

GUARANTY FEDERAL BANCSHARES INC

Form 10-Q

May 14, 2012

---

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

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  
(Address of principal executive offices)

65807  
(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 ☒ 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 ☒ 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 ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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 May 4, 2012
Common Stock, Par Value \$0.10 per share	2,712,048 Shares

GUARANTY FEDERAL BANCSHARES, INC.

TABLE OF CONTENTS

	Page
<b>PART I. FINANCIAL INFORMATION</b>	
<u>Item 1. Financial Statements</u>	
Condensed Consolidated Financial Statements (Unaudited):	
<u>Condensed Consolidated Statements of Financial Condition</u>	3
<u>Condensed Consolidated Statements of Income</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income</u>	5
<u>Condensed Consolidated Statements of Stockholders' Equity</u>	6
<u>Condensed Consolidated Statements of Cash Flows</u>	8
<u>Notes to Condensed Consolidated Financial Statements</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	31
<u>Item 4. Controls and Procedures</u>	32
<b>PART II. OTHER INFORMATION</b>	
<u>Item 1. Legal Proceedings</u>	33
<u>Item 1A. Risk factors</u>	33
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
<u>Item 3. Defaults Upon Senior Securities</u>	33
<u>Item 4. Mine Safety Disclosures</u>	33
<u>Item 5. Other Information</u>	33
<u>Item 6. Exhibits</u>	33
<u>Signatures</u>	

Table of Contents

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
 MARCH 31, 2012 (UNAUDITED) AND DECEMBER 31, 2011

ASSETS	3/31/12	12/31/11
Cash	\$7,205,152	\$7,200,969
Interest-bearing deposits in other financial institutions	28,503,524	19,373,113
Cash and cash equivalents	35,708,676	26,574,082
Interest-bearing deposits	-	5,587,654
Available-for-sale securities	96,418,573	81,064,878
Held-to-maturity securities	208,580	218,571
Stock in Federal Home Loan Bank, at cost	3,846,900	3,846,900
Mortgage loans held for sale	2,395,420	3,702,849
Loans receivable, net of allowance for loan losses of March 31, 2012 - \$10,973,592 - December 31, 2011 - \$10,613,145	460,559,163	478,960,736
Accrued interest receivable:		
Loans	1,634,115	1,752,786
Investments and interest-bearing deposits	379,529	386,534
Prepaid expenses and other assets	6,974,259	7,116,067
Prepaid FDIC deposit insurance premiums	1,882,603	2,089,076
Foreclosed assets held for sale	9,426,805	10,012,035
Premises and equipment	11,423,577	11,423,822
Bank owned life insurance	13,352,265	10,770,887
Income taxes receivable	420,741	512,666
Deferred income taxes	4,402,723	4,486,315
	\$649,033,929	\$648,505,858
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	\$484,218,455	\$484,583,665
Federal Home Loan Bank advances	68,050,000	68,050,000
Securities sold under agreements to repurchase	25,000,000	25,000,000
Subordinated debentures	15,465,000	15,465,000
Advances from borrowers for taxes and insurance	253,782	156,509
Accrued expenses and other liabilities	537,986	496,956
Accrued interest payable	464,038	518,881
	593,989,261	594,271,011
COMMITMENTS AND CONTINGENCIES		
	-	-
STOCKHOLDERS' EQUITY		
Capital Stock:		
Series A preferred stock, \$0.01 par value; authorized 2,000,000 shares; issued and outstanding March 31, 2012 and December 31, 2011 - 17,000 shares	16,494,802	16,425,912
	677,980	677,980

Edgar Filing: GUARANTY FEDERAL BANCSHARES INC - Form 10-Q

Common stock, \$0.10 par value; authorized 10,000,000 shares; issued March 31, 2012 and December 31, 2011 - 6,779,800 shares;		
Common stock warrants; March 31, 2012 and December 31, 2011 - 459,459 shares	1,377,811	1,377,811
Additional paid-in capital	58,180,615	58,333,614
Unearned ESOP shares	(147,930 )	(204,930 )
Retained earnings, substantially restricted	39,010,323	38,456,991
Accumulated other comprehensive income		
Unrealized appreciation on available-for-sale securities, net of income taxes	800,393	791,285
	116,393,994	115,858,663
Treasury stock, at cost; March 31, 2012 and December 31, 2011 - 4,054,306 and 4,072,156 shares, respectively		
	(61,349,326 )	(61,623,816 )
	55,044,668	54,234,847
	\$649,033,929	\$648,505,858

See Notes to Condensed Consolidated Financial Statements

Table of Contents

GUARANTY FEDERAL BANCSHARES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
THREE MONTHS ENDED MARCH 31, 2012 AND 2011 (UNAUDITED)

	3/31/2012	3/31/2011
Interest Income		
Loans	\$6,403,838	\$6,717,072
Investment securities	412,344	725,211
Other	49,740	87,835
	6,865,922	7,530,118
Interest Expense		
Deposits	1,142,796	1,599,941
Federal Home Loan Bank advances	383,734	600,379
Subordinated debentures	139,845	206,812
Other	183,775	279,179
	1,850,150	2,686,311
Net Interest Income	5,015,772	4,843,807
Provision for Loan Losses	900,000	900,000
Net Interest Income After Provision for Loan Losses	4,115,772	3,943,807
Noninterest Income		
Service charges	255,090	339,231
Gain on sale of investment securities	37,529	3,704
Gain on sale of loans	362,354	278,200
Loss on foreclosed assets	(101,109 )	(133,987 )
Other income	293,148	270,751
	847,012	757,899
Noninterest Expense		
Salaries and employee benefits	2,335,096	2,265,151
Occupancy	391,474	426,865
FDIC deposit insurance premiums	216,206	285,744
Data processing	132,187	139,660
Advertising	75,000	75,000
Other expense	897,545	959,804
	4,047,508	4,152,224
Income Before Income Taxes	915,276	549,482
Provision for Income Taxes	80,554	26,520
Net Income	834,722	522,962
Preferred Stock Dividends and Discount Accretion	281,391	281,391
Net Income Available to Common Shareholders	\$553,331	\$241,571
Basic Income Per Common Share	\$0.20	\$0.09
Diluted Income Per Common Share	\$0.20	\$0.09

See Notes to Condensed Consolidated Financial Statements

Table of Contents

GUARANTY FEDERAL BANCSHARES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
THREE MONTHS ENDED MARCH 31, 2012 AND 2011 (UNAUDITED)

	3/31/2012	3/31/2011
NET INCOME	\$834,722	\$522,962
OTHER ITEMS OF COMPREHENSIVE INCOME:		
Change in unrealized gain on investment securities available-for-sale, before income taxes	51,986	(209,031 )
Less: Reclassification adjustment for realized gains on investment securities included in net income, before income taxes	(37,529 )	(3,704 )
Total other items in comprehensive income	14,457	(212,735 )
Income tax (benefit) expense related to other items of comprehensive income	5,349	(78,712 )
Other comprehensive income (loss)	9,108	(134,023 )
TOTAL COMPREHENSIVE INCOME	\$843,830	\$388,939

See Notes to Condensed Consolidated Financial Statements

Table of Contents

GUARANTY FEDERAL BANCSHARES, INC.  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
THREE MONTHS ENDED MARCH 31, 2012 (UNAUDITED)

	Preferred Stock	Common Stock	Common Stock Warrants	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive 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	-	-	-	-	-	-	834,722	-
Change in unrealized appreciation on available-for-sale securities, net of income taxes	-	-	-	-	-	-	-	9,108
Preferred stock discount accretion	68,890	-	-	-	-	-	(68,890)	-
Preferred stock dividends (5%)	-	-	-	-	-	-	(212,500)	-
Stock award plans	-	-	-	(137,857)	-	280,208	-	-
Treasury stock purchased	-	-	-	-	-	(5,718)	-	-
Release of ESOP shares	-	-	-	(15,142)	57,000	-	-	-
Balance, March 31, 2012	\$16,494,802	\$677,980	\$1,377,811	\$58,180,615	\$(147,930)	\$(61,349,326)	\$39,010,323	\$800,393

See Notes to Condensed Consolidated Financial Statements



Table of Contents

GUARANTY FEDERAL BANCSHARES, INC.  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
THREE MONTHS ENDED MARCH 31, 2011 (UNAUDITED)

	Preferred Stock	Common Stock	Common Stock Warrants	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income
Balance, January 1, 2011	\$16,150,350	\$677,980	\$1,377,811	\$58,505,046	\$(432,930)	\$(61,827,409)	\$35,746,914	\$1,843,000
Net income	-	-	-	-	-	-	522,962	-
Change in unrealized appreciation on available-for-sale securities, net of income taxes	-	-	-	-	-	-	-	(134,023)
Preferred stock discount accretion	68,891	-	-	-	-	-	(68,891)	-
Preferred stock dividends (5%)	-	-	-	-	-	-	(212,500)	-
Stock award plans	-	-	-	(131,057)	-	256,823	-	-
Treasury stock purchased	-	-	-	-	-	(45,572)	-	-
Release of ESOP shares	-	-	-	(24,499)	57,000	-	-	-
Balance, March 31, 2011	\$16,219,241	\$677,980	\$1,377,811	\$58,349,490	\$(375,930)	\$(61,616,158)	\$35,988,485	\$1,708,980

See Notes to Condensed Consolidated Financial Statements

Table of Contents

GUARANTY FEDERAL BANCSHARES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
THREE MONTHS ENDED MARCH 31, 2012 AND 2011 (UNAUDITED)

	3/31/2012	3/31/2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 834,722	\$ 522,962
Items not requiring (providing) cash:		
Deferred income taxes	78,243	36,126
Depreciation	172,206	177,507
Provision for loan losses	900,000	900,000
Gain on loans and investment securities	(399,883 )	(281,904 )
Loss on sale of foreclosed assets	126,123	51,769
Amortization of deferred income, premiums and discounts	(9,256 )	(9,346 )
Stock award plan expense	142,351	125,766
Origination of loans held for sale	(16,156,200)	(10,525,511)
Proceeds from sale of loans held for sale	17,825,983	13,208,374
Release of ESOP shares	41,858	32,501
Increase in cash surrender value of bank owned life insurance	(81,378 )	(79,804 )
Changes in:		
Prepaid FDIC deposit insurance premiums	206,473	264,881
Accrued interest receivable	125,676	500,357
Prepaid expenses and other assets	141,808	141,333
Accounts payable and accrued expenses	(13,813 )	(215,744 )
Income taxes receivable	91,925	-
Net cash provided by operating activities	4,026,838	4,849,267
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net change in loans	17,164,343	8,022,272
Principal payments on available-for-sale securities	3,243,419	3,812,706
Principal payments on held-to-maturity securities	9,992	14,873
Proceeds from maturities of available-for-sale securities	1,000,000	10,500,000
Purchase of premises and equipment	(171,961 )	(148,266 )
Purchase of available-for-sale securities	(28,758,430)	(17,142,280)
Proceeds from sale of available-for-sale securities	9,213,301	737,277
Proceeds from maturities of interest-bearing deposits	5,587,654	7,197,346
Purchase of tax credit investments	-	(911,957 )
Capitalized costs on foreclosed assets held for sale	-	(85,586 )
Proceeds from sale of foreclosed assets held for sale	805,593	746,633
Net cash provided by investing activities	5,593,911	12,743,018
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in demand deposits, NOW accounts and savings accounts	6,381,502	11,773,317
Net decrease in certificates of deposit	(6,746,712 )	(2,661,027 )
Advances from borrowers for taxes and insurance	97,273	97,448
Preferred cash dividends paid	(212,500 )	(212,500 )
Treasury stock purchased	(5,718 )	(45,572 )
Net cash provided by (used in) financing activities	(486,155 )	8,951,666
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	9,134,594	26,543,951
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	26,574,082	14,145,329
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 35,708,676	\$ 40,689,280

See Notes to Condensed Consolidated Financial Statements

Table of Contents

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## Note 1: Basis of Presentation

The accompanying unaudited interim 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") Form 10-K annual report for 2011 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, 2011, 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 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 March 31, 2012				
Equity Securities	\$ 102,212	\$-	\$(30,752 )	\$ 71,460
Debt Securities:				
U. S. government agencies	39,420,242	141,380	(86,660 )	39,474,962
U. S. treasuries	2,034,530	-	(3,104 )	2,031,426
Municipals	6,413,509	139,130	(106,830 )	6,445,809
Corporate bonds	1,824,406	2,992	(13,985 )	1,813,413
Government sponsored mortgage-backed securities	45,353,208	1,313,263	(84,969 )	46,581,503
	\$95,148,107	\$ 1,596,766	\$(326,300 )	\$ 96,418,573

Table of Contents

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2011				
Equity Securities	\$ 102,212	\$-	\$(39,950 )	\$ 62,262
Debt Securities:				
U. S. government agencies	34,668,833	122,093	(64,264 )	34,726,662
U. S. treasuries	2,037,168	5,469	-	2,042,637
Municipals	4,049,701	138,736	(44,038 )	4,144,399
Government sponsored mortgage-backed securities	38,950,955	1,148,789	(10,826 )	40,088,918
	\$ 79,808,869	\$ 1,415,087	\$(159,078 )	\$ 81,064,878

Maturities of available-for-sale debt securities as of March 31, 2012:

	Amortized Cost	Approximate Fair Value
1-5 years	\$ 26,214,529	\$ 26,334,009
6-10 years	18,919,535	18,839,287
After 10 years	4,558,623	4,592,314
Government sponsored mortgage-backed securities not due on a single maturity date	45,353,208	46,581,503
	\$ 95,045,895	\$ 96,347,113

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 March 31, 2012				
Debt Securities:				
Government sponsored mortgage-backed securities	\$ 208,580	\$ 14,850	\$-	\$ 223,430
	\$ 208,580	\$ 14,850	\$-	\$ 223,430

Table of Contents

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2011				
Debt Securities:				
Government sponsored mortgage-backed securities	\$218,571	\$17,003	\$-	\$ 235,574
	\$218,571	\$17,003	\$-	\$ 235,574

Maturities of held-to-maturity securities as of March 31, 2012:

	Amortized Cost	Approximate Fair Value
Government sponsored mortgage-backed securities not due on a single maturity date	\$ 208,580	\$ 223,430
	\$ 208,580	\$ 223,430

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$57,819,968 and \$59,005,655 as of March 31, 2012 and December 31, 2011, respectively. The approximate fair value of pledged securities amounted to \$59,298,579 and \$60,222,048 as of March 31, 2012 and December 31, 2011, 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 \$37,529 and \$3,704 as of March 31, 2012 and March 31, 2011, respectively, were realized from the sale of available-for-sale securities. The tax effect of these net gains was \$13,886 and \$1,370 as of March 31, 2012 and March 31, 2011, 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 March 31, 2012 and December 31, 2011, was \$32,248,004 and \$29,766,876, respectively, which is approximately 33% and 37% 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.

Table of Contents

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 March 31, 2012 and December 31, 2011.

March 31, 2012						
Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity Securities	\$30,320	\$(357 )	\$41,140	\$(30,395 )	\$71,460	\$(30,752 )
U. S. government agencies	13,981,417	(86,660 )	-	-	13,981,417	(86,660 )
U. S. treasuries	2,031,426	(3,104 )	-	-	2,031,426	(3,104 )
Municipals	3,352,248	(106,830 )	-	-	3,352,248	(106,830 )
Corporate bonds	878,657	(13,985 )	-	-	878,657	(13,985 )
Government sponsored mortgage-backed securities	11,932,796	(84,969 )	-	-	11,932,796	(84,969 )
	\$32,206,864	\$(295,905 )	\$41,140	\$(30,395 )	\$32,248,004	\$(326,300 )

December 31, 2011						
Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity Securities	\$26,316	\$(4,361 )	\$35,946	\$(35,589 )	\$62,262	\$(39,950 )
U. S. government agencies	21,351,961	(64,264 )	-	-	21,351,961	(64,264 )
Municipals	1,045,521	(44,038 )	-	-	1,045,521	(44,038 )
Government sponsored mortgage-backed securities	7,307,132	(10,826 )	-	-	7,307,132	(10,826 )
	\$29,730,930	\$(123,489 )	\$35,946	\$(35,589 )	\$29,766,876	\$(159,078 )

Table of Contents

## Note 4: Loans and Allowance for Loan Losses

Categories of loans at March 31, 2012 and December 31, 2011 include:

	March 31, 2012	December 31, 2011
Real estate - residential mortgage:		
One to four family units	\$ 97,644,102	\$ 98,030,718
Multi-family	42,961,186	43,165,695
Real estate - construction	47,432,973	44,912,049
Real estate - commercial	176,074,688	194,856,374
Commercial loans	86,004,719	88,088,580
Consumer and other loans	21,643,394	20,758,027
Total loans	471,761,062	489,811,443
Less:		
Allowance for loan losses	(10,973,592 )	(10,613,145 )
Deferred loan fees/costs, net	(228,307 )	(237,562 )
Net loans	\$ 460,559,163	\$ 478,960,736

Classes of loans by aging at March 31, 2012 and December 31, 2011 were as follows:

As of March 31,  
2012

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due (In Thousands)	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
Real estate - residential mortgage:							
One to four family units	\$569	\$-	\$33	\$602	\$97,042	\$97,644	\$-
Multi-family	-	-	-	-	42,961	42,961	-
Real estate - construction	720	-	157	877	46,556	47,433	-
Real estate - commercial	373	-	-	373	175,702	176,075	-
Commercial loans	499	527	1,128	2,154	83,851	86,005	-
Consumer and other loans	40	-	-	40	21,603	21,643	-
Total	\$2,201	\$527	\$1,318	\$4,046	\$467,715	\$471,761	\$-

As of December  
31, 2011

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and
--	------------------------	------------------------	----------------------------	-------------------	---------	---------------------------	------------------------------------



Accruing

(In Thousands)

Real estate - residential  
mortgage:

One to four family units	\$5	\$206	\$33	\$244	\$97,787	\$98,031	\$-
Multi-family	-	-	-	-	43,166	43,166	-
Real estate - construction	728	-	157	885	44,027	44,912	-
Real estate - commercial	167	-	1,193	1,360	193,496	194,856	-
Commercial loans	32	-	548	580	87,508	88,088	-
Consumer and other loans	14	18	20	52	20,706	20,758	-
Total	\$946	\$224	\$1,951	\$3,121	\$486,690	\$489,811	\$-

Table of Contents

Nonaccruing loans are summarized as follows:

	March 31, 2012	December 31, 2011
Real estate - residential mortgage:		
One to four family units	\$ 1,784,696	\$ 1,671,245
Multi-family	-	-
Real estate - construction	7,854,111	8,514,187
Real estate - commercial	7,534,336	4,082,416
Commercial loans	4,011,343	2,377,081
Consumer and other loans	347,592	357,060
Total	\$ 21,532,078	\$ 17,001,989

The following tables present the activity in the allowance for loan losses based on portfolio segment for the three months ended March 31, 2012 and 2011:

March 31, 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	721	359	(24 )	(1 )	(163 )	26	(18 )	\$900
Losses charged off	-	(478 )	(108 )	-	-	(19 )	-	\$(605 )
Recoveries	10	14	3	-	31	8	-	\$66
Balance, end of period	\$3,239	\$ 2,620	\$1,606	\$ 389	\$ 1,816	\$ 387	\$ 917	\$10,974

  

March 31, 2011	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	\$4,547	\$ 3,125	\$1,713	\$ 528	\$ 2,483	\$ 687	\$ -	\$13,083
Provision charged to expense	803	274	518	(7 )	12	(1,485 )	785	\$900
Losses charged off	(69 )	(1,475 )	(265 )	-	(518 )	(40 )	-	\$(2,367 )
Recoveries	10	2	-	-	34	1,247	-	\$1,293
Balance, end of period	\$5,291	\$ 1,926	\$1,966	\$ 521	\$ 2,011	\$ 409	\$ 785	\$12,909

Table of Contents

The following tables present the recorded investment in loans based on portfolio segment and impairment method as of March 31, 2012 and December 31, 2011:

March 31, 2012	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	\$1,356	\$ 324	\$124	\$ -	\$ 444	\$61	\$ -	\$2,309
Ending balance: collectively evaluated for impairment	\$1,883	\$ 2,297	\$1,482	\$ 389	\$ 1,372	\$325	\$ 917	\$8,665
Loans:								
Ending balance: individually evaluated for impairment	\$7,854	\$ 9,136	\$1,792	\$ -	\$ 4,011	\$621	\$ -	\$23,414
Ending balance: collectively evaluated for impairment	\$39,579	\$ 166,939	\$95,852	\$ 42,961	\$ 81,994	\$21,022	\$ -	\$448,347
December 31, 2011	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	\$1,355	\$ 659	\$127	\$ -	\$ 399	\$72	\$ -	\$2,612
Ending balance: collectively evaluated for impairment	\$1,153	\$ 2,066	\$1,608	\$ 390	\$ 1,549	\$300	\$ 935	\$8,001
Loans:								
Ending balance: individually evaluated for impairment	\$8,515	\$ 5,019	\$1,819	\$ -	\$ 3,048	\$653	\$ -	\$19,054
Ending balance: collectively evaluated for	\$36,397	\$ 189,837	\$96,212	\$ 43,166	\$ 85,040	\$20,105	\$ -	\$470,757

impairment

15

---

Table of Contents

The following table summarizes the recorded investment in impaired loans at March 31, 2012 and December 31, 2011:

	March 31, 2012			December 31, 2011		
	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	\$ 1,399	\$ 1,399	\$-	\$ 1,424	\$ 1,424	\$-
Multi-family	-	-	-	-	-	-
Real estate - construction	1,225	1,225	-	1,181	1,181	-
Real estate - commercial	5,635	5,960	-	4,646	5,985	-
Commercial loans	1,560	1,871	-	1,148	1,459	-
Consumer and other loans	361	361	-	376	376	-
Loans with a specific valuation allowance						
Real estate - residential mortgage:						
One to four family units	\$ 393	\$ 419	\$ 124	\$ 395	\$ 421	\$ 127
Multi-family	-	-	-	-	-	-
Real estate - construction	6,629	7,149	1,356	7,334	7,854	1,355
Real estate - commercial	3,501	3,501	324	373	373	659
Commercial loans	2,451	2,451	444	1,900	1,900	399
Consumer and other loans	260	260	61	277	277	72
Total						
Real estate - residential mortgage:						
One to four family units	\$ 1,792	\$ 1,818	\$ 124	\$ 1,819	\$ 1,845	\$ 127
Multi-family	-	-	-	-	-	-
Real estate - construction	7,854	8,374	1,356	8,515	9,035	1,355
Real estate - commercial	9,136	9,461	324	5,019	6,358	659
Commercial loans	4,011	4,322	444	3,048	3,359	399
Consumer and other loans	621	621	61	653	653	72
Total	\$ 23,414	\$ 24,596	\$ 2,309	\$ 19,054	\$ 21,250	\$ 2,612

Table of Contents

The following table summarizes average impaired loans and related interest recognized on impaired loans for the three months ended March 31, 2012 and 2011:

	For the Three Months Ended March 31, 2012		For the Three Months Ended March 31, 2011	
	Average Investment in Impaired Loans	Interest Income Recognized (In Thousands)	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	\$1,409	\$5	\$2,583	\$35
Multi-family	-	-	-	-
Real estate - construction	985	-	3,646	2
Real estate - commercial	5,650	13	2,644	11
Commercial loans	1,903	6	4,513	35
Consumer and other loans	383	8	458	18
Loans with a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	\$604	\$-	\$1,214	\$-
Multi-family	-	-	-	-
Real estate - construction	7,021	-	7,556	-
Real estate - commercial	3,513	-	2,262	-
Commercial loans	2,270	-	2,894	-
Consumer and other loans	266	-	633	-
Total				
Real estate - residential mortgage:				
One to four family units	\$2,013	\$5	\$3,797	\$35
Multi-family	-	-	-	-
Real estate - construction	8,006	-	11,202	2
Real estate - commercial	9,163	13	4,906	11
Commercial loans	4,173	6	7,407	35
Consumer and other loans	649	8	1,091	18
Total	\$24,004	\$32	\$28,403	\$101

At March 31, 2012, 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.



Table of Contents

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.

During the three months ended March 31, 2012, there were no loans modified that met the definition of a troubled debt restructuring.

The Company has allocated \$1.3 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2012 and December 31, 2011.

There were no troubled debt restructurings for which there was a payment default within twelve months following the modification during the three months ending March 31, 2012. 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.

The following tables provide information about the credit quality of the loan portfolio using the Bank's internal rating system as of March 31, 2012 and December 31, 2011:

March 31, 2012	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Total
	(In Thousands)						
Rating:							
Pass	\$28,030	\$ 150,206	\$91,639	\$ 42,147	\$ 79,392	\$20,297	\$411,711
Special Mention	9,171	9,193	2,871	814	1,131	310	23,490
Substandard	10,232	16,676	3,134	-	5,482	1,036	36,560
Total	\$47,433	\$ 176,075	\$97,644	\$ 42,961	\$ 86,005	\$21,643	\$471,761





# Table of Contents

December 31, 2011	Construction	Commercial Real Estate	One to four family	Multi-family (In Thousands)	Commercial	Consumer and Other	Total
Rating:							
Pass	\$27,646	\$ 162,019	\$91,503	\$ 42,668	\$ 80,529	\$19,522	\$423,887
Special Mention	6,372	20,406	3,214	498	2,183	309	32,982
Substandard	10,894	12,431	3,314	-	5,376	927	32,942
Total	\$44,912	\$ 194,856	\$98,031	\$ 43,166	\$ 88,088	\$20,758	\$489,811

## Note 5: Benefit Plans

The Company has stock-based employee compensation plans, which are described in the Company's December 31, 2011 Annual Report on Form 10-K.

The table below summarizes transactions under the Company's stock option plans for three months ended March 31, 2012:

	Number of shares		
	Incentive Stock Option	Non- Incentive Stock Option	Weighted Average Exercise Price
Balance outstanding as of January 1, 2012	184,500	167,000	\$ 16.09
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Balance outstanding as of March 31, 2012	184,500	167,000	16.09
Options exercisable as of March 31, 2012	130,800	119,750	19.02

Stock-based compensation expense recognized for the three months ended March 31, 2012 and 2011 was \$13,062 and \$25,749, respectively. As of March 31, 2012, there was \$134,674 of unrecognized compensation expense related to nonvested stock options, which will be recognized over the remaining vesting period.

In January 2012, the Company granted restricted stock to directors pursuant to the 2010 Equity Plan that was fully vested and thus, expensed in full during the three months ended March 31, 2012. The amount expensed was \$110,009 for the quarter which represents 18,520 shares of common stock at a market price of \$5.94 at the date of grant.

In January 2012, the Company granted 26,244 shares of restricted stock to officers pursuant to the 2010 Equity Plan that have a cliff vesting at the end of two years, except for the CEO, who has a three year cliff vesting. The expense is being recognized over the applicable vesting period. The amount expensed during the three months ended March 31, 2012 was \$19,280. As of March 31, 2012, there was \$148,076 of unrecognized compensation expense related to nonvested restricted stock grants, which will be recognized over the remaining vesting period.

Table of Contents

## Note 6: Income Per Common Share

	For three months ended March 31, 2012		
	Income Available to Common Stockholders	Average Common Shares Outstanding	Per Common Share
Basic Income per Common Share	\$ 553,331	2,707,192	\$ 0.20
Effect of Dilutive Securities		124,147	
Diluted Income per Common Share	\$ 553,331	2,831,339	\$ 0.20

	For three months ended March 31, 2011		
	Income Available to Common Stockholders	Average Common Shares Outstanding	Per Common Share
Basic Income per Common Share	\$ 241,571	2,669,006	\$ 0.09
Effect of Dilutive Securities		11,305	
Diluted Income per Common Share	\$ 241,571	2,680,311	\$ 0.09

Stock options to purchase 211,500 and 365,579 shares of common stock were outstanding during the three months ended March 31, 2012 and 2011, respectively, but were not included in the computation of diluted income per common share because their exercise price was greater than the average market price of the common shares.

## Note 7: New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments in this ASU generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRSs. The amendments in this ASU are to be applied prospectively. For public entities, the amendments were effective during interim and annual periods beginning after December 15, 2011. The adoption of ASU No. 2011-04 did not have a material effect on the Company's consolidated financial statements.

In June 2011, FASB issued ASU 2011-05, "Other Comprehensive Income (Topic 220): Presentation of Comprehensive Income." The ASU amends Topic 220 to require an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income ("OCI") either in a single continuous statement of comprehensive income or in two separate but consecutive statements. An entity is also required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. The amendments do not change items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income, only the format for presentation. The requirements were effective during interim and annual periods beginning after December 15, 2011. The amendments should be applied retrospectively. On October 21, 2011, the FASB exposed a proposed deferral of the requirement that companies present reclassification adjustments for each component of OCI in both net income and OCI on the face of the financial statements. Early adoption is permitted. The adoption of ASU No. 2011-05 did not have a material effect on the Company's consolidated financial statements.



## Table of Contents

In December 2011, ASU No. 2011-12 “Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05” was issued. In order to defer only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this ASU supersede certain pending paragraphs in ASU 2011-05. The amendments were made to allow the FASB time to re-deliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the Board is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities are required to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by this ASU, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The provisions of ASU 2011-123 have no impact on our consolidated financial statements.

### 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 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 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 March 31, 2012 and December 31, 2011 (dollar amounts in thousands):



Table of Contents

3/31/2012

Financial assets:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities	\$ 72	\$ -	\$ -	\$ 72
Debt securities:				
U.S. government agencies	-	39,475	-	39,475
U. S. treasuries	2,031	-	-	2,031
Municipals	-	6,446	-	6,446
Corporate Bonds	-	1,813	-	1,813
Government sponsored mortgage-backed securities	-	46,582	-	46,582
Available-for-sale securities	\$ 2,103	\$ 94,316	\$ -	\$ 96,419

12/31/2011

Financial assets:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities	\$ 62	\$ -	\$ -	\$ 62
Debt securities:				
U.S. government agencies	-	34,727	-	34,727
U.S. treasuries	2,043	-	-	2,043
Municipals	-	4,144	-	4,144
Government sponsored mortgage-backed securities	-	40,089	-	40,089
Available-for-sale securities	\$ 2,105	\$ 78,960	\$ -	\$ 81,065

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 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 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 March 31, 2012 and December 31, 2011 (dollar amounts in thousands):





Table of Contents

## Impaired loans:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
March 31, 2012	\$ -	\$ -	\$ 5,462	\$ 5,462
December 31, 2011	\$ -	\$ -	\$ 11,243	\$ 11,243

## Foreclosed assets held for sale:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
March 31, 2012	\$ -	\$ -	\$ 3,619	\$ 3,619
December 31, 2011	\$ -	\$ -	\$ 3,626	\$ 3,626

There were no transfers between valuation levels for any asset during the three months ended March 31, 2012 or 2011. 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 March 31, 2012	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans (collateral dependent)	\$ 4,022	Appraisal of collateral	Discount to reflect realizable value	0%-16% (4%)
Impaired loans	\$ 1,440	Discounted cash flow	Discount rate	0%-2% (2%)
Foreclosed assets held for sale	\$ 3,619	Appraisal of collateral	Discount to reflect realizable value	0%-17% (3%)

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying 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 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.



Table of Contents

## 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 March 31, 2012 and December 31, 2011.

	March 31, 2012				
	Fair Value Measurement Using				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	\$35,708,676	\$35,708,676	\$35,708,676	\$-	\$-
Held-to-maturity securities	208,580	223,430	-	223,430	-
Federal Home Loan Bank stock	3,846,900	3,846,900	-	3,846,900	-
Mortgage loans held for sale	2,395,420	2,395,420	-	2,395,420	-
Loans, net	460,559,163	466,949,078	-	-	466,949,078
Interest receivable	2,013,644	2,013,644	-	2,013,644	-
Financial liabilities:					
Deposits	484,218,455	485,372,558	-	485,372,558	-
Federal Home Loan Bank advances	68,050,000	70,559,390	-	70,559,390	-
Securities sold under agreements to repurchase	25,000,000	25,110,733	-	25,110,733	-
Subordinated debentures	15,465,000	15,465,000	-	-	15,465,000
Interest payable	464,038	464,038	-	464,038	-
Unrecognized financial instruments (net of contractual value):					

Commitments to extend credit	-	-	-	-	-
Unused lines of credit	-	-	-	-	-

Table of Contents

December 31, 2011					
Fair Value Measurement Using					
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	\$26,574,082	\$26,574,082	\$26,574,082	\$-	\$-
Interest-bearing deposits	5,587,654	5,587,654	-	5,587,654	-
Held-to-maturity securities	218,571	235,574	-	235,574	-
Federal Home Loan Bank stock	3,846,900	3,846,900	-	3,846,900	-
Mortgage loans held for sale	3,702,849	3,702,849	-	3,702,849	-
Loans, net	478,960,736	485,714,408	-	-	485,714,408
Interest receivable	2,139,320	2,139,320	-	2,139,320	-
Financial liabilities:					
Deposits	484,583,665	485,803,947	-	485,803,947	-
Federal Home Loan Bank advances	68,050,000	70,815,606	-	70,815,606	-
Securities sold under agreements to repurchase	25,000,000	25,025,344	-	25,025,344	-
Subordinated debentures	15,465,000	15,465,000	-	-	15,465,000
Interest payable	518,881	518,881	-	518,881	-
Unrecognized financial instruments (net of contractual value):					
Commitments to extend credit	-	-	-	-	-
Unused lines of credit	-	-	-	-	-

## 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.

The Company may redeem 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 Warrant is exercisable immediately upon issuance and expires in ten years. The Warrant has anti-dilution protections and certain other protections for the holder of the Warrant, as well as potential registration rights upon written request from the Treasury. The Treasury has agreed not to exercise voting rights with respect to the Warrant Shares that it may acquire upon exercise of the Warrant. If the Series A Preferred Stock is redeemed in whole, the Company has the right to purchase any shares of the Common Stock held by the Treasury at their fair market value at that time.



## Table of Contents

The Company is subject to certain contractual restrictions under the CPP and the Certificate of Designations for the Series A Preferred Stock that could prohibit the Company from declaring or paying dividends on its common stock or the Series A Preferred Stock.

The proceeds from the CPP were allocated between the Series A Preferred Stock and the Warrant based on a fair value assigned using a discounted cash flow model. This resulted in an initial value of \$15,622,189 for the Series A Preferred Stock and \$1,377,811 for the Warrant. The discount of approximately \$1.4 million on the Series A Preferred Stock is being accreted over the straight-line method (which approximates the level-yield method) over five years ending February 28, 2014.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (the “ARRA”) was signed into law. The ARRA imposes certain additional executive compensation and corporate expenditure limits on all current and future CPP recipients. These limits are in addition to those previously imposed by the Treasury under the Emergency Economic Stabilization Act of 2008 (the “EESA”). The Treasury released an interim final rule (the “IFR”) on TARP standards for compensation and corporate governance on June 10, 2009, which implemented and further expanded the limitations and restrictions imposed by EESA and ARRA. The IFR applies to the Company as of the date of publication in the Federal Register on June 15, 2009, but was subject to comment which ended on August 14, 2009. The Treasury has not yet published a final version of the IFR.

As a result of the Company’s participation in the CPP, the restrictions and standards established under EESA and ARRA are applicable to the Company. Neither the ARRA nor the EESA restrictions shall apply to the Company at such time that the federal government no longer holds any of the Company’s Series A Preferred Stock.

## 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 March 31, 2012, and the results of operations for the three months ended March 31, 2012 and 2011.

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 the Company’s Form 10-K for the fiscal year ended December 31, 2011.





## Table of Contents

### Financial Condition

The Company's total assets increased \$528,071 (0%) from \$648,505,858 as of December 31, 2011, to \$649,033,929 as of March 31, 2012.

Interest-bearing deposits decreased \$5,587,654 (100%) from \$5,587,654 as of December 31, 2011, to \$0 as of March 31, 2012. The decrease is due to maturities during the period.

Available-for-sale securities increased \$15,353,695 (19%) from \$81,064,878 as of December 31, 2011, to \$96,418,573 as of March 31, 2012. The increase is primarily due to purchases of \$28.8 million offset by sales, maturities and principal payments received of \$13.4 million.

Net loans receivable decreased by \$18,401,573 (4%) from \$478,960,736 as of December 31, 2011, to \$460,559,163 as of March 31, 2012. The Company experienced certain anticipated payoffs of various commercial real estate loans. During the quarter, commercial real estate loans decreased \$18,781,686 (10%). Also, commercial loans decreased \$2,083,861 (2%), permanent multi-family loans decreased \$204,509 (1%), construction loans increased \$2,520,924 (6%), loans secured by owner occupied one to four unit residential real estate decreased \$386,616 (0%) and installment loans increased \$885,367 (4%). 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 increased \$360,447 (3%) from \$10,613,145 as of December 31, 2011 to \$10,973,592 as of March 31, 2012. The allowance increased due to the provision for loan losses of \$900,000 exceeding net loan charge-offs of \$539,553 recorded during the period. Management charged off certain specific loans that had been identified and classified as impaired at December 31, 2011. See discussion under "Results of Operations – Comparison of Three Month Periods Ended March 31, 2012 and 2011 – Provision for Loan Losses." The allowance for loan losses, as a percentage of gross loans outstanding (excluding mortgage loans held for sale), as of March 31, 2012 and December 31, 2011 was 2.33% and 2.17%, respectively. The allowance for loan losses, as a percentage of nonperforming loans outstanding, as of March 31, 2012 and December 31, 2011 was 51.0% and 62.4%, 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.

Deposits decreased \$365,210 (0%) from \$484,583,665 as of December 31, 2011, to \$484,218,455 as of March 31, 2012. For the three months ended March 31, 2012, checking and savings accounts increased by \$6.4 million and certificates of deposit decreased by \$6.8 million. See also the discussion under "Quantitative and Qualitative Disclosure about Market Risk – Asset/Liability Management."

Stockholders' equity (including unrealized appreciation on available-for-sale securities, net of tax) increased \$809,821 from \$54,234,847 as of December 31, 2011, to \$55,044,668 as of March 31, 2012. The Company's net income during this period was \$834,722. In conjunction with the Series A Preferred Stock, the Company accrued \$212,500 of dividends (5%) during the period. On a per common share basis, stockholders' equity increased from \$14.07 as of December 31, 2011 to \$14.22 as of March 31, 2012.

### 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.

Table of Contents

	Three Months ended 3/31/2012				Three Months ended 3/31/2011			
	Average Balance	Interest	Yield / Cost		Average Balance	Interest	Yield / Cost	
<b>ASSETS</b>								
Interest-earning:								
Loans	\$474,043	\$6,404	5.40	%	\$494,906	\$6,717	5.43	%
Investment securities	87,226	412	1.89	%	96,185	725	3.02	%
Other assets	27,772	50	0.72	%	39,527	88	0.89	%
Total interest-earning	589,041	6,866	4.66	%	630,618	7,530	4.78	%
Noninterest-earning	54,515				52,753			
	\$643,556				\$683,371			
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>								
Interest-bearing:								
Savings accounts	\$21,469	23	0.43	%	\$19,591	32	0.65	%
Transaction accounts	263,094	568	0.86	%	254,739	695	1.09	%
Certificates of deposit	151,856	551	1.45	%	170,386	873	2.05	%
FHLB Advances	68,050	384	2.26	%	93,050	600	2.58	%
Securities sold under agreements to repurchase	25,000	184	2.94	%	39,750	279	2.81	%
Subordinated debentures	15,465	140	3.62	%	15,465	207	5.35	%
Total interest-bearing	544,934	1,850	1.36	%	592,981	2,686	1.81	%
Noninterest-bearing	43,226				37,474			
Total liabilities	588,160				630,455			
Stockholders' equity	55,396				52,916			
	\$643,556				\$683,371			
Net earning balance	\$44,107				\$37,637			
Earning yield less costing rate			3.30	%			2.97	%
Net interest income, and net interest margin on interest earning assets		\$5,016	3.41	%		\$4,844	3.07	%
Ratio of interest-earning assets to interest-bearing liabilities		108	%			106	%	

## Results of Operations - Comparison of Three Month Periods Ended March 31, 2012 and 2011

Net income for the three months ended March 31, 2012 and 2011 was \$834,722 and \$522,962, respectively, which represents an increase in earnings of \$311,760 (60%).

## Interest Income

Total interest income for the three months ended March 31, 2012 decreased \$664,196 (9%) as compared to the three months ended March 31, 2011. For the three month period ended March 31, 2012 compared to the same period in 2011, the average yield on interest earning assets decreased 12 basis points to 4.66%, while the average balance of interest earning assets decreased approximately \$41,577,000. The Company's decrease in the average yield on interest earning assets was primarily impacted by the average yield on investments which decreased 112 basis points to 1.89% for the three months ended March 31, 2012, as compared to 3.02% during the same period in 2011. This was primarily due to a series of investment transactions in the fourth quarter of 2011 to sell certain investment securities in order to prepay \$14.75 million of repurchase agreements. The securities carried a weighted average yield of 5.00% at

the time of sale. Another factor that has negatively impacted the Company's average yield on interest earning assets during the quarter was the increase in nonaccrual loans which was \$21.5 million as of March 31, 2012, as compared to \$17.0 million as of December 31, 2011.

## Table of Contents

### Interest Expense

Total interest expense for the three months ended March 31, 2012 decreased \$836,161 (31%) when compared to the three months ended March 31, 2011. For the three month period ended March 31, 2012, the average cost of interest bearing liabilities decreased 45 basis points to 1.36%, and the average balance of interest bearing liabilities decreased approximately \$48,047,000 when compared to the same period in 2011. The primary reason for the significant decrease in the average cost of interest bearing liabilities was the continued decline in higher cost certificates of deposits as well as reductions in the average rate paid on transaction deposit balances. Also, the Company reduced its FHLB advances and securities sold under agreements to repurchase during the latter half of 2011. As a result, interest expense on these borrowings decreased \$311,813 (35%) for the three months ended March 31, 2012 as compared to the same period in 2011.

### Net Interest Income

Net interest income for the three months ended March 31, 2012 increased \$171,965 (4%) when compared to the same period in 2011. The average balance of interest earning assets decreased by approximately \$6,470,000 less than the average balance in interest bearing liabilities decreased when comparing the three month period ended March 31, 2012 to the same period in 2011. For the three month period ended March 31, 2012, the net interest margin increased 34 basis points to 3.41% when compared to the same period in 2011.

### Provision for Loan Losses

Based on its internal analysis and methodology, management recorded a provision for loan losses of \$900,000 for the three months ended March 31, 2012, compared to \$900,000 for the same period in 2011. The Bank will continue to monitor its allowance for loan losses and make future additions based on economic and regulatory conditions. Management of the Company anticipates the need to continue increasing the allowance for loan losses through charges to the provision for loan losses if anticipated growth in the Bank's loan portfolio increases or other circumstances warrant. Although the Bank maintains its allowance for loan losses at a level which it considers to be sufficient to provide for potential loan losses in its existing loan portfolio, there can be no assurance that future loan losses will not exceed internal estimates. In addition, the amount of the allowance for loan losses is subject to review by regulatory agencies which can order the establishment of additional loan loss provisions.

### Noninterest Income

Noninterest income increased \$89,113 (12%) for the three months ended March 31, 2012 when compared to the three months ended March 31, 2011.

Gains on investment securities for the three months ended March 31, 2012 were \$37,529 compared to \$3,704 during the same period in 2011. Losses on foreclosed assets were \$101,109 for the three months ended March 31, 2012 as compared to \$133,987 for the same period in 2011. Gain on sale of loans increased \$84,154 (30%) for the three months ended March 31, 2012 when compared to the same period in 2011 due to increased volume in mortgage loan originations. Deposit service charges decreased \$84,141 (25%) due primarily to declines in overdraft charges, which is partially due to amendments to Regulation E regarding fees on debit card and ATM transactions.

## Table of Contents

### Noninterest Expense

Noninterest expense decreased \$104,716 (3%) for the three months ended March 31, 2012 when compared to the three months ended March 31, 2011.

Salaries and employee benefits increased \$69,945 (3%) for the three months ended March 31, 2012 when compared to the same period in 2011. This increase was primarily due to additions of associates throughout 2011 in the areas of human resources, information systems and risk management, as well as normal pay raises. FDIC deposit insurance premiums decreased \$69,000 for the period primarily due to the change in the assessment base and rate structure that went into effect in the second quarter of 2011. The Company also experienced a significant decrease of \$120,000 in legal expenses related to costs incurred on a few specific troubled borrowers during the prior year quarter.

### Provision for Income Taxes

The increase in the provision for income taxes is a direct result of the increase in the Company's taxable income for the three months ended March 31, 2012 as compared to the three months ended March 31, 2011.

### Nonperforming Assets

The allowance for loan losses is calculated based upon an evaluation of pertinent factors underlying the various types and quality of the Bank's existing loan portfolio. When making such evaluation, management considers such factors as the repayment status of its loans, the estimated net realizable value of the underlying collateral, borrowers' intent (to the extent known by the Bank) and ability to repay the loan, local economic conditions and the Bank's historical loss ratios. The allowance for loan losses, as a percentage of nonperforming loans outstanding, as of March 31, 2012 and December 31, 2011 was 51.0% and 62.4%, respectively. Total loans classified as substandard, doubtful or loss as of March 31, 2012, were \$36.6 million or 5.63% of total assets as compared to \$32.9 million, or 5.08% of total assets at December 31, 2011. Management considered nonperforming and total classified loans in evaluating the adequacy of the Bank's allowance for loan losses.

The ratio of nonperforming assets to total assets is another useful tool in evaluating exposure to credit risk. Nonperforming assets of the Bank include nonperforming loans and assets which have been acquired as a result of foreclosure or deed-in-lieu of foreclosure. All dollar amounts are in thousands.

	3/31/2012	12/31/2011	12/31/2010
Nonperforming loans	\$21,532	\$17,002	\$23,012
Real estate acquired in settlement of loans	9,427	10,012	10,540
Total nonperforming assets	\$30,959	\$27,014	\$33,552
Total nonperforming assets as a percentage of total assets	4.77	% 4.17	% 4.91
Allowance for loan losses	\$10,974	\$10,613	\$13,083
Allowance for loan losses as a percentage of gross loans	2.33	% 2.17	% 2.54

### Liquidity and Capital Resources

Liquidity refers to the ability to manage future cash flows to meet the needs of depositors and borrowers and fund operations. Maintaining appropriate levels of liquidity allows the Company to have sufficient funds available for customer demand for loans, withdrawal of deposit balances and maturities of deposits and other liabilities. The Company's primary sources of liquidity include cash and cash equivalents, customer deposits and Federal Home Loan Bank of Des Moines borrowings. The Company also has established borrowing lines available from the Federal

Reserve Bank which is considered a secondary source of funds.

## Table of Contents

The Company's most liquid assets are cash and cash equivalents, which are cash on hand, amounts due from financial institutions, and certificates of deposit with other financial institutions that have an original maturity of three months or less. The levels of such assets are dependent on the Bank's operating, financing, and investment activities at any given time. The Company's cash and cash equivalents totaled \$35,708,676 as of March 31, 2012 and \$26,574,082 as of December 31, 2011, representing an increase of \$9,134,594. The variations in levels of cash and cash equivalents are influenced by deposit flows and anticipated future deposit flows, which are subject to, and influenced by, many factors.

The Bank's capital ratios are above the levels required to be considered a well-capitalized financial institution. As of March 31, 2012, the Bank's Tier 1 leverage ratio was 10.57%, its Tier 1 risk-based capital ratio was 13.44% and the Bank's total risk-based capital ratio was 14.70% - all exceeding the minimums of 5%, 6% and 10%, respectively.

With regards to the securities sold to the Treasury under CPP, if the Company is unable to redeem the Series A Preferred Stock within five years of its issuance, the cost of capital to the Company will increase significantly from 5% per annum (\$850,000 annually) to 9% per annum (\$1,530,000 annually). Depending on the Company's financial condition at the time, the increase in the annual dividend rate on the Series A Preferred Stock could have a material adverse effect on the Company's liquidity and net income available to common stockholders.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

#### Asset/Liability Management

The goal of the Bank's asset/liability policy is to manage interest rate risk so as to maximize net interest income over time in changing interest rate environments. Management monitors the Bank's net interest spreads (the difference between yields received on assets and paid on liabilities) and, although constrained by market conditions, economic conditions, and prudent underwriting standards, the Bank offers deposit rates and loan rates designed to maximize net interest income. Management also attempts to fund the Bank's assets with liabilities of a comparable duration to minimize the impact of changing interest rates on the Bank's net interest income. Since the relative spread between financial assets and liabilities is constantly changing, the Bank's current net interest income may not be an indication of future net interest income.

As a part of its asset and liability management strategy and throughout the past several years, the Bank has continued to emphasize the origination of short-term commercial real estate, commercial business and consumer loans, while originating fixed-rate, one- to four-family residential loans primarily for immediate resale in the secondary market.

The Bank constantly monitors its deposits in an effort to decrease their interest rate sensitivity. Rates of interest paid on deposits at the Bank are priced competitively in order to meet the Bank's asset/liability management objectives and spread requirements. The Bank believes, based on historical experience, that a substantial portion of such accounts represents non-interest rate sensitive core deposits.

#### Interest Rate Sensitivity Analysis

The following table sets forth as of March 31, 2012 management's estimates of the projected changes in net portfolio value ("NPV") in the event of 100 and 200 basis point ("bp") instantaneous and permanent increases and decreases in market interest rates. Dollar amounts are expressed in thousands.



Table of Contents

BP Change In Rates	Estimated Net Portfolio Value			NPV as % of PV Assets			
	\$ Amount	\$ Change	% Change	NPV Ratio		Change	
+200	56,932	(4,999 )	-8.1 %	8.83 %		-0.56 %	
+100	59,311	(2,620 )	-4.2 %	9.10 %		-0.29 %	
NC	61,931	-	0.0 %	9.39 %		0.00 %	
-100	64,977	3,046	4.9 %	9.74 %		0.35 %	
-200	70,469	8,537	13.8 %	10.45 %		1.06 %	

Computations of prospective effects of hypothetical interest rate changes are based on an internally generated model using actual maturity and repricing schedules for the Bank's loans and deposits, and are based on numerous assumptions, including relative levels of market interest rates, loan repayments and deposit run-offs, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the Bank may undertake in response to changes in interest rates. For further discussion of the Company's market risk, see the Interest Rate Sensitivity Analysis Section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's 2011 Annual Report on Form 10-K.

Management cannot predict future interest rates or their effect on the Bank's NPV in the future. Certain shortcomings are inherent in the method of analysis presented in the computation of NPV. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in differing degrees to changes in market interest rates. Additionally, certain assets, such as adjustable-rate loans, have an initial fixed rate period typically from one to five years, and over the remaining life of the asset changes in the interest rate are restricted. In addition, the proportion of adjustable-rate loans in the Bank's portfolio could decrease in future periods due to refinancing activity if market interest rates remain steady in the future. Further, in the event of a change in interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in the table. Finally, the ability of many borrowers to service their adjustable-rate debt may decrease in the event of an interest rate increase.

The Bank's Board of Directors (the "Board") is responsible for reviewing the Bank's asset and liability management policies. The Board meets quarterly to review interest rate risk and trends, as well as liquidity and capital ratios and requirements. The Bank's management is responsible for administering the policies and determinations of the Board with respect to the Bank's asset and liability goals and strategies.

#### Item 4. Controls and Procedures

(a) The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company conducted an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2012.

(b) There have been no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



Table of Contents

## PART II

## Item 1. Legal Proceedings

None.

## Item 1A. Risk Factors

Not applicable.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the Company's repurchase activity regarding its common stock during the Company's first quarter ended March 31, 2012.

## ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2012 to January 31, 2012	-	-	-	188,736
February 1, 2012 to February 28, 2012	-	-	-	188,736
March 1, 2012 to March 31, 2012	670	\$ 8.53	670	188,066
Total	670	\$ 8.53	670	

(1) The Company has a repurchase plan which was announced on August 20, 2007. This plan authorizes the purchase by the Company of up to 350,000 shares of the Company's common stock. There is no expiration date for this plan. There are no other repurchase plans in effect at this time.

## Item 3. Defaults Upon Senior Securities

Not applicable.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

None.

## Item 6. Exhibits

- |      |                                                                                                                       |
|------|-----------------------------------------------------------------------------------------------------------------------|
| 10.1 | Written Description of 2012 Executive Incentive Compensation Annual Plan – President and Chief Executive Officer* (1) |
| 10.2 | Written Description of 2012 Executive Incentive Compensation Annual Plan – Chief Financial Officer* (2)               |
| 10.3 | Written Description of 2012 Executive Incentive Compensation Annual Plan – Chief Operating Officer* (3)               |
| 10.4 | Written Description of 2012 Executive Incentive Compensation Annual Plan – Chief Lending Officer* (4)                 |
| 10.5 | Written Description of 2012 Executive Incentive Compensation Annual Plan – Chief Credit Officer* (5)                  |

10.6 Form of restricted stock award agreement – President and Chief Executive Officer

10.7 Form of restricted stock award agreement – Executive Officers

Table of Contents

- 11. Statement re: computation of per share earnings (set forth in “Note 6: Income Per Common Share” of the Notes to Condensed Consolidated Financial Statement (unaudited))
- 31(i).1 Certification of the Principal Executive Officer pursuant to Rule 13a -14(a) of the Exchange Act
- 31(i).2 Certification of the Principal Financial Officer pursuant to Rule 13a - 14(a) of the Exchange Act
- 32.1 CEO certification pursuant to 18 U.S.C. Section 1350
- 32.2 CFO certification pursuant to 18 U.S.C. Section 1350

\*Management contract or compensatory plan or arrangement

---

- (1) Filed as Exhibit 10.1 to the Current Report on Form 8-K filed by the Registrant on February 2, 2012 and incorporated herein by reference.
- (2) Filed as Exhibit 10.2 to the Current Report on Form 8-K filed by the Registrant on February 2, 2012 and incorporated herein by reference.
- (3) Filed as Exhibit 10.3 to the Current Report on Form 8-K filed by the Registrant on February 2, 2012 and incorporated herein by reference.
- (4) Filed as Exhibit 10.4 to the Current Report on Form 8-K filed by the Registrant on February 2, 2012 and incorporated herein by reference.
- (5) Filed as Exhibit 10.5 to the Current Report on Form 8-K filed by the Registrant on February 2, 2012 and incorporated herein by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Guaranty Federal Bancshares,  
Inc.

Signature and Title

Date

/s/ Shaun A. Burke  
Shaun A. Burke  
President and Chief Executive  
Officer  
(Principal Executive Officer and Duly Authorized Officer)

May 14, 2012

/s/ Carter Peters  
Carter Peters  
Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

May 14, 2012