GUARANTY FEDERAL BANCSHARES INC
Form 10-Q
August 08, 2014

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 June 30, 2014

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 August 1, 2014
Common Stock, Par Value $0.10 per share	4,274,348 Shares

GUARANTY FEDERAL BANCSHARES, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

JUNE 30, 2014 (UNAUDITED) AND DECEMBER 31, 2013

	6/30/14	**12/31/13**
ASSETS		
Cash	$4,449,140	$3,453,032
Interest-bearing deposits in other financial institutions	16,381,886	8,850,168
Cash and cash equivalents	20,831,026	12,303,200
Available-for-sale securities	100,414,541	97,692,685
Held-to-maturity securities	69,862	79,162
Stock in Federal Home Loan Bank, at cost	2,878,900	2,885,100
Mortgage loans held for sale	1,221,633	623,432
Loans receivable, net of allowance for loan losses of June 30, 2014 - $6,788,409 - December 31, 2013 - $7,801,600	454,151,996	464,379,854
Accrued interest receivable:		
Loans	1,474,218	1,462,881
Investments and interest-bearing deposits	365,020	389,760
Prepaid expenses and other assets	5,033,213	5,536,879
Foreclosed assets held for sale	3,644,396	3,821,976
Premises and equipment, net	10,733,726	10,886,720
Bank owned life insurance	14,228,666	14,043,697
Income taxes receivable	615,777	504,138
Deferred income taxes	4,090,202	5,278,651
	$619,753,176	$619,888,135
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	$481,152,569	$487,318,939
Federal Home Loan Bank and Federal Reserve Bank advances	53,400,000	55,350,000
Securities sold under agreements to repurchase	10,000,000	10,000,000
Subordinated debentures	15,465,000	15,465,000
Advances from borrowers for taxes and insurance	345,262	149,668
Accrued expenses and other liabilities	1,047,288	998,934
Accrued interest payable	239,297	250,361

	561,649,416	569,532,902
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY		
Capital Stock:		
Series A preferred stock, $0.01 par value; authorized 2,000,000 shares; issued and outstanding December 31, 2013 - 12,000 shares	-	11,983,790
Common stock, $0.10 par value; authorized 10,000,000 shares; issued June 30, 2014 and December 31, 2013 - 6,799,903 and 6,783,603 shares, respectively	679,990	678,360
Additional paid-in capital	50,672,475	57,655,031
Retained earnings, substantially restricted	45,840,055	43,769,485
Accumulated other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale securities, net of income taxes	(916,796)	(2,506,248)
	96,275,724	111,580,418
Treasury stock, at cost; June 30, 2014 and December 31, 2013 - 2,525,555 and 4,051,248 shares, respectively	(38,171,964)	(61,225,185)
	58,103,760	50,355,233
	$619,753,176	$619,888,135

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013 (UNAUDITED)

	Three months ended		Six months ended	
	6/30/2014	6/30/2013	6/30/2014	6/30/2013
Interest Income				
Loans	$5,576,155	$5,952,456	$11,443,713	$11,880,846
Investment securities	415,318	466,828	872,884	899,457
Other	46,110	47,736	81,050	106,138
	6,037,583	6,467,020	12,397,647	12,886,441
Interest Expense				
Deposits	562,700	731,420	1,169,493	1,492,594
Federal Home Loan Bank and Federal Reserve Bank advances	298,636	307,869	594,327	676,544
Subordinated debentures	133,035	134,322	266,198	268,672
Other	65,975	107,742	131,225	271,697
	1,060,346	1,281,353	2,161,243	2,709,507
Net Interest Income	4,977,237	5,185,667	10,236,404	10,176,934
Provision for Loan Losses	325,000	250,000	525,000	650,000
Net Interest Income After Provision for Loan Losses	4,652,237	4,935,667	9,711,404	9,526,934
Noninterest Income				
Service charges	318,434	292,049	631,419	553,834
Gain on sale of investment securities	7,603	116,182	10,691	204,983
Gain on sale of loans	250,667	592,086	436,245	1,024,019
Gain on sale of state low-income housing tax credits	-	1,441,012	-	1,441,012
Net loss on foreclosed assets	(61,182)	(75,758)	(76,965)	(148,103)
Other income	346,973	318,973	678,798	628,567
	862,495	2,684,544	1,680,188	3,704,312
Noninterest Expense				
Salaries and employee benefits	2,231,963	2,272,746	4,536,731	4,665,108
Occupancy	419,614	449,764	846,675	875,893
FDIC deposit insurance premiums	120,029	141,173	256,963	283,636
Prepayment penalty on securities sold under agreements to repurchase	-	1,510,000	-	1,510,000
Data processing	165,486	184,875	326,272	354,135
Advertising	106,251	106,251	212,502	212,502
Other expense	839,640	867,528	2,048,444	2,056,663
	3,882,983	5,532,337	8,227,587	9,957,937
Income Before Income Taxes	1,631,749	2,087,874	3,164,005	3,273,309
Provision for Income Taxes	293,066	520,134	523,896	752,916
Net Income	1,338,683	1,567,740	2,640,109	2,520,393
Preferred Stock Dividends and Discount Accretion	111,000	198,630	357,210	397,260

Net Income Available to Common Shareholders	$1,227,683	$1,369,110	$2,282,899	$2,123,133
Basic Income Per Common Share	$0.29	$0.50	$0.61	$0.78
Diluted Income Per Common Share	$0.28	$0.49	$0.60	$0.76

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 SIX MONTHS ENDED JUNE 30, 2014 AND 2013 (UNAUDITED)

	Three months ended		Six months ended	
	6/30/2014	6/30/2013	6/30/2014	6/30/2013
NET INCOME	$1,338,683	$1,567,740	$2,640,109	$2,520,393
OTHER ITEMS OF COMPREHENSIVE INCOME (LOSS):				
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes	1,248,693	(3,722,649)	2,533,631	(4,104,800)
Less: Reclassification adjustment for realized gains on investment securities included in net income, before income taxes	(7,603)	(116,182)	(10,691)	(204,983)
Total other items in comprehensive income (loss)	1,241,090	(3,838,831)	2,522,940	(4,309,783)
Income tax expense (benefit) related to other items of comprehensive income	459,203	(1,420,367)	933,488	(1,594,619)
Other comprehensive income (loss)	781,887	(2,418,464)	1,589,452	(2,715,164)
TOTAL COMPREHENSIVE INCOME (LOSS)	$2,120,570	$(850,724)	$4,229,561	$(194,771)

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

SIX MONTHS ENDED JUNE 30, 2014 (UNAUDITED)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance, January 1, 2014	$11,983,790	$678,360	$57,655,031	$(61,225,185)	$43,769,485	$(2,506,248)	$50,355,233
Net income	-	-	-	-	2,640,109	-	2,640,109
Change in unrealized gain (loss) on available-for-sale securities, net of income taxes	-	-	-	-	-	1,589,452	1,589,452
Preferred stock redeemed	(12,000,000)	-	-	-	-	-	(12,000,000)
Preferred stock discount accretion	16,210	-	-	-	(16,210)	-	-
Preferred stock dividends	-	-	-	-	(338,000)	-	(338,000)
Dividends on common stock ($0.05 per share)	-	-	-	-	(215,329)	-	(215,329)
Stock award plans	-	-	(215,059)	388,236	-	-	173,177
Stock options exercised	-	1,630	83,176	-	-	-	84,806
Proceeds from issuance of common stock	-	-	(6,850,673)	22,664,985	-	-	15,814,312
Balance, June 30, 2014	$-	$679,990	$50,672,475	$(38,171,964)	$45,840,055	$(916,796)	$58,103,760

See Notes to Condensed Consolidated Financial Statements

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	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	$50,868
Net income	-	-	-	-	-	2,520,393	-	2,520,
Change in unrealized gain (loss) on available-for-sale securities, net of income taxes	-	-	-	-	-	-	(2,715,164)	(2,715
Preferred stock discount accretion	97,257	-	-	-	-	(97,257)	-	-
Preferred stock dividends	-	-	-	-	-	(300,000)	-	(300,0
Common stock warrants repurchased	-	-	(1,377,811)	(625,439)	-	-	-	(2,003
Stock award plans	-	-	-	(63,520)	250,795	-	-	187,2
Stock options exercised	-	180	-	9,229	-	-	-	9,409
Treasury stock purchased	-	-	-	-	(105,782)	-	-	(105,7
Balance, June 30, 2013	$11,886,533	$678,360	$-	$57,587,799	$(61,224,331)	$41,447,428	$(1,914,338)	$48,46

See Notes to Condensed Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2014 AND 2013 (UNAUDITED)

	6/30/2014	6/30/2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$2,640,109	$2,520,393
Items not requiring (providing) cash:		
Deferred income taxes	254,961	675,633
Depreciation	382,086	414,885
Provision for loan losses	525,000	650,000
Gain on sale of loans and investment securities	(446,936)	(1,229,002)
Loss on foreclosed assets held for sale	25,593	76,448
Gain on sale of state low-income housing tax credits	-	(1,441,012)
Amortization of deferred income, premiums and discounts	313,135	274,385
Stock award plan expense	190,490	187,275
Origination of loans held for sale	(14,709,615)	(31,553,697)
Proceeds from sale of loans held for sale	14,547,659	34,000,714
Increase in cash surrender value of bank owned life insurance	(184,969)	(194,895)
Changes in:		
Prepaid FDIC deposit insurance premiums	-	1,438,636
Accrued interest receivable	13,403	51,533
Prepaid expenses and other assets	503,666	295,071
Accounts payable and accrued expenses	(103,039)	179,869
Income taxes receivable	(128,952)	77,283
Net cash provided by operating activities	3,822,591	6,423,519
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans	9,451,794	5,081,769
Principal payments on held-to-maturity securities	9,300	91,829
Principal payments on available-for-sale securities	4,235,914	6,345,815
Proceeds from calls/maturities of available-for-sale securities	3,151,000	9,000,000
Purchase of premises and equipment	(229,092)	(272,671)
Purchase of available-for-sale securities	(25,995,159)	(44,309,342)
Proceeds from sale of available-for-sale securities	18,106,890	17,311,228
Redemption of Federal Home Loan Bank stock	6,200	658,100
Proceeds from sale of state low-income housing tax credits	-	1,441,012
Proceeds from sale of foreclosed assets held for sale	403,046	828,401
Net cash provided by (used in) investing activities	9,139,893	(3,823,859)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in demand deposits, NOW and savings accounts	(4,450,772)	25,921,950
Net decrease in certificates of deposit	(1,715,598)	(14,047,207)
Net decrease of securities sold under agreements to repurchase	-	(15,000,000)
Proceeds from FHLB advances	1,050,000	-
Repayments of FHLB advances	(3,000,000)	(15,100,000)

Stock options exercised	84,806	9,409
Redemption of preferred stock	(12,000,000)	-
Repurchase of common stock warrants	-	(2,003,250)
Proceeds from issuance of common stock	15,814,312	-
Advances from borrowers for taxes and insurance	195,594	217,003
Cash dividends paid on preferred stock	(413,000)	(300,000)
Treasury stock purchased	-	(105,782)
Net cash used in financing activities	(4,434,658)	(20,407,877)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,527,826	(17,808,217)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	12,303,200	41,663,405
CASH AND CASH EQUIVALENTS, END OF PERIOD	$20,831,026	$23,855,188

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") Annual Report on Form 10-K for the year ended December 31, 2013 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 balance sheet of the Company as of December 31, 2013, has been derived from the audited consolidated balance sheet 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 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of June 30, 2014				
Equity Securities	$102,212	$ 18,270	$(14,468)	$106,014
Debt Securities:				
U. S. government agencies	17,859,155	-	(521,929)	17,337,226
Municipals	14,390,096	103,051	(210,367)	14,282,780
Government sponsored mortgage-backed securities	69,518,311	303,267	(1,133,057)	68,688,521
	$101,869,774	$ 424,588	$(1,879,821)	$100,414,541

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2013				
Equity Securities	$102,212	$ 16,007	$(18,913)	$99,306
Debt Securities:				
U. S. government agencies	33,198,865	-	(1,437,478)	31,761,387
Municipals	14,133,821	18,827	(660,021)	13,492,627
Corporates	990,663	3,609	-	994,272
Government sponsored mortgage-backed securities	53,245,297	265,038	(2,165,242)	51,345,093
	$101,670,858	$ 303,481	$(4,281,654)	$97,692,685

Maturities of available-for-sale debt securities as of June 30, 2014:

	Amortized Cost	Approximate Fair Value
1-5 years	$9,514,806	$9,337,173
6-10 years	14,984,811	14,576,895
After 10 years	7,749,634	7,705,938
Government sponsored mortgage-backed securities not due on a single maturity date	69,518,311	68,688,521
	$101,767,562	$100,308,527

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 June 30, 2014				
Debt Securities:				
Government sponsored mortgage-backed securities	$ 69,862	$ 1,766	$ -	$ 71,628

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2013				
Debt Securities:				
Government sponsored mortgage-backed securities	$ 79,162	$ 1,927	$ -	$ 81,089

Maturities of held-to-maturity securities as of June 30, 2014:

	Amortized Cost	Approximate Fair Value
Government sponsored mortgage-backed securities not due on a single maturity date	$ 69,862	$ 71,628

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to $47,029,182 and $44,717,470 as of June 30, 2014 and December 31, 2013, respectively. The approximate fair value of pledged securities amounted to $46,098,539 and $42,807,840 as of June 30, 2014 and December 31, 2013, 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 $10,691 and $204,983 as of June 30, 2014 and June 30, 2013, respectively, were realized from the sale of available-for-sale securities. The tax effect of these net gains was $3,956 and $75,844 as of June 30, 2014 and June 30, 2013, 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, 2014 and December 31, 2013, was $82,234,766 and $85,712,067, respectively, which is approximately 82% and 88% 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 table shows gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2014 and December 31, 2013.

	June 30, 2014					
	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	$-	$-	$33,459	$(14,468)	$33,459	$(14,468)
U. S. government agencies	-	-	17,337,226	(521,929)	17,337,226	(521,929)
Municipals	2,729,915	(15,070)	7,181,252	(195,297)	9,911,167	(210,367)
Government sponsored mortgage-backed securities	19,800,679	(111,552)	35,152,236	(1,021,504)	54,952,914	(1,133,056)
	$22,530,594	$(126,622)	$59,704,173	$(1,753,199)	$82,234,766	$(1,879,821)

	December 31, 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	$-	$-	$29,014	$(18,913)	$29,014	$(18,913)
U. S. government agencies	24,731,730	(916,208)	7,029,657	(521,270)	31,761,387	(1,437,478)
Municipals	10,460,662	(534,440)	1,701,215	(125,581)	12,161,877	(660,021)
Government sponsored mortgage-backed securities	32,074,646	(1,655,296)	9,685,143	(509,946)	41,759,789	(2,165,242)
	$67,267,038	$(3,105,944)	$18,445,029	$(1,175,710)	$85,712,067	$(4,281,654)

Note 4: Loans and Allowance for Loan Losses

Categories of loans at June 30, 2014 and December 31, 2013 include:

	June 30, 2014	December 31, 2013
Real estate - residential mortgage:		
One to four family units	$95,356,636	$93,797,650
Multi-family	31,969,145	46,188,434
Real estate - construction	39,159,239	43,266,130
Real estate - commercial	188,307,781	179,079,433
Commercial loans	89,248,153	92,721,783
Consumer and other loans	17,074,824	17,303,392
Total loans	461,115,778	472,356,822
Less:		
Allowance for loan losses	(6,788,409)	(7,801,600)
Deferred loan fees/costs, net	(175,373)	(175,368)
Net loans	$454,151,996	$464,379,854

Classes of loans by aging at June 30, 2014 and December 31, 2013 were as follows:

As of June 30, 2014

	30-59 Days Past Due	60-89 Days Past Due	90 Days and more Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
	(In Thousands)						
Real estate - residential mortgage:							
One to four family units	$14	$500	$287	$801	$94,556	$95,357	$ -
Multi-family	-	-	-	-	31,969	31,969	-
Real estate - construction	-	-	-	-	39,159	39,159	-
Real estate - commercial	-	28	-	28	188,280	188,308	-
Commercial loans	-	1,152	-	1,152	88,096	89,248	-
Consumer and other loans	3	38	-	41	17,034	17,075	-
Total	$17	$1,718	$287	$2,022	$459,094	$461,116	$ -

As of December 31, 2013

	30-59 Days Past Due	60-89 Days Past Due	90 Days and more Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
	(In Thousands)						
Real estate - residential mortgage:							
One to four family units	$246	$337	$-	$583	$93,215	$93,798	$ -
Multi-family	-	-	-	-	46,188	46,188	-
Real estate - construction	-	-	536	536	42,730	43,266	-
Real estate - commercial	-	-	2,604	2,604	176,476	179,080	-
Commercial loans	-	2	3,628	3,630	89,092	92,722	-
Consumer and other loans	19	-	63	82	17,221	17,303	-
Total	$265	$339	$6,831	$7,435	$464,922	$472,357	$ -

Nonaccruing loans are summarized as follows:

	June 30, 2014	December 31, 2013
Real estate - residential mortgage:		
One to four family units	$1,209,618	$815,746
Multi-family	-	-
Real estate - construction	3,430,492	4,529,410
Real estate - commercial	514,866	3,663,166
Commercial loans	2,651,340	6,776,230
Consumer and other loans	-	63,027
Total	$7,806,316	$15,847,579

The following tables present the activity in the allowance for loan losses based on portfolio segment for the three and six months ended June 30, 2014 and 2013:

Three months ended June 30, 2014	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	(In Thousands)							
Allowance for loan losses:								
Balance, beginning of period	$2,008	$ 2,344	$962	$ 147	$ 1,799	$ 228	$ 273	$7,761
Provision charged to expense	76	(51)	65	(1)	477	32	(273)	$325
Losses charged off	(207)	(9)	(14)	-	(1,058)	(49)	-	$(1,337)
Recoveries	2	-	1	-	26	10	-	$39
Balance, end of period	$1,879	$ 2,284	$1,014	$ 146	$ 1,244	$ 221	$ -	$6,788

Six months ended June 30, 2014	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	(In Thousands)							
Allowance for loan losses:								
Balance, beginning of period	$2,387	$ 2,059	$997	$ 209	$ 1,519	$ 272	$ 359	$7,802
	(304)	234	114	(63)	914	(11)	(359)	$525

Provision charged to expense								
Losses charged off	(207)	(9)	(100)	-	(1,222)	(68)	-	$(1,606)
Recoveries	3	-	3	-	33	28	-	$67
Balance, end of period	$1,879	$ 2,284	$1,014	$ 146	$ 1,244	$ 221	$ -	$6,788

Three months ended June 30, 2013	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	(In Thousands)							
Allowance for loan losses:								
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

Six months ended June 30, 2013	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	(In Thousands)							
Allowance for loan losses:								
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
Balance, end of period	$1,999	$ 2,026	$1,229	$ 291	$ 2,065	$ 267	$ 500	$8,377

The following tables present the recorded investment in loans based on portfolio segment and impairment method as of June 30, 2014 and December 31, 2013:

As of June 30, 2014

	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	(In Thousands)							
Allowance for loan losses:								
	$515	$185	$48	$ -	$ -	$10	$ -	$758

Ending balance: individually evaluated for impairment								
Ending balance: collectively evaluated for impairment	$1,364	$2,099	$966	$146	$1,244	$211	$ -	$6,030
Loans:								
Ending balance: individually evaluated for impairment	$3,430	$515	$1,210	$ -	$3,438	$273	$ -	$8,866
Ending balance: collectively evaluated for impairment	$35,729	$187,793	$94,147	$31,969	$85,810	$16,802	$ -	$452,250

December 31, 2013

	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	(In Thousands)							
Allowance for loan losses:								
Ending balance: individually evaluated for impairment	$890	$ -	$8	$ -	$601	$102	$ -	$1,601
Ending balance: collectively evaluated for impairment	$1,497	$2,059	$989	$209	$918	$170	$ 359	$6,201
Loans:								
Ending balance: individually evaluated for impairment	$4,530	$3,663	$886	$ -	$6,776	$316	$ -	$16,171
Ending balance: collectively evaluated for impairment	$38,736	$175,417	$92,912	$46,188	$85,946	$16,987	$ -	$456,186

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, 2014 and December 31, 2013:

	June 30, 2014			December 31, 2013		
	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	$896	$896	$ -	$620	$620	$ -
Multi-family	-	-	-	-	-	-
Real estate - construction	93	93	-	96	940	-
Real estate - commercial	28	37	-	3,663	3,663	-
Commercial loans	3,438	4,254	-	2,327	2,462	-
Consumer and other loans	-	-	-	-	-	-
Loans with a specific valuation allowance						
Real estate - residential mortgage:						
One to four family units	$314	$314	$ 48	$267	$267	$ 8
Multi-family	-	-	-	-	-	-
Real estate - construction	3,337	4,388	515	4,433	4,433	890
Real estate - commercial	487	487	185	-	-	-
Commercial loans	-	-	-	4,449	5,148	601
Consumer and other loans	273	273	10	316	316	102
Total						
Real estate - residential mortgage:						
One to four family units	$1,210	$1,210	$ 48	$887	$887	$ 8
Multi-family	-	-	-	-	-	-
Real estate - construction	3,430	4,481	515	4,529	5,373	890
Real estate - commercial	515	524	185	3,663	3,663	-
Commercial loans	3,438	4,254	-	6,776	7,610	601
Consumer and other loans	273	273	10	316	316	102
Total	$8,866	$10,742	$ 758	$16,171	$17,849	$ 1,601

The following table summarizes average impaired loans and related interest recognized on impaired loans for the three and six months ended June 30, 2014 and 2013:

	For the Three Months Ended June 30, 2014		For the Three Months Ended June 30, 2013	
	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	$823	$ -	$2,164	$ 1
Multi-family	-	-	-	-
Real estate - construction	94	-	5,320	-
Real estate - commercial	264	-	5,095	13
Commercial loans	3,486	98	648	-
Consumer and other loans	-	-	96	-
Loans with a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	$325	$ -	$181	$ -
Multi-family	-	-	-	-
Real estate - construction	3,532	-	613	-
Real estate - commercial	574	-	-	-
Commercial loans	699	-	3,230	-
Consumer and other loans	272	-	305	-
Total				
Real estate - residential mortgage:				
One to four family units	$1,148	$ -	$2,345	$ 1
Multi-family	-	-	-	-
Real estate - construction	3,626	-	5,933	-
Real estate - commercial	838	-	5,095	13
Commercial loans	4,185	98	3,878	-
Consumer and other loans	272	-	401	-
Total	$10,069	$ 98	$17,652	$ 14

	For the Six Months Ended June 30, 2014		For the Six Months Ended June 30, 2013	
	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	$752	$ 1	$2,152	$ 3
Multi-family	-	-	-	-
Real estate - construction	95	-	5,214	-
Real estate - commercial	408	-	4,142	36
Commercial loans	3,088	98	646	1
Consumer and other loans	-	-	99	-
Loans with a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	$329	$ -	$144	$ -
Multi-family	-	-	-	-
Real estate - construction	3,883	-	859	-
Real estate - commercial	412	-	1,122	-
Commercial loans	1,897	-	2,756	-
Consumer and other loans	375	-	339	-
Total				
Real estate - residential mortgage:				
One to four family units	$1,081	$ 1	$2,296	$ 3
Multi-family	-	-	-	-
Real estate - construction	3,978	-	6,073	-
Real estate - commercial	820	-	5,264	36
Commercial loans	4,985	98	3,402	1
Consumer and other loans	375	-	438	-
Total	$11,239	$ 99	$17,473	$ 40

At June 30, 2014, 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 June 30, 2014:

	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Real estate - residential mortgage:			
One to four family units	1	$ 287,500	$ 287,500
Multi-family	-	-	-
Real estate - construction	-	-	-
Real estate - commercial	-	-	-
Commercial loans	-	-	-
Consumer and other loans	-	-	-
Total	1	$ 287,500	$ 287,500

The following table summarizes, by type of concession, loans that were newly classified as TDRs for the three months ended June 30, 2014:

	Interest Rate	Term	Combination	Total Modification
Real estate - residential mortgage:				
One to four family units	$ -	$ -	$ 287,500	$ 287,500
Multi-family	-	-	-	-
Real estate - construction	-	-	-	-
Real estate - commercial	-	-	-	-
Commercial loans	-	-	-	-
Consumer and other loans	-	-	-	-
Total	$ -	$ -	$ 287,500	$ 287,500

The following table presents the carrying balance of TDRs as of June 30, 2014 and December 31, 2013:

	June 30, 2014	December 31, 2013
Real estate - residential mortgage:		
One to four family units	$790,476	$519,718
Multi-family	-	-
Real estate - construction	3,411,014	4,507,190
Real estate - commercial	486,612	3,026,931
Commercial loans	2,285,821	3,699,243
Consumer and other loans	-	-
Total	$6,973,923	$11,753,082

The Bank has allocated $742,651 and $1,146,359 of specific reserves to customers whose loan terms have been modified in a TDR as of June 30, 2014 and December 31, 2013, respectively.

There was one commercial TDR totaling $391,364 for which there was a payment default within twelve months following the modification during the three months ending June 30, 2014. 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 three months ending June 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 June 30, 2014 and December 31, 2013:

June 30, 2014

	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Total
	(In Thousands)						
Rating:							
Pass	$28,105	$ 180,408	$88,541	$ 31,554	$ 71,914	$ 16,872	$417,394
Special Mention	7,585	3,874	5,103	-	14,487	-	31,049
Substandard	3,469	3,539	1,713	415	2,847	203	12,186
Doubtful	-	487	-	-	-	-	487

Total	$39,159	$ 188,308	$95,357	$ 31,969	$ 89,248	$ 17,075	$461,116

December 31, 2013

	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Total
	(In Thousands)						
Rating:							
Pass	$31,433	$ 169,135	$83,341	$ 45,768	$ 78,622	$ 16,743	$425,042
Special Mention	7,253	4,721	8,954	420	9,161	107	30,616
Substandard	683	5,224	1,503	-	2,738	453	10,601
Doubtful	3,897	-	-	-	2,201	-	6,098
Total	$43,266	$ 179,080	$93,798	$ 46,188	$ 92,722	$ 17,303	$472,357

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees net of certain direct origination costs, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the loan is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

Note 5: Benefit Plans

The Company has stock-based employee compensation plans, which are described in the Company's December 31, 2013 Annual Report on Form 10-K.

The table below summarizes transactions under the Company's stock option plans for six months ended June 30, 2014:

	Incentive Stock Option	Non-Incentive Stock Option	Weighted Average Exercise Price
Balance outstanding as of January 1, 2014	168,100	121,000	$ 16.54
Granted	-	-	-
Exercised	(11,800)	(4,500)	5.20
Forfeited	-	(21,500)	18.00
Balance outstanding as of June 30, 2014	156,300	95,000	17.15
Options exercisable as of June 30, 2014	149,200	85,750	17.98

Stock-based compensation expense, consisting of stock options and restricted stock awards, recognized for the three months ended June 30, 2014 and 2013 was $30,918 and $35,461, respectively. Stock-based compensation expense recognized for the six months ended June 30, 2014 and 2013 was $190,490 and $187,275, respectively. As of June 30, 2014, there was $5,525 of unrecognized compensation expense related to nonvested stock options and $222,210 of unrecognized compensation expense related to nonvested restricted stock awards, which will be recognized over the remaining vesting period.

In February 2014 and January 2013, the Company granted restricted stock to directors pursuant to the 2010 Equity Plan that was fully vested and thus, expensed in full on the date of the grants. The amount expensed was $122,538 and $116,032 for 2014 and 2013, respectively, which represents 11,242 shares of common stock at a market price of $10.90 at the date of grant in 2014 and 16,576 shares of common stock at a market price of $7.00 at the date of grant in 2013.

In February 2014, the company granted 21,820 shares of restricted stock to officers that have a cliff vesting at the end of three years. The expense is being recognized over the applicable vesting period. The amount expensed during the six months ended June 30, 2014 was $31,871.

Note 6: Income Per Common Share

	For three months ended June 30, 2014			For six months ended June 30, 2014		
	Income Available to Common Shareholders	Common Shares Outstanding	Per Common Share	Income Available to Common Shareholders	Common Shares Outstanding	Per Common Share
Basic Income Per Common Share	$1,227,683	4,265,050	$ 0.29	$2,282,899	3,718,791	$ 0.61
Effect of Dilutive Securities		72,430			72,988	
Diluted Income Per Common Share	$1,227,683	4,337,480	$ 0.28	$2,282,899	3,791,779	$ 0.60

	For three months ended June 30, 2013			For six months ended June 30, 2013		
	Income Available to Common Shareholders	Average Common Shares Outstanding	Per Common Share	Income Available to Common Shareholders	Average Common Shares Outstanding	Per Common Share
Basic Income Per Common Share	$1,369,110	2,731,727	$ 0.50	$2,123,133	2,735,533	$ 0.78
Effect of Dilutive Securities		75,197			72,214	
Diluted Income Per Common Share	$1,369,110	2,806,924	$ 0.49	$2,123,133	2,807,747	$ 0.76

Stock options to purchase 136,500 of common stock were outstanding during the three and six months ended June 30, 2014, respectively, and stock options to purchase 197,500 shares of common stock were outstanding during the three and six months ended June 30, 2013, respectively, 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.

Note 7: New Accounting Pronouncements

In January 2014, the FASB issued ASU No. 2014-01 to amend FASB ASC Topic 323, *Investments – Equity Method and Joint Ventures*. The objective of this update is to provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments in the update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The update will be effective for the Company beginning January 1, 2015; however, early adoption is permitted. The Company does have significant investments in such qualified affordable housing projects and is currently reviewing the provisions of this update to determine what, if any, impacts it may have on the Company's financial position or results of operations. The Company expects that there will be no material impact on the Company's financial position or results of operations, except that the investment amortization expense which is currently included in Other Non-interest Expense in the Consolidated Statements of Income would be removed from Other Non-interest Expense and included in Provision for Income Taxes in the Consolidated Statements of Income. This would have the effect of reducing Non-interest Expense and increasing Provision for Income Taxes, but is not expected to have any impact on Net Income.

In January 2014, the FASB issued ASU No. 2014-04 to amend FASB ASC Topic 310, *Receivables – Troubled Debt Restructurings by Creditors*. The objective of the amendments in this update is to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments in this update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The update will be effective for the Company beginning January 1, 2015, and is not expected to 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 balance sheets, 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 balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2014 and December 31, 2013 (dollar amounts in thousands):

June 30, 2014

Financial assets:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities	$ 106	$-	$ -	$106
Debt securities:				
U.S. government agencies	-	17,337	-	17,337
Municipals	-	14,283	-	14,283
Government sponsored mortgage-backed securities	-	68,689	-	68,689
Available-for-sale securities	$ 106	$100,309	$ -	$100,415

December 31, 2013

Financial assets:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities	$ 99	$-	$ -	$99
Debt securities:				
U.S. government agencies	-	31,762	-	31,762
Municipals	-	13,493	-	13,493
Corporate Bonds	-	994	-	994
Government sponsored mortgage-backed securities	-	51,345	-	51,345
Available-for-sale securities	$ 99	$97,594	$ -	$97,693

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 balance sheets, 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 obtaining a current independent appraisal of the collateral and applying a discount factor to the 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 June 30, 2014 and December 31, 2013 (dollar amounts in thousands):

Impaired loans:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
June 30, 2014	$ -	$ -	$7,069	$7,069
December 31, 2013	$ -	$ -	$10,305	$10,305

Foreclosed assets held for sale:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
June 30, 2014	$ -	$ -	$-	$-
December 31, 2013	$ -	$ -	$2,340	$2,340

There were no transfers between valuation levels for any asset during the six months ended June 30, 2014 or 2013. 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 June 30, 2014	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans (collateral dependent)	$7,069	Market Comparable	Discount to reflect realizable value	0%-38% (12%)
Impaired loans	$-	Discounted cash flow	Discount rate	0 %
Foreclosed assets held for sale	$-	Market Comparable	Discount to reflect realizable value	0 %

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying condensed consolidated balance sheets 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 balance sheets 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 June 30, 2014 and December 31, 2013.

	June 30, 2014		
	Carrying Amount	Fair Value	Hierarchy Level

Financial assets:			
Cash and cash equivalents	$20,831,026	$20,831,026	1
Held-to-maturity securities	69,862	71,628	2
Federal Home Loan Bank stock	2,878,900		