 2 inputs | Level 3 inputs | Total fair value |
|---|---|---|---|---|
| September 30, 2013 | $ - | $ - | $10,027 | $10,027 |
| December 31, 2012 | $ - | $ - | $10,557 | $10,557 |

Foreclosed assets held for sale:

| | Level 1 inputs | Level 2 inputs | Level 3 inputs | Total fair value |
|---|---|---|---|---|
| September 30, 2013 | $ - | $ - | $341 | $341 |
| December 31, 2012 | $ - | $ - | $3,883 | $3,883 |

There were no transfers between valuation levels for any asset during the nine months ended September 30, 2013 or 2012. If valuation techniques are deemed necessary, the Company considers those transfers to occur at the end of the period when the assets are valued.

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurement (dollar amounts in thousands):

| | Fair Value September 30, 2013 | | Valuation Technique | Unobservable Input | Range (Weighted Average) | | | |
|---|---|---|---|---|---|---|---|---|
| Impaired loans (collateral dependent) | $ | 8,563 | Market Comparable | Discount to reflect realizable value | 0% | - | 33% | (11%) |
| Impaired loans | $ | 1,465 | Discounted cash flow | Discount rate | 0% | | | (0%) |
| Foreclosed assets held for sale | $ | 341 | Market Comparable | Discount to reflect realizable value | 0% | - | 68% | (14%) |

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying condensed consolidated statement of financial condition at amounts other than fair value.

Cash and cash equivalents, interest-bearing deposits and Federal Home Loan Bank stock

The carrying amounts reported in the condensed consolidated statements of financial condition approximate those assets' fair value.

Held-to-maturity securities

Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans

The fair value of loans is estimated by discounting the future cash flows using the market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

Deposits

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using rates currently offered for deposits of similar remaining maturities.

Federal Home Loan Bank advances and securities sold under agreements to repurchase

The fair value of advances and securities sold under agreements to repurchase is estimated by using rates on debt with similar terms and remaining maturities.

Subordinated debentures

For these variable rate instruments, the carrying amount is a reasonable estimate of fair value. There is currently a limited market for similar debt instruments and the Company has the option to call the subordinated debentures at an amount close to its par value.

Interest payable

The carrying amount approximates fair value.

Commitments to originate loans, letters of credit and lines of credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

The following tables present estimated fair values of the Company's financial instruments at September 30, 2013 and December 31, 2012.

| | September 30, 2013 | | |
|---|---|---|---|
| | Carrying Amount | Fair Value | Hierarchy Level |
| Financial assets: | | | |
| Cash and cash equivalents | $30,077,374 | $30,077,374 | 1 |
| Held-to-maturity securities | 84,188 | 88,063 | 2 |
| Federal Home Loan Bank stock | 2,909,100 | 2,909,100 | 2 |
| Mortgage loans held for sale | 1,108,314 | 1,108,314 | 2 |
| Loans, net | 458,486,044 | 462,162,369 | 3 |
| Interest receivable | 1,821,702 | 1,821,702 | 2 |
| Financial liabilities: | | | |
| Deposits | 510,723,980 | 502,068,646 | 2 |
| Federal Home Loan Bank advances | 52,950,000 | 55,126,441 | 2 |
| Securities sold under agreements to repurchase | 10,000,000 | 10,049,450 | 2 |
| Subordinated debentures | 15,465,000 | 15,465,000 | 3 |
| Interest payable | 262,892 | 262,892 | 2 |
| Unrecognized financial instruments (net of contractual value): | | | |
| Commitments to extend credit | - | - | - |
| Unused lines of credit | - | - | - |

| | December 31, 2012 | | |
|---|---|---|---|
| | Carrying Amount | Fair Value | Hierarchy Level |
| Financial assets: | | | |
| Cash and cash equivalents | $41,663,405 | $41,663,405 | 1 |
| Held-to-maturity securities | 181,042 | 193,482 | 2 |
| Federal Home Loan Bank stock | 3,805,500 | 3,805,500 | 2 |
| Mortgage loans held for sale | 2,843,757 | 2,843,757 | 2 |
| Loans, net | 465,531,973 | 475,374,676 | 3 |
| Interest receivable | 2,055,369 | 2,055,369 | 2 |
| Financial liabilities: | | | |
| Deposits | 500,014,715 | 500,580,070 | 2 |
| Federal Home Loan Bank advances | 68,050,000 | 72,035,160 | 2 |
| Securities sold under agreements to repurchase | 25,000,000 | 25,114,464 | 2 |
| Subordinated debentures | 15,465,000 | 15,465,000 | 3 |
| Interest payable | 399,684 | 399,684 | 2 |
| Unrecognized financial instruments (net of contractual value): | | | |
| Commitments to extend credit | - | - | - |

| | | | |
|---|---|---|---|
| Unused lines of credit | - | - | - |

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**Note 9: Preferred Stock and Common Stock Warrants**

On January 30, 2009, as part of the U.S. Department of the Treasury's Troubled Asset Relief Program's Capital Purchase Program (“CPP”), the Company entered into a Securities Purchase Agreement - Standard Terms with the United States Department of the Treasury (the "Treasury") pursuant to which the Company sold to the Treasury 17,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") and issued a ten year warrant (the "Warrant") to purchase 459,459 shares of the Company's common stock (the "Common Stock") for $5.55 per share (the "Warrant Shares") for a total purchase price of $17.0 million (the "Transaction").

The Series A Preferred Stock qualifies as Tier 1 capital and is entitled to cumulative preferred dividends at a rate of 5% per year for the first five years, payable quarterly, and 9% thereafter. The Series A Preferred Stock has a liquidation preference of $1,000 per share, plus accrued and unpaid dividends. The failure by the Company to pay a total of six quarterly dividends, whether or not consecutive, gives the holders of the Series A Preferred Stock the right to elect two directors to the Company's board of directors.

On June 13, 2012, with regulatory approval, the Company redeemed $5 million of the Series A Preferred Stock, including accrued and unpaid dividends of $19,444. The Company may redeem additional shares of the Series A Preferred Stock for $1,000 per share, plus accrued and unpaid dividends, in whole or in part, subject to regulatory approval.

The Company entered into a Placement Agency Agreement with the Treasury on April 15, 2013 in connection with a private auction by the Treasury of the remaining 12,000 shares of Series A Preferred Stock conducted immediately thereafter. On April 29, 2013, the Treasury settled the sale of such shares of Series A Preferred Stock to the winning bidders in the private auction, consisting of six parties unrelated to the Company.

On May 8, 2013, the Company notified the Treasury of its intent to repurchase the Warrant at its fair market value. The Board of Directors of the Company had previously determined that it would be in the best interest of the Company and its stockholders to repurchase the Warrant and had also determined the Warrant’s fair market value to be $2,003,250 (the “Fair Market Value”). On May 10, 2013, the Treasury notified the Company that it had accepted the Company’s offer to repurchase the Warrant at its Fair Market Value. Accordingly, on May 15, 2013, the Company entered into a Letter Agreement with Treasury pursuant to which the Company repurchased the Warrant for $2,003,250 in cash. As a result of the aforementioned, the Warrant is no longer issued or outstanding and the Company’s participation in the CPP is completed. In addition, though the Series A Preferred Stock remains outstanding, as a result of the Treasury’s sale of the Series A Preferred stock to third-party investors on April 29, 2013, the Treasury no longer possesses any securities issued by the Company. Any repurchase or redemption of the Series A Preferred Stock by the Company would require regulatory approval.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**General**

The primary function of the Company is to monitor and oversee its investment in the Bank. The Company engages in few other activities, and the Company has no significant assets other than its investment in the Bank. As a result, the results of operations of the Company are derived primarily from operations of the Bank. The Bank's results of operations are primarily dependent on net interest margin, which is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. The Bank's income is also affected by the level of its noninterest expenses, such as employee salaries and benefits, occupancy expenses and other expenses. The following discussion reviews material changes in the Company's financial condition as of September 30, 2013, and the results of operations for the three and nine months ended September 30, 2013 and 2012.

The discussion set forth below, as well as other portions of this Form 10-Q, may contain forward-looking comments. Such comments are based upon the information currently available to management of the Company and management's perception thereof as of the date of this Form 10-Q. When used in this Form 10-Q, words such as "anticipates," "estimates," "believes," "expects," and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Such statements are subject to risks and uncertainties. Actual results of the Company's operations could materially differ from those forward-looking comments. The differences could be caused by a number of factors or combination of factors including, but not limited to: changes in demand for banking services; changes in portfolio composition; changes in management strategy; increased competition from both bank and non-bank companies; changes in the general level of interest rates; changes in general or local economic conditions; changes in federal or state regulations and legislation governing the operations of the Company or the Bank; and other factors set forth in reports and other documents filed by the Company with the SEC from time to time, including the risk factors described under Item 1A. of this Form 10-Q and Item 1A. of the Company's Form 10-K for the fiscal year ended December 31, 2012.

**Financial Condition**

The Company's total assets decreased $19,929,183 (3%) from $660,432,218 as of December 31, 2012, to $640,503,035 as of September 30, 2013.

Interest bearing deposits in other financial institutions decreased $16,376,620 (43%) from $38,303,303 as of December 31, 2012, to $21,926,683 as of September 30, 2013. The decrease is primarily due to the Company's ability to utilize available cash to paydown $30.1 million of Federal Home Loan Bank advances and securities sold under agreements to repurchase.

Available-for-sale securities increased $3,890,278 (4%) from $101,980,644 as of December 31, 2012, to $105,870,922 as of September 30, 2013. The increase is primarily due to purchases of $50.9 million offset by sales, maturities and principal payments received of $42.5 million. Also, after fiscal year end 2012, market interest rates on many debt securities increased, due to the dramatic increase in long-term Treasury rates, which in turn, caused the fair value of available-for-sale securities to decline by $4.4 million.

Net loans receivable decreased by $7,045,929 (2%) from $465,531,973 as of December 31, 2012, to $458,486,044 as of September 30, 2013. The Company experienced certain anticipated payoffs of various commercial real estate loans. During the period, commercial real estate loans increased $4,094,655 (2%). Also, commercial loans increased $1,766,475 (2%), permanent multi-family loans increased $2,275,067 (5%), construction loans decreased $9,531,690 (19%), loans secured by owner occupied one to four unit residential real estate decreased $5,968,411 (6%) and installment loans increased $130,757 (1%). The Company continues to focus its lending efforts in the commercial and owner occupied real estate loan categories, and to reduce its concentrations in non-owner occupied commercial real estate.

Allowance for loan losses decreased $267,487 (3%) from $8,740,325 as of December 31, 2012 to $8,472,838 as of September 30, 2013. The allowance decreased due to net loan charge-offs of $1,117,487 exceeding provision for loan losses of $850,000 recorded during the period. The decline in the allowance is primarily due to the reduction in the reserves associated with the commercial real estate loan category. Although nonclassified and nonaccruing commercial real estate loans both increased during the nine month period, the allowance pertaining to this portfolio decreased by approximately $515,000 during the nine month period. First, the general component of the allowance declined due to reductions in the historical charge-off losses experienced over the prior year. Secondly, various specific reserves established on nonaccruing loans in the prior year were charged-off in 2013. Finally, after impairment analysis was performed, there was no specific allowance deemed necessary for one significant nonaccruing loan that was added during the third quarter of 2013.

The allowance for loan losses, as a percentage of gross loans outstanding (excluding mortgage loans held for sale), as of September 30, 2013 and December 31, 2012 was 1.81% and 1.84%, respectively. The allowance for loan losses, as a percentage of nonperforming loans outstanding, as of September 30, 2013 and December 31, 2012 was 45.4% and 57.0%, respectively. Management believes the allowance for loan losses is at a level to be sufficient in providing for potential loan losses in the Bank's existing loan portfolio. See further discussions under "Results of Operations – Comparison of Three and Nine Month Periods Ended September 30, 2013 and 2012 – Provision for Loan Losses."

Deposits increased $10,709,265 (2%) from $500,014,715 as of December 31, 2012, to $510,723,980 as of September 30, 2013. For the nine months ended September 30, 2013, checking and savings accounts increased by $29.0 million and certificates of deposit decreased by $18.3 million. The increase in checking and savings accounts was due to the Bank's continued efforts to increase core transaction deposits, both retail and commercial. See also the discussion under "Quantitative and Qualitative Disclosure about Market Risk – Asset/Liability Management."

Federal Home Loan Bank advances decreased $15,100,000 (22%) from $68,050,000 as of December 31, 2012, to $52,950,000 as of September 30, 2013 due to scheduled maturities during the period.

Securities sold under agreements to repurchase decreased $15,000,000 (60%) from $25,000,000 as of December 31, 2012, to $10,000,000 as of September 30, 2013 due to a prepayment of $15 million incurring a prepayment penalty of $1.5 million during the second quarter. The prepayment will allow the Company to significantly reduce higher cost, non-core funding liabilities on its balance sheet and eliminate future annual interest expense of approximately $390,000.

Stockholders' equity (including unrealized depreciation on available-for-sale securities, net of tax) decreased $1,204,797 (2%) from $50,868,570 as of December 31, 2012, to $49,663,773 as of September 30, 2013. This is due to a few factors. First, the Company's $3.3 million in net income after preferred stock dividends and accretion for the nine month period increased stockholder's equity. However, other factors reduced stockholders' equity. In May 2013, the Company completed a $2 million repurchase of the warrant issued to the United States Department of the Treasury in 2009 as part of its Troubled Asset Relief Program's Capital Purchase Program. Also, as a result of increases in market interest rates on many debt securities during the nine month period, the Company's unrealized gains (losses) on available-for-sale securities, net of income taxes, declined $2.7 million at September 30, 2013 as compared to December 31, 2012. On a per common share basis, stockholders' equity decreased from $14.34 as of December 31, 2012 to $13.81 as of September 30, 2013.

**Average Balances, Interest and Average Yields**

The Company's profitability is primarily dependent upon net interest income, which represents the difference between interest and fees earned on loans and debt and equity securities, and the cost of deposits and borrowings. Net interest income is dependent on the difference between the average balances and rates earned on interest-earning assets and the average balances and rates paid on interest-bearing liabilities. Non-interest income, non-interest expense, and income taxes also impact net income.

The following table sets forth certain information relating to the Company's average consolidated statements of financial condition and reflects the average yield on assets and average cost of liabilities for the periods indicated.

Such yields and costs are derived by dividing income or expense annualized by the average balance of assets or liabilities, respectively, for the periods shown. Average balances were derived from average daily balances. The average balance of loans includes loans on which the Company has discontinued accruing interest. The yields and costs include fees which are considered adjustments to yields. All dollar amounts are in thousands.

| | Three months ended 9/30/2013 | | | Three months ended 9/30/2012 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Interest | Yield / Cost | Average Balance | Interest | Yield / Cost |
| **ASSETS** | | | | | | |
| Interest-earning: | | | | | | |
| Loans | $468,503 | $5,866 | 4.97% | $485,063 | $6,385 | 5.24% |
| Investment securities | 110,524 | 453 | 1.63% | 99,575 | 422 | 1.69% |
| Other assets | 20,046 | 31 | 0.61% | 28,639 | 40 | 0.56% |
| Total interest-earning | 599,073 | 6,350 | 4.21% | 613,277 | 6,847 | 4.44% |
| Noninterest-earning | 35,292 | | | 41,795 | | |
| | $634,365 | | | $655,072 | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | | |
| Interest-bearing: | | | | | | |
| Savings accounts | $23,972 | 13 | 0.22% | $22,351 | 19 | 0.34% |
| Transaction accounts | 298,927 | 395 | 0.52% | 277,341 | 498 | 0.71% |
| Certificates of deposit | 134,598 | 309 | 0.91% | 154,280 | 490 | 1.26% |
| FHLB advances | 52,950 | 312 | 2.34% | 68,126 | 388 | 2.27% |
| Securities sold under agreements to repurchase | 10,000 | 66 | 2.62% | 25,000 | 169 | 2.69% |
| Subordinated debentures | 15,465 | 134 | 3.44% | 15,465 | 140 | 3.60% |
| Total interest-bearing | 535,912 | 1,229 | 0.91% | 562,563 | 1,704 | 1.21% |
| Noninterest-bearing | 49,174 | | | 40,908 | | |
| Total liabilities | 585,086 | | | 603,471 | | |
| Stockholders' equity | 49,279 | | | 51,601 | | |
| | $634,365 | | | $655,072 | | |
| Net earning balance | $63,161 | | | $50,714 | | |
| Earning yield less costing rate | | | 3.30% | | | 3.24% |
| Net interest income, and net yield spread on interest earning assets | | $5,121 | 3.39% | | $5,143 | 3.34% |
| Ratio of interest-earning assets to interest-bearing liabilities | | 112 % | | | 109 % | |

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| | Nine months ended 9/30/2013 | | | Nine months ended 9/30/2012 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Interest | Yield / Cost | Average Balance | Interest | Yield / Cost |
| **ASSETS** | | | | | | |
| Interest-earning: | | | | | | |
| Loans | $465,391 | $17,747 | 5.10% | $482,043 | $19,119 | 5.30% |
| Investment securities | 108,979 | 1,352 | 1.66% | 95,711 | 1,305 | 1.82% |
| Other assets | 31,604 | 137 | 0.58% | 28,299 | 135 | 0.64% |
| Total interest-earning | 605,974 | 19,236 | 4.24% | 606,053 | 20,559 | 4.53% |
| Noninterest-earning | 38,708 | | | | | |