

CENTURY NEXT FINANCIAL Corp  
Form 10-Q  
August 09, 2013

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

or

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

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

Commission File Number: 000-54133

**CENTURY NEXT FINANCIAL CORPORATION**  
(Exact name of registrant as specified in its charter)

LOUISIANA  
(State or other jurisdiction of incorporation or organization)

27-2851432  
(I.R.S. Employer Identification No.)

505 North Vienna St.,  
Ruston, Louisiana  
(Address of principal executive offices)

71270  
(Zip Code)

(318) 255-3733  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name, former address, and former fiscal year, if changed since last report)

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

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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 the 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  (Do not check if a smaller reporting  
company)

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:

\$.01 par value Common Stock: 1,058,000 shares issued and 1,053,409 outstanding at August 9, 2013

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## PART I – FINANCIAL INFORMATION

## ITEM 1. Financial Statements (Unaudited)

CENTURY NEXT FINANCIAL CORPORATION AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS (unaudited)

(In thousands, except share data)	June 30, 2013	December 31, 2012
<b>ASSETS</b>		
Cash and cash equivalents	\$7,549	\$9,175
Debt securities:		
Available-for-sale	4,650	5,061
Held-to-maturity (including \$1,078 and \$1,285 at fair value)	1,216	1,276
Total Debt Securities	5,866	6,337
Federal Home Loan Bank stock	328	242
Other equity investments	320	320
Loans:		
Loans, net of unearned income	102,266	95,581
Loans held for sale	1,987	1,219
Allowance for loan losses	(450)	(374)
Net Loans	103,803	96,426
Accrued interest receivable	528	509
Premises and equipment, net of accumulated depreciation of \$2,078 and \$1,877	3,913	4,079
Other foreclosed assets	62	-
Other assets	3,972	3,560
<b>TOTAL ASSETS</b>	<b>\$126,341</b>	<b>\$120,648</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Deposits		
Noninterest-bearing	\$10,873	\$12,439
Interest-bearing	86,726	82,195
Total Deposits	97,599	94,634
Advances from borrowers for insurance and taxes	81	57
Short-term borrowings (FHLB advances and resale agreements)	7,613	5,278
Long-term borrowings (FHLB advances)	321	340
Accrued interest payable	14	9
Other liabilities	1,043	910
Total Liabilities	106,671	101,228
Stockholders' equity:		
Preferred Stock, \$.01 par value – 1,000,000 shares authorized; none issued	-	-
Common Stock, \$.01 par value – 9,000,000 shares authorized; 1,058,000 issued; 1,053,409 and 1,055,760 outstanding	11	11
Additional paid-in capital	10,039	10,047

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Treasury Stock, at Cost - (4,591 and 2,240 shares)	(60	)	(29	)
Unearned shares held by Recognition and Retention Plan (23,185 and 31,085 shares)	(317	)	(432	)
Unearned ESOP Shares (57,532 and 59,200 shares)	(576	)	(592	)
Retained earnings	10,644		10,355	
Accumulated other comprehensive income(loss)-net of taxes, \$(37) and \$31	(71	)	60	
Total Stockholders' Equity	19,670		19,420	
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$126,341</b>		<b>\$120,648</b>	

The accompanying notes are an integral part of the consolidated financial statements.

CENTURY NEXT FINANCIAL CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except share data)	2013	2012	2013	2012
<b>INTEREST INCOME</b>				
Loans (including fees)	\$1,455	\$1,276	\$2,842	\$2,575
Debt securities:				
Taxable	34	25	69	51
Tax-exempt	12	3	24	6
Other	2	3	4	5
Total Interest Income	1,503	1,307	2,939	2,637
<b>INTEREST EXPENSE</b>				
Deposits	134	156	267	328
Short-term borrowings	3	2	7	6
Long-term debt	2	3	5	6
Total Interest Expense	139	161	279	340
Net Interest Income	1,364	1,146	2,660	2,297
Provision for loan losses	36	30	72	60
Net Interest Income After Loan Loss Provision	1,328	1,116	2,588	2,237
<b>NON-INTEREST INCOME</b>				
Service charges on deposit accounts	65	63	139	124
Loan servicing fees	122	192	242	328
Loss on sale of loans	(38)	(36)	(76)	(35)
Gain on sales of available-for-sale securities	-	5	-	5
Gain on sale of foreclosed assets	-	1	-	1
Gain on sale of fixed assets	10	-	10	-
Other	65	55	122	103
Total Non-interest Income	224	280	437	526
<b>NON-INTEREST EXPENSE</b>				
Salaries and employee benefits	723	707	1,463	1,394
Occupancy and equipment	162	136	314	268
Data processing	84	70	165	133
Directors' expense	46	47	88	91
Advertising	54	38	89	58
Legal and professional	50	36	60	59
Audit and examination fees	40	25	82	53
Office supplies	14	13	38	24
FDIC deposit insurance	15	15	28	30
Foreclosed assets	19	-	26	-
Other operating expense	123	129	245	257
Total Non-interest Expense	1,330	1,216	2,598	2,367

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Income Before Taxes	222	180	427	396
Income Taxes	83	76	138	133
NET INCOME	\$139	\$104	\$289	\$263
Basic Earnings per Share	\$0.14	\$0.11	\$0.30	\$0.27
Diluted Earnings per Share	\$0.14	\$0.11	\$0.30	\$0.27

The accompanying notes are an integral part of the consolidated financial statements.

CENTURY NEXT FINANCIAL CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$139	\$104	\$289	\$263
Other comprehensive income(loss), net of tax*				
Unrealized gains(losses) on securities:				
Unrealized holding gain(losses) arising during the period	(130 )	(5 )	(131 )	(8 )
Less: reclassification adjustments for gains(losses) included in net income	-	-	-	-
Net change in unrealized gains(losses) on securities	(130 )	(5 )	(131 )	(8 )
Other comprehensive income(loss), net of tax*	(130 )	(5 )	(131 )	(8 )
Comprehensive income	\$9	\$99	\$158	\$255

The accompanying notes are an integral part of the consolidated financial statements.

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\*All other comprehensive amounts are shown net of tax.



CENTURY NEXT FINANCIAL CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited)  
Six Months Ended June 30, 2013 and 2012

(In thousands)	Common Stock Amount	Additional Paid-In Capital	Treasury Stock	Unearned RRP Shares	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, December 31, 2011	\$11	\$ 9,952	\$-	\$(365 )	\$(625 )	\$ 90	\$9,699	\$18,762
Comprehensive income:								
Net income	-	-	-	-	-	-	263	263
Unrealized gains (losses) on securities available for sale, net of tax	-	-	-	-	-	(8 )	-	(8 )
Total comprehensive income								255
Shares purchased for RRP	-	-	-	(213 )	-	-	-	(213 )
Shares vested and issued for RRP	-	(146 )	-	146	-	-	-	-
ESOP shares released	-	6	-	-	16	-	-	22
Stock option expense	-	38	-	-	-	-	-	38
Amortization of awards under RRP	-	74	-	-	-	-	-	74
Purchase of treasury stock (2,240 shares)	-	-	(29 )	-	-	-	-	(29 )
Balance June 30, 2012	\$11	\$ 9,924	\$(29 )	\$(432 )	\$(609 )	\$ 82	\$9,962	\$18,909
Balance, December 31, 2012	\$11	\$ 10,047	\$(29 )	\$(432 )	\$(592 )	\$ 60	\$10,355	\$19,420
Comprehensive income:								
Net income	-	-	-	-	-	-	289	289
Unrealized gains (losses) on securities available for sale, net of tax	-	-	-	-	-	(131 )	-	(131 )
Total comprehensive income								158
Shares vested and issued for RRP	-	(115 )	-	115	-	-	-	-
ESOP shares released	-	6	-	-	16	-	-	22
Stock option expense	-	38	-	-	-	-	-	38
Amortization of awards under RRP	-	63	-	-	-	-	-	63
Purchase of treasury stock (2,351 shares)	-	-	(31 )	-	-	-	-	(31 )
Balance June 30, 2013	\$11	\$ 10,039	\$(60 )	\$(317 )	\$(576 )	\$ (71 )	\$10,644	\$19,670

The accompanying notes are an integral part of the consolidated financial statements.

CENTURY NEXT FINANCIAL CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Six Months Ended June 30,	
(In thousands)	2013	2012
Cash flows from operating activities:		
Net income	\$289	\$263
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Provision for possible loan losses	72	60
Depreciation and amortization	201	185
Stock-based compensation expense, net of tax benefits	107	118
ESOP shares released	16	16
Net loss on sale of loans	76	35
Net gain on sale of available-for-sale securities	-	(5 )
Net gain on sale of foreclosed assets	-	(1 )
Net gain on sale of fixed assets	(10 )	-
Income from change in cash surrender value of life insurance	(29 )	(29 )
Deferred income tax benefit	(43 )	(24 )
Net amortization of premium and fair value adjustments to investments	196	26
(Increase) decrease in loans held for sale	(844 )	1,759
Increase in foreclosed assets	(62 )	-
Increase in interest receivable and other assets	(116 )	(63 )
Increase in accrued interest payable and other liabilities	138	57
Total adjustments	(298 )	2,134
Net cash provided (used) by operating activities	(9 )	2,397
Cash flows from investing activities:		
Proceeds from sales and maturities of investment securities	275	2,793
Net sale (purchase) of FHLB stock and other equity investments	(86 )	221
Proceeds from sales of foreclosed assets	-	10
Purchases of life insurance	(374 )	-
Purchase of fixed assets	(35 )	(103 )
Net increase in loans	(6,681 )	(2,169 )
Net cash provided (used) by investing activities	(6,891 )	752
Cash flows from financing activities:		
Net increase (decrease) in demand deposits and savings accounts	(2,832 )	3,154
Net increase in time deposits	5,797	738
Increases in advances from borrowers for insurance and taxes	24	6
Net increase (decrease) in FHLB advances	1,981	(3,022 )
Net increase in securities sold under agreements to repurchase	335	920
Purchase of treasury stock	(31 )	(29 )
Purchase of shares for Recognition and Retention Plan	-	(213 )
Net cash provided by financing activities	5,274	1,554
Net increase (decrease) in cash and cash equivalents	(1,626 )	4,703

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Cash and cash equivalents, at beginning of period	9,175	5,200
Cash and cash equivalents, at end of period	\$7,549	\$9,903
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest on deposits and borrowed funds	\$274	\$341
Income taxes	\$184	\$202

The accompanying notes are an integral part of the consolidated financial statements

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CENTURY NEXT FINANCIAL CORPORATION AND SUBSIDIARY  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Nature of Operations

Century Next Financial Corporation (the “Company”), a Louisiana corporation, was organized by Bank of Ruston (the “Bank”) in June 2010 to facilitate the conversion of the Bank from the mutual to the stock form (the “Conversion”) of ownership. A total of 1,058,000 shares of common stock of the Company were sold at \$10 per share in the subscription offering through which the Company received net proceeds of approximately \$9.8 million, net of offering costs of approximately \$748,000. The Conversion and offering were completed on September 30, 2010. The Company was organized as a savings and loan holding company and is regulated by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”).

The Bank provides a variety of financial services primarily to individual customers through its main office and one branch in Ruston, Louisiana. The Bank’s primary deposit products are checking accounts, money market accounts, interest bearing savings and certificates of deposit. Its primary lending products are residential mortgage loans. The Bank provides services to customers in the Ruston and surrounding areas.

The Company’s operations are subject to customary business risks associated with activities of a financial institution holding company. Some of those risks include competition from other financial institutions and changes in economic conditions, interest rates and regulatory requirements.

Basis of Presentation

The accompanying unaudited consolidated financial statements of Century Next Financial Corporation (the “Company”) were prepared in accordance with instructions for Form 10-Q and Regulation S-X and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with generally accepted accounting principles. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the three- and six-month periods ended June 30, 2013, are not necessarily indicative of the results which may be expected for the year ending December 31, 2013.

The Company follows accounting standards set by the Financial Accounting Standards Board (the “FASB”). The FASB sets generally accepted accounting principles (“GAAP”) that we follow to ensure we consistently report our financial condition, results of operations and cash flows. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification (the “Codification” or the “ASC”).

In accordance with the subsequent events topic of the ASC, the Company evaluates events and transactions that occur after the balance sheet date for potential recognition in the financial statements. The effects of all subsequent events that provide additional evidence of conditions that existed at the balance sheet date are recognized in the financial statements as of June 30, 2013. In preparing these financial statements, the Company evaluated the events and transactions that occurred from June 30, 2013 through the date these financial statements were issued.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, and the valuation of foreclosed real estate, deferred tax assets and trading activities.

In connection with the determination of the allowances for losses on credits and foreclosed real estate, management obtains independent appraisals for significant properties. While management uses available information to recognize losses on credits, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowances for losses on loans. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowances for credit losses on loans may change materially in the future.

## Reclassifications

Certain prior period amounts have been reclassified for comparative purposes in conformance with the presentation in the current year financial statements.

## Recent Accounting Pronouncements

### International Financial Reporting Standards (“IFRS”)

In July 2012, the SEC issued the “Work Plan for Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers.” This report was prepared by the staff of the SEC to summarize the observations and analyses of the staff regarding six key areas identified for study in the Work Plan in February 2010. At that time, the SEC issued a statement indicating that the information obtained through the Work Plan, among other considerations, would aid the SEC in evaluating the implications of incorporating IFRS into the financial reporting system for U.S. Issuers. IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board (“IASB”). The SEC stated in the Work Plan that the publication does not imply-and should not be construed to imply-that the SEC has made any policy decision as to whether IFRS should be incorporated into the financial reporting system for U.S. issuers nor how any such incorporation should be implemented. The Company is currently assessing the impact that this potential change would have on its operating results and financial condition, and will continue to monitor the development of the potential implementation of IFRS.

## Accounting Standards Updates

In June 2012, the FASB issued Exposure Draft 2012-200, Financial Instruments (Topic 825), Disclosures about Liquidity Risk and Interest Rate Risk. The proposed ASU would require financial institutions to include liquidity risk tabular disclosure of the carrying amounts of classes of financial assets and liabilities segregated by their expected maturities, including off-balance sheet financial commitments and obligations. In addition, interest rate risk disclosures would provide information about the exposure of the entity’s financial assets and liabilities to fluctuations in market interest rates. The proposed ASU does not include a proposed effective date.

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. For public entities, this ASU is effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this ASU has not had nor is it expected to have a material impact on the Company’s results of operations, financial position or disclosures.

In February 2013, the FASB issued ASU No. 2013-04, Liabilities, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. ASU 2013-04 requires an entity to measure obligations resulting from joint and several liability arrangements from which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, at the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. For public entities, this ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this ASU is not expected to have a material impact on the Company’s results of operations, financial position or disclosures.

In July 2013, the FASB issued ASU No. 2013-10, Derivatives and Hedging (Topic 815), Inclusion of the Fed Funds Swap Rate (or Overnight Index Swap Rate “OIS”) as a Benchmark Interest Rate for Hedge Accounting Purposes. ASU 2013-10 permits the Fed Funds Effective Swap Rate or OIS to be used as a U.S. benchmark interest rate for hedge accounting purposes. Before the amendments in ASU 2013-10, only the U.S. Treasury obligations rate (UST) of the U.S. government and the London Interbank Offered Rate (LIBOR) are considered benchmark interest rates for hedge accounting purposes. As a result of the financial crisis in 2008, the exposure to and the demand for hedging the Fed Funds rate have increased significantly. That demand has been driven by an increased focus by banks on their sources of funding (including an increased focus on overnight interbank borrowings or surplus balances held at the Federal Reserve), the greater (and sometimes volatile) spread between LIBOR and OIS, and new regulatory measures to curb systemic risks (such as increased collateralization of derivatives). Considering the increased importance of OIS, the objective of ASU 2013-10 is to provide for the inclusion of the OIS as a U.S. benchmark interest rate for hedge accounting purposes, in addition to UST and LIBOR. The amendments apply to all entities that elect to apply hedge accounting of the benchmark interest rate under Topic 815. The amendments of ASU 2013-10 are effective prospectively for qualifying new or re-designated hedging relationships entered into on or after July 17, 2013. The adoption of this ASU has not had nor is it expected to have a material impact on the Company’s results of operations, financial position or disclosures.

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes (Topic 740), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. Topic 740, Income Taxes, does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss (NOL) carryforward, a similar tax loss, or a tax credit carryforward exists. ASU 2013-11 applies to all entities that have unrecognized tax benefits when an NOL carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for an NOL carryforward, a similar tax loss, or a tax credit carryforward except under certain circumstances as explained in the Update. For public entities, the amendments of ASU 2013-11 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this ASU is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

## NOTE 2 – INVESTMENT SECURITIES

The amortized cost and fair value of securities, with the gross unrealized gains and losses, follow:

(In thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
June 30, 2013				
Securities				
Available-for-Sale:				
U.S. Government agency	\$ 5	\$ -	\$ -	\$ 5
Government-sponsored enterprises	3,200	-	178	3,022
State and municipal	230	2	-	232
Mortgage-backed securities	1,322	69	-	1,391
Total Available-for-Sale Securities	4,757	71	178	4,650
Securities				
Held-to-Maturity:				
U.S. Government agency	23	-	-	23
State and municipal	1,193	-	138	1,055
Total Held-to-Maturity Securities	1,216	-	138	1,078
Total Debt Securities	\$ 5,973	\$ 71	\$ 316	\$ 5,728

(In thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
December 31, 2012				
Securities				
Available-for-Sale:				
U.S. Government agency	\$ 6	\$ -	\$ -	\$ 6
Government-sponsored enterprises	3,200	2	5	3,197



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State and municipal	230	2	-	232
Mortgage-backed securities	1,535	91	-	1,626
Total Available-for-Sale Securities	4,971	95	5	5,061
Held-to-Maturity:				
U.S. Government agency	83	-	-	83
State and municipal	1,193	11	2	1,202
Total Held-to-Maturity Securities	1,276	11	2	1,285
Total Debt Securities	\$ 6,247	\$ 106	\$ 7	\$ 6,346

At June 30, 2013 and December 31, 2012, the carrying amount of securities pledged to secure repurchase agreements and public fund deposits in excess of FDIC insured limits was \$2.2 million and \$2.3 million, respectively.

Securities with gross unrealized losses at the dates presented follow:

June 30, 2013	Less Than Twelve Months		Over Twelve Months		Total Unrealized Losses
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	
(In thousands)					
Securities Available-for-Sale, at fair value					
Government-sponsored enterprises	\$-	\$-	\$178	\$3,022	\$178
Total Available-for-Sale Securities	\$-	\$-	\$178	\$3,022	\$178
Securities Held-to-Maturity at amortized cost					
State and municipal	-	-	138	1,055	138
Total Held-to-Maturity Securities	\$-	\$-	\$138	\$1,055	\$138

December 31, 2012	Less Than Twelve Months		Over Twelve Months		Total Unrealized Losses
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	
(In thousands)					
Securities Available-for-Sale, at fair value					
Government-sponsored enterprises	\$-	\$-	\$5	\$995	\$5
Total Available-for-Sale Securities	\$-	\$-	\$5	\$995	\$5
Securities Held-to-Maturity at amortized cost					
State and municipal	-	-	2	329	2
Total Held-to-Maturity Securities	\$-	\$-	\$2	\$329	\$2

The amortized cost and fair value of debt securities by contractual maturity at June 30, 2013 follows:

June 30, 2013	1 year or less	Over 1 year to 5 years	Over 5		Total
			years to 10 years	Over 10 years	
(In thousands)					
Securities Available-for-Sale, at fair value					
U.S. Government agency	\$-	\$-	\$5	\$-	\$5
Government-sponsored enterprises	-	-	-	3,022	3,022
State and municipal	-	232	-	-	232
Mortgage-backed securities	-	14	10	1,367	1,391
Total Available-for-Sale Securities	\$-	\$246	\$15	\$4,389	\$4,650
Securities Held-to-Maturity at amortized cost					
U.S. Government agency	\$-	\$23	\$-	\$-	\$23
State and municipal	-	-	-	1,193	1,193
Total Held-to-Maturity Securities	\$-	\$23	\$-	\$1,193	\$1,216
Total Debt Securities	\$-	\$269	\$15	\$5,582	\$5,866



The following table summarizes investment activities for the six-month periods ending June 30:

(In thousands)	2013		2012	
	Held to Maturity	Available for Sale	Held to Maturity	Available for Sale
Purchases of securities	\$ -	\$ -	\$ -	\$ -
Sales and maturities of securities	\$ 60	\$ 215	\$ 8	\$ 2,780
Gross realized gains on sales	\$ -	\$ -	\$ -	\$ 5
Gross realized losses on sales	\$ -	\$ -	\$ -	\$ -
Net tax expense applicable to net gains	\$ -	\$ -	\$ -	\$ 2

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to:

1. the length of time and the extent to which the fair value has been less than cost,
2. the financial condition and near-term prospects of the issuer, and
3. the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Market changes in interest rates and credit spreads will cause normal fluctuations in the market value of securities and the possibility of temporary unrealized losses. The Company has determined that there was no other-than-temporary impairment associated with these securities at June 30, 2013 and December 31, 2012.

#### NOTE 3 – LOANS

A summary of the balances of loans follows:

(In thousands)	June 30, 2013	December 31, 2012
Mortgage loans on real estate:		
Held for sale 1-4 family	\$ 1,987	\$ 1,219
Residential 1-4 family	41,114	39,380
Commercial	25,774	24,263
Multi-family	4,094	4,701
Land	10,885	8,980
Residential Construction	2,789	2,553
Home equity lines of credit	1,633	1,714
Total mortgage loans on real estate	88,276	82,810

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Commercial loans	11,622	9,115
Consumer loans, including overdrafts of \$17 and \$63	4,355	4,875
Total loans	104,253	96,800
Less: Allowance for loan losses	(450 )	(374 )
Loans, net	\$ 103,803	\$ 96,426

The Bank is obligated to repurchase those mortgage loans sold which experience an early payment default within 180 days. At June 30, 2013, loans sold for which the Bank is obligated to repurchase under such circumstances amounted to approximately \$20.9 million. The Bank also is committed to sell loans approximating \$2.0 million at June 30, 2013.

The following tables detail loans individually and collectively evaluated for impairment at the following dates:

(In thousands)	June 30, 2013		
	Loans Evaluated for Impairment		
	Individually	Collectively	Total
Loans secured by real estate:			
Residential 1-4 family	\$ 53	\$ -	\$ 53
Total loans secured by real estate	53	-	53
Consumer loans	7	-	7
Total loans	\$ 60	\$ -	\$ 60

(In thousands)	December 31, 2012		
	Loans Evaluated for Impairment		
	Individually	Collectively	Total
Loans secured by real estate:			
Residential 1-4 family	\$ 115	\$ -	\$ 115
Total loans secured by real estate	115	-	115
Consumer loans	13	-	13
Total loans	\$ 128	\$ -	\$ 128

(In thousands)	Impaired Loans For the Periods Ended,				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
June 30, 2013					
With no related allowance recorded:					
Residential-prime	\$ 63	\$ 53	\$ -	\$ 63	\$ -
Consumer	\$ 8	\$ 7	\$ -	\$ 8	\$ -
Total:					
Residential-prime	\$ 63	\$ 53	\$ -	\$ 63	\$ -
Consumer	\$ 8	\$ 7	\$ -	\$ 8	\$ -
December 31, 2012					
With no related allowance recorded:					
Residential-prime	\$ 123	\$ 115	\$ -	\$ 122	\$ -
Consumer	\$ 15	\$ 13	\$ -	\$ 15	\$ -
Total:					
Residential-prime	\$ 123	\$ 115	\$ -	\$ 122	\$ -
Consumer	\$ 15	\$ 13	\$ -	\$ 15	\$ -

Under ASU No. 2010-20, separate disclosures are required for troubled-debt restructurings (TDRs). As of June 30, 2013 and December 31, 2012, the Company had no TDRs to report.

NOTE 4 – ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY

Allowance for Loan Losses

The allowance for loan losses is established through a provision charged to earnings. Loan losses are charged against the allowance when management determines that the collection of the loan balance outstanding is unlikely. Subsequent recoveries, if any, are credited to the allowance. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Changes in the allowance related to impaired loans are charged or credited to the provision for loan losses.

The allowance for loan losses is maintained at a level which, in management's opinion, is adequate to absorb credit losses inherent in the portfolio. The Company utilizes an historical analysis of the Company's portfolio to validate the overall adequacy of the allowance for loan losses. In addition to these objective criteria, the Company subjectively assesses the adequacy of the allowance for loan losses with consideration given to current economic conditions, changes to loan policies, concentrations of credit, the level of classified and criticized credits, and other factors.

A summary of changes in the allowance for loan losses is as follows:

(In thousands)	June 30,	
	2013	2012
Beginning balance	\$ 374	\$ 245
Provision for loan losses	72	60
Loans charged-offs	-	-
Recoveries of loans previously charged-off	4	13
Ending balance	\$ 450	\$ 318

The following tables detail the balance and changes in the allowance for loan losses by portfolio segment as follows:

(In thousands)	Beginning Balance	For the Six Months Ended June 30, 2013			Ending Balance
		Chargeoffs	Recoveries	Provision	
Loans secured by real estate:					
Residential 1-4 family	\$158	\$-	\$-	\$22	\$180
Commercial	96	-	-	21	117
Multi-family	16	-	-	1	17
Land	30	-	-	14	44
Residential construction	11	-	-	-	11
Home equity lines of credit	6	-	-	1	7
Totals by loans secured by real estate	317	-	-	59	376
Commercial loans	39	-	-	17	56
Consumer loans	18	-	4	(4)	18
Totals for all loans	\$374	\$-	\$4	\$72	\$450

(In thousands)	Beginning Balance	For the Six Months Ended June 30, 2012			Ending Balance
		Chargeoffs	Recoveries	Provision	
Loans secured by real estate:					
Residential 1-4 family	\$118	\$-	\$10	\$41	\$169
Commercial	43	-	-	9	52
Multi-family	12	-	-	2	14
Land	16	-	-	2	18
Residential construction	11	-	-	1	12
Home equity lines of credit	4	-	-	-	4



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Totals by loans secured by real estate	204	-	10	55	269
Commercial loans	25	-	1	5	31
Consumer loans	16	-	2	-	18
Totals for all loans	\$245	\$-	\$13	\$60	\$318

At June 30, 2013 and 2012, the Company had no allowance for loan losses disaggregated by impairment method.

## Credit Quality

Loans are categorized into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The following definitions are utilized for risk ratings, which are consistent with the definitions used in supervisory guidance:

**Special Mention** – Loans classified as special mention have a potential weakness that deserves management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution’s credit position at some future date.

**Substandard** – Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidations of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

**Doubtful** – Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values highly questionable and improbable.

**Loss** – This classification includes those loans which are considered uncollectible and of such little value that their continuance as loans is not warranted. Even though partial recovery may be possible in the future, it is not practical or desirable to defer writing off these loans. Accordingly, these loans are charged-off before period end.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans.

The table below illustrates the carrying amount of loans by credit quality indicator at the dates presented as follows:

(In thousands)	Pass	Special Mention	Substandard	Doubtful	Loss	Total
June 30, 2013						
Loans secured by real estate:						
Residential 1-4 family	\$42,776	\$272	\$53	\$-	\$-	\$43,101
Commercial	25,762	12	-	-	-	25,774
Multi-family	4,094	-	-	-	-	4,094
Land	10,885	-	-	-	-	10,885
Residential construction	2,789	-	-	-	-	2,789
Home equity lines of credit	1,633	-	-	-	-	1,633
Totals by loans secured by real estate	87,939	284	53	-	-	88,276
Commercial loans	11,567	55	-	-	-	11,622
Consumer loans	4,337	-	18	-	-	4,355
Totals for all loans	\$103,843	\$339	\$71	\$-	\$-	\$104,253
December 31, 2012						
Loans secured by real estate:						
Residential 1-4 family	\$40,132	\$352	\$115	\$-	\$-	\$40,599
Commercial	24,250	13	-	-	-	24,263
Multi-family	4,701	-	-	-	-	4,701
Land	8,980	-	-	-	-	8,980
Residential construction	2,553	-	-	-	-	2,553
Home equity lines of credit	1,714	-	-	-	-	1,714
Totals by loans secured by real estate	82,330	365	115	-	-	82,810
Commercial loans	9,081	34	-	-	-	9,115
Consumer loans	4,852	-	23	-	-	4,875
Totals for all loans	\$96,263	\$399	\$138	\$-	\$-	\$96,800

A summary of current, past due, and non-accrual loans at the dates presented were as follows:

(In thousands)	Past Due 30-89 Days	Past Due Over 90 Days Accruing	Non- Accruing	Total Past Due	Current	Total Loans
June 30, 2013						
Loans secured by real estate:						
Residential 1-4 family	\$5	\$-	\$-	\$5	\$43,096	\$43,101
Commercial	920	2	-	922	24,852	25,774
Multi-family	-	-	-	-	4,094	4,094
Land	-	-	-	-	10,885	10,885
Residential construction	-	-	-	-	2,789	2,789
Home equity lines of credit	-	-	-	-	1,633	1,633
Totals by loans secured by real estate	925	2	-	927	87,349	88,276
Commercial loans	32	-	-	32	11,590	11,622
Consumer loans	27	10	-	37	4,318	4,355
Totals for all loans	\$984	\$12	\$-	\$996	\$103,257	\$104,253

December 31, 2012

Loans secured by real estate:						
Residential 1-4 family	\$219	\$-	\$115	\$334	\$40,265	\$40,599
Commercial	-	2	-	2	24,261	24,263
Multi-family	-	-	-	-	4,701	4,701
Land	-	-	-	-	8,980	8,980
Residential construction	-	-	-	-	2,553	2,553
Home equity lines of credit	-	-	-	-	1,714	1,714
Totals by loans secured by real estate	219	2	115	336	82,474	82,810
Commercial loans	18	-	-	18	9,097	9,115
Consumer loans	70	3	13	86	4,789	4,875
Totals for all loans	\$307	\$5	\$128	\$440	\$96,360	\$96,800

Interest income on impaired loans, other than non-accrual loans, is recognized on an accrual basis. Interest income on non-accrual loans is recognized only as collected. During the first six months of 2013, there was no interest income recognized on non-accrual loans. If the non-accrual loans had been accruing interest at their original contracted rates, related income would have been \$1,000.

Total non-accrual loans at June 30, 2013 that were not past due and, consequently, not included in the above table amounted to \$60,000.

## NOTE 5 – REGULATORY CAPITAL

As of June 30, 2013, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. The Bank's actual capital amounts and ratios are also presented in the table for the comparative dates. There are no conditions or events since that notification that management believes have changed the institution's category.

(Dollars in thousands)	Actual		Required for Capital Adequacy Purposes			Required to be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
June 30, 2013							
Total capital to risk-weighted assets	\$16,794	16.49 %	\$8,148	8.00 %	\$10,185	10.00 %	
Tier 1 Core capital to risk-weighted assets	\$16,664	16.36 %	\$4,074	4.00 %	\$6,111	6.00 %	
Tier 1 Core capital to adjusted total assets	\$16,664	13.19 %	\$5,054	4.00 %	\$6,317	5.00 %	
Tangible capital to tangible assets	\$16,664	13.19 %	\$1,895	1.50 %	N/A	N/A	
December 31, 2012							
Total capital to risk-weighted assets	\$16,272	16.66 %	\$7,814	8.00 %	\$9,768	10.00 %	
Tier 1 Core capital to risk-weighted assets	\$16,218	16.60 %	\$3,907	4.00 %	\$5,861	6.00 %	
Tier 1 Core capital to adjusted total assets	\$16,218	13.44 %	\$4,826	4.00 %	\$6,032	5.00 %	
Tangible capital to tangible assets	\$16,218	13.44 %	\$1,810	1.50 %	N/A	N/A	

The following is a reconciliation of GAAP equity to regulatory risk-based capital:

(In thousands)	June 30, 2013	December 31, 2012
GAAP equity	\$ 17,169	\$ 16,870
Unrealized gain on debt securities	71	(60 )
Allowance for loan losses (allowable portion)	450	374
Equity investments required to be deducted	(320 )	(320 )
Unearned levered ESOP shares	(576 )	(592 )
Total risk-based Capital	\$ 16,794	\$ 16,272

## NOTE 6 – OTHER COMPREHENSIVE INCOME

The following tables show the related tax effects allocated to each component of other comprehensive income for the respective six-month periods ending:

	For the Six Months Ended June 30, 2013		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized gains(losses) on securities:			
Unrealized holding gains(losses) arising during the period	\$ (198 )	\$ 67	\$ (131 )
Less: reclassification adjustment for gains(losses) realized in net income	-	-	-
Net unrealized gains(losses)	(198 )	67	(131 )
Other comprehensive income(loss)	\$ (198 )	\$ 67	\$ (131 )

	For the Six Months Ended June 30, 2012		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized gains(losses) on securities:			
Unrealized holding gains(losses) arising during the period	\$ (12 )	\$ 4	\$ (8 )
Less: reclassification adjustment for gains(losses) realized in net income	-	-	-
Net unrealized gains(losses)	(12 )	4	(8 )
Other comprehensive income(loss)	\$ (12 )	\$ 4	\$ (8 )

## NOTE 7 - DEPOSITS

Deposits at the respective dates are summarized as follows:

(Dollars in thousands)	June 30, 2013		December 31, 2012	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Demand and Savings Noninterest-bearing demand deposits	\$ 10,873	-	\$ 12,439	-
Interest-bearing demand deposits	17,138	0.44 %	17,852	0.25 %
Money market	10,439	0.40 %	10,456	0.50 %
Savings	17,614	0.54 %	18,149	0.86 %
Total Demand and Savings	\$ 56,064		\$ 58,896	
Time Deposits				
0.00% to 0.99%	\$ 29,493	0.61 %	\$ 19,138	0.69 %
1.00% to 1.99%	11,381	1.20 %	15,354	1.19 %
2.00% to 2.99%	181	2.00 %	766	2.38 %
3.00% to 3.99%	480	3.18 %	480	3.18 %
Total Time Deposits	\$ 41,535		\$ 35,738	
Total Deposits	\$ 97,599		\$ 94,634	

Scheduled maturities of time deposits at June 30, 2013 are as follows:

2014	\$ 28,652
2015	7,206
2016	2,850
Thereafter	2,827
Total	\$ 41,535

Time deposits of \$100,000 or more amounted to approximately \$18.5 million at June 30, 2013. This balance includes \$744,000 of brokered deposits in excess of \$100,000. Total time deposits also include an additional \$6.1 million in brokered deposits denominated in increments of \$1,000. Deposit insurance coverage includes deposits up to \$250,000 with certain restrictions.

## NOTE 8 - DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

Accounting standards in the United States of America establish a framework for using fair value to measure assets and liabilities, and define fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price).

Under these standards, a fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, and the risk of nonperformance. Required disclosures stratify balance sheet accounts measured at fair value based on inputs the Bank uses to derive fair value measurements. These strata include:

Level 1 valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume).

Level 2 valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.



Level 3 valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Bank-specific data. These unobservable assumptions reflect the Bank's own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models, and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

#### Items Measured at Fair Value on a Recurring Basis

For the Bank, the only items recorded at fair value on a recurring basis are securities available for sale. These securities consist primarily of mortgage-backed (including Agency) securities. When available, the Bank uses quoted market prices of identical assets on active exchanges (Level 1 measurements). Where such quoted market prices are not available, the Bank typically employs quoted market prices of similar instruments (including matrix pricing) and/or discounted cash flows to estimate a value of these securities (Level 2 measurements). Level 3 measurements include discounted cash flow analyses based on assumptions that are not readily observable in the market place, including projections of future cash flows, loss assumptions, and discount rates.

Fair values of assets and liabilities measured on a recurring basis at the dates presented are as follows:

June 30, 2013

(In thousands)	Level 1	Level 2	Level 3	Estimated Fair Value
Securities available for sale:				
FHLB certificates	\$ -	\$ 1,138	\$ -	\$ 1,138
FHLMC certificates	-	436	-	436
GNMA certificates	-	10	-	10
FHR certificates	-	19	-	19
FNMA certificates	-	914	-	914
FNR certificates	-	13	-	13
FFCB certificates	-	1,883	-	1,883
SBA pools	-	5	-	5
Municipal securities	-	232	-	232
Total securities available for sale	\$ -	\$ 4,650	\$ -	\$ 4,650

December 31, 2012

(In thousands)	Level 1	Level 2	Level 3	Estimated Fair Value
Securities available for sale:				
FHLB certificates	\$ -	\$ 1,201	\$ -	\$ 1,201
FHLMC certificates	-	624	-	624
GNMA certificates	-	10	-	10
FHR certificates	-	22	-	22
FNMA certificates	-	954	-	954
FNR certificates	-	15	-	15

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FFCB certificates	-	1,997	-	1,997
SBA pools	-	6	-	6
Municipal securities	-	232	-	232
Total securities available for sale	\$ -	\$ 5,061	\$ -	\$ 5,061

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#### Items Measured at Fair Value on a Non-Recurring Basis

From time to time, certain assets may be recorded at fair value on a non-recurring basis, typically as a result of the application of lower of cost or fair value accounting or a write-down occurring during the period. The only item recorded at fair value on a non-recurring basis is foreclosed real estate, which is recorded at the lower of cost or fair value less estimated costs to sell. Fair value is determined by reference to appraisals (performed either by the Bank or by independent appraisers) on the subject property, using market prices of similar real estate assets (Level 2 measurements).

Fair values of assets and liabilities measured on a non-recurring basis at the dates presented are as follows:

(In thousands)	Level 1	Level 2	Level 3	Estimated Fair Value
June 30, 2013				
Other real estate owned	\$ -	\$ 62	\$ -	\$ 62
December 31, 2012				
Other real estate owned	\$ -	\$ -	\$ -	\$ -

#### NOTE 9 - STOCK-BASED BENEFIT PLANS

The Company has three stock-based benefit plans for which compensation expense is recognized. These are the 2010 Employee Stock Ownership Plan (ESOP), the 2011 Recognition and Retention Plan (RRP), and the 2011 Stock Option Plan (SOP). Under the ESOP, compensation expense recognized is based on the average fair value of shares committed to be released over the interim reporting period. Under the RRP, compensation expense is based on the fair value of the shares determined at the date of grant and is recognized each interim reporting period as the shares vest. Compensation expense under the SOP is based on the fair value of the options granted determined at the date of grant and is also recognized each interim reporting period as the options vest. The fair value of the options is calculated by using the Black-Scholes option pricing model which assumes that the option exercises occur at the end of the expected term of the option.

The following table represents the compensation expense recognized by the Company for the respective six-month periods ended:

(In thousands)	June 30,	
	2013	2012
Employee stock ownership plan	\$ 22	\$ 22
Recognition and retention plan	63	74
Stock option plan	38	38
Total compensation expense recognized	\$ 123	\$ 134

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of this discussion and analysis is to focus on significant changes in the financial condition of Century Next Financial Corporation (the "Company") from December 31, 2012 to June 30, 2013 and on its results of operations during the three- and six- month periods ended June 30, 2013 and 2012. This discussion and analysis is intended to highlight and supplement information presented elsewhere in this quarterly report on Form 10-Q, particularly the financial statements and related notes appearing in Item 1.

To the extent that statements in this Form 10-Q relate to future plans, objectives, financial results or performance of the Company, these statements are deemed to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements, which are based on management's current information, estimates and assumptions and the current economic environment, are generally identified by the use of the words "plan", "believe", "expect", "intend", "anticipate", "estimate", "project" or similar expressions. The Company's actual strategic results in future periods may differ materially from those currently expected due to various risks and uncertainties.

### General

The Company was formed by the Bank in June 2010, in connection with the Bank's conversion from a mutual to a stock form savings bank (the "Conversion") completed on September 30, 2010. The Company's results of operations are primarily dependent on the results of the Bank, which became a wholly owned subsidiary upon completion of the Conversion. The Bank's results of operations depend, to a large extent, on net interest income, which is the difference between the income earned on its loan and investment portfolios and the cost of funds, consisting of the interest paid on deposits and borrowings. Results of operations are also affected by provisions for loan losses, fee income and other non-interest income and non-interest expense. Non-interest expense principally consists of compensation and employee benefits, office occupancy and equipment expense, data processing, advertising and business promotion and other expense. The Bank's results of operations are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable law, regulations or government policies may materially impact our financial condition and results of operations.

### Critical Accounting Policies

In reviewing and understanding financial information for the Company, you are encouraged to read and understand the significant accounting policies used in preparing our financial statements. These policies are described in Note 1 of the notes to our financial statements. The accounting and financial reporting policies of the Company conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. Accordingly, the financial statements require certain estimates, judgments, and assumptions, which are believed to be reasonable, based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the periods presented. The following accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating our reported financial results. These policies require numerous estimates or economic assumptions that may prove inaccurate or may be subject to variations which may significantly affect our reported results and financial condition for the period or in future periods.

Allowance for Loan Losses. The allowance for loan losses is maintained at a level to provide for probable credit losses related to specifically identified loans and for losses inherent in the loan portfolio that have been incurred as of the balance sheet date. The allowance for loan losses is comprised of specific allowances and a general allowance. Specific provisions are assessed for each loan that is reviewed for impairment or for which a probable loss has been identified. The allowance related to loans that are identified as impaired is based on discounted expected future cash flows using the loan's initial effective interest rate, the observable market value of the loan, or the estimated fair value of the collateral for certain collateral dependent loans. Factors contributing to the determination of specific provisions include the financial condition of the borrower, changes in the value of pledged collateral and general economic conditions. General allowances are established based on historical charge-offs considering factors that include risk rating, concentrations and loan type. For the general allowance, management also considers trends in delinquencies and non-accrual loans, concentrations, volatility of risk ratings and the evolving mix in terms of collateral, relative loan size and the degree of seasoning within the various loan products.

Our allowance levels may be impacted by changes in underwriting standards, credit administration and collection policies, regulation and other factors which affect the credit quality and collectability of the loan portfolio also impact the allowance levels. The allowance for loan losses is based on management's estimate of probable credit losses inherent in the loan portfolio; actual credit losses may vary from the current estimate. The allowance for loan losses is reviewed periodically, taking into consideration the risk characteristics of the loan portfolio, past charge-off experience, general economic conditions and other factors that warrant current recognition. As adjustments to the allowance for loan losses become necessary, they are reflected as a provision for loan losses in current-period earnings. Actual loan charge-offs are deducted from and subsequent recoveries of previously charged-off loans are added to the allowance.

**Other-Than-Temporary Impairment.** We review our investment portfolio on a quarterly basis for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer including any specific events that may influence the operations of the issuer, and the intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market. Inherent in this analysis is a certain amount of imprecision in the judgment used by management.

We recognize credit-related other-than-temporary impairment on debt securities in earnings while noncredit-related other-than-temporary impairment on debt securities not expected to be sold is recognized in accumulated other comprehensive income. We assess whether the credit loss existed by considering whether (a) we have the intent to sell the security, (b) it is more likely than not that we will be required to sell the security before recovery, or (c) we do not expect to recover the entire amortized cost basis of the security. We may bifurcate the other-than-temporary impairment on securities not expected to be sold or where the entire amortized cost of the security is not expected to be recovered into the components representing credit loss and the component representing loss related to other factors. The portion of the fair value decline attributable to credit loss is recognized through earnings.

Corporate debt securities are evaluated for other-than-temporary impairment by determining whether it is probable that an adverse change in estimated cash flows has occurred. Determining whether there has been an adverse change in estimated cash flows involves the calculation of the present value of remaining cash flows compared to previously projected cash flows. We consider the discounted cash flow analysis to be our primary evidence when determining whether credit-related other-than-temporary impairment exists on corporate debt securities.

**Income Taxes.** Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various assets and liabilities and gives current recognition to changes in tax rates and laws. Realizing our deferred tax assets principally depends upon our achieving projected future taxable income. We may change our judgments regarding future profitability due to future market conditions and other factors. We may adjust our deferred tax asset balances if our judgments change.

## Financial Overview

### Comparison of Financial Condition at June 30, 2013 and December 31, 2012

The Company's total assets increased by \$5.7 million or 4.7% to \$126.3 million at June 30, 2013 compared to \$120.6 million at December 31, 2012. The increase in assets was primarily a result of increases in net loans, including loans held for sale, of \$7.4 million and other assets, including FHLB Bank stock, accrued interest receivable, and foreclosed assets, of \$579,000 partially offset by decreases in cash and cash equivalents of \$1.6 million, debt securities of \$471,000, and premises and equipment of \$166,000.

Cash and cash equivalents decreased \$1.6 million or 17.7% to \$7.5 million at June 30, 2013 compared to \$9.2 million at December 31, 2012 primarily from use in funding lending activity.

Total debt and equity securities decreased from \$6.9 million at December 31, 2012 to \$6.5 million at June 30, 2013. The net decrease of \$385,000 or 5.6% was the result of scheduled payments and other pay downs for the six-month period ended June 30, 2013.

Total loans, net of deferred fees and the allowance for loan losses, increased over the six-month period ended June 30, 2013 by \$7.4 million or 7.7% compared to December 31, 2012. Total net loans at June 30, 2013 were \$103.8 million compared to \$96.4 million at December 31, 2012. Loans secured by 1-4 family residential properties increased \$2.5 million, which includes an increase of \$769,000 in loans held for sale, commercial real estate loans increased \$1.5 million, land loans increased \$1.9 million, residential construction increased \$236,000, and commercial loans not secured by real estate increased \$2.5 million. This was partially offset by decreases in multi-family loans of \$607,000, consumer loans not secured by real estate of \$520,000, and home equity lines of credit of \$81,000.

Total deposits at June 30, 2013 were up \$3.0 million or 3.1% to \$97.6 million compared to \$94.6 million at December 31, 2012. The net increase included an increase in time deposits of \$5.8 million partially offset by decreases in noninterest-bearing demand deposits of \$1.6 million, interest-bearing demand deposits of \$714,000, savings deposits of \$535,000, and money market deposits of \$17,000. The increase in time deposits included an increase in brokered time deposits of \$6.8 million from none at December 31, 2012. The average maturity of the brokered deposits is approximately three years.

Total borrowings, consisting of Federal Home Loan Bank advances and securities sold under agreements to repurchase, increased to \$7.9 million at June 30, 2013 from \$5.6 million at December 31, 2012, an increase of \$2.3 million or 41.2%.

Total Stockholders' Equity increased by \$250,000 or 1.3% to \$19.7 million at June 30, 2013 compared to \$19.4 million at December 31, 2012. The increase for the six-month period primarily resulted from net income of \$289,000, the release of shares for the employee stock ownership plan of \$16,000, and the vesting of unearned shares held by recognition and retention plan of \$115,000. The increases were partially offset by a decrease in additional paid in capital of \$8,000 from equity compensation and share-plan vesting, the purchase of treasury stock of \$31,000, and a decrease in accumulated other comprehensive income of \$131,000.

#### Comparison of Operating Results for the Three and Six Months Ended June 30, 2013 and 2012

Our net income was \$139,000 for the three months ended June 30, 2013, a \$35,000 or 33.7%, increase over net income of \$104,000 for the three months ended June 30, 2012. For the six months ended June 30, 2013, our net income was \$289,000, an increase of \$26,000 or 9.9%, over net income of \$263,000 for the six months ended June 30, 2012. Our average interest rate spread increased by 38 basis points to 4.80% for the three months ended June 30, 2013 from 4.42% for the three months ended June 30, 2012, while our net interest margin increased 34 basis points to 4.92% in the second quarter of 2013 compared to 4.58% in the second quarter of 2012. For the six months ended June 30, 2013, our average interest rate spread increased by 30 basis points to 4.74% from 4.44% for the six months ended June 30, 2012. Our net interest margin increased 25 basis points to 4.86% for the six months ended June 30, 2013 compared to 4.61% for the six months ended June 30, 2012.

Our total interest income was \$1.50 million for the three months ended June 30, 2013, compared to \$1.31 million for the three months ended June 30, 2012, a \$196,000, or 15.0%, increase. The increase in interest income in the three-month period ended June 30, 2013 over the comparable period in 2012 was due primarily to an increase in the average balances of our interest-earnings assets, particularly loans. The average rate earned on earning assets increased by 19 basis points to 5.42% in the quarter ended June 30, 2013 compared to 5.23% in the quarter ended June 30, 2012.

For the six months ended June 30, 2013, interest income was \$2.94 million compared to \$2.64 million for the six months ended June 30, 2012. This was an increase of \$302,000, or 11.5% for the year-to-date period comparison. The increase in interest income in the six-month period ended June 30, 2013 over the comparable period in 2012 was due primarily to an increase in the average balances of our interest-earnings assets, particularly loans. The average rate earned on earning assets increased by 8 basis points to 5.37% for the six months ended June 30, 2013 compared to 5.29% for the six months ended June 30, 2012.

Our total interest expense was \$139,000 for the three months ended June 30, 2013, a decrease of \$22,000, or 13.7%, compared to \$161,000 of interest expense during the second quarter of 2012. The average rate paid on our interest-bearing liabilities decreased by 19 basis points to 0.62% in the quarter ended June 30, 2013 compared to 0.81% in the quarter ended June 30, 2012. The decrease was primarily due to a reduction in the average rate paid on savings, money market and time deposits and other borrowings.

For the six months ended June 30, 2013, our total interest expense was \$279,000, a decrease of \$61,000, or 17.9%, compared to \$340,000 of interest expense during the six months ended June 30, 2012. The average rate paid on our interest-bearing liabilities decreased by 22 basis points to 0.63% in the quarter ended June 30, 2013 compared to 0.85% in the quarter ended June 30, 2012. The decrease was primarily due to a reduction in the average rate paid on



savings, money market and time deposits and other borrowings.

Our provision for loan losses amounted to \$36,000 for the quarter ended June 30, 2013, compared to \$30,000 for the quarter ended June 30, 2012. For the six months ended June 30, 2013, our provision for loan losses was \$72,000 compared to \$60,000 for the six months ended June 30, 2012. The increases in loan loss provision for the second quarter and year to date were primarily due to loan growth and adjustments to economic and other qualitative factors.

Our loans, net of unearned income and allowance for loan losses, increased by \$7.4 million during the six months ended June 30, 2013 from December 31, 2012, which included \$42.4 million in loan originations, offset by sales of \$11.8 million and repayments of loans of \$23.1 million. At June 30, 2013, our allowance for loan losses amounted to \$450,000, or 0.43% of loans, net of unearned loan fees. Our total non-performing loans, including loans past due 90 days or more and non-accrual loans, amounted to \$72,000 at June 30, 2013, compared to \$133,000 at December 31, 2012. At June 30, 2013, our allowance for loan losses amounted to 624.5% of total non-performing loans. There were no charge-offs of loans during the six months ended June 30, 2013, however, recoveries amounted to \$4,000.

Our total non-interest income amounted to \$224,000 for the quarter ended June 30, 2013 compared to \$280,000 for the quarter ended June 30, 2012, a decrease of \$56,000 or 20.0%. The primary reason for the decrease during the three-month period ended June 30, 2013 was a decrease in loan servicing fees of \$70,000. This decrease was partially offset by a combined net increase in service charges, gains on sales of various assets, and other income of \$14,000.

For the six months ended June 30, 2013, total non-interest income amounted to \$437,000 compared to \$526,000 for the six months ended June 30, 2012, a decrease of \$89,000 or 16.9%. The primary reasons for the decrease during the six-month period ended June 30, 2013 were decreases in loan servicing fees of \$86,000 and an increase in the loss on sale of loans of \$41,000. This decrease was partially offset by a combined net increase in service charges, gains on sales of various assets, other than loans, and other income of \$38,000.

Our total non-interest expense increased by \$114,000 or 9.4% to \$1.33 million for the three months ended June 30, 2013, compared to \$1.22 million for the three months ended June 30, 2012. The primary reasons for the increase in non-interest expense were increases in salaries and benefits of \$16,000, occupancy and equipment of \$26,000, data processing of \$14,000, advertising of \$16,000, legal and professional of \$14,000, audit and examination fees of \$15,000, office supplies of \$1,000, and expenses of foreclosed assets of \$19,000. The increases were partially offset by decreases in directors' expense of \$1,000 and other operating expense of \$6,000. For the comparative periods, the increase in salaries and benefits was due mainly to normal salary increases and new staff additions, the increase in occupancy and equipment expense consists mainly of depreciation on new equipment, the increase in data processing was due mostly to software maintenance expense and consulting, the increase in advertising was primarily due to additional program advertising, the increase in audit and examination fees was due primarily to additional internal auditing fees and the increase in expenses for foreclosed assets was due to ongoing expense of one foreclosed real estate property.

For the six months ended June 30, 2013, total non-interest expense increased by \$231,000 or 9.8% to \$2.60 million compared to \$2.37 million for the six months ended June 30, 2012. The primary reasons for the increase in non-interest expense were increases in salaries and benefits of \$69,000, occupancy and equipment of \$46,000, data processing of \$32,000, advertising of \$31,000, legal and professional of \$1,000, audit and examination fees of \$29,000, office supplies of \$14,000, and expenses of foreclosed assets of \$26,000. The increases were partially offset by decreases in directors' expense of \$3,000, FDIC deposit insurance of \$2,000, and other operating expense of \$12,000. For the comparative periods, the increase in salaries and benefits was due mainly to normal salary increases and new staff additions, the increase in occupancy and equipment expense consists mainly of depreciation on new equipment, the increase in data processing was due mostly to software maintenance expense and consulting, the increase in advertising was primarily due to additional program advertising, the increase in audit and examination fees was due primarily to additional internal auditing fees, the increase in office supplies expense was due to increased purchases of usable goods, and the increase in expenses for foreclosed assets was due to ongoing expense of one foreclosed real estate property.

At June 30, 2013 and 2012, we had 36 and 37 full-time equivalent employees, respectively.

Income tax expense for the three months ended June 30, 2013 amounted to \$83,000, an increase of \$7,000 compared to \$76,000 for the quarter ended June 30, 2012 resulting in effective tax rates of 37.4% and 42.2%, respectively. The increase was primarily a result of the increase in quarterly income before taxes and the reversal of excess deferred tax benefit on stock-based compensation, primarily restricted stock vesting, due to price variations between accrual and recognition of expense at the date of vesting. For the six months ended June 30, 2013, income tax expense amounted to \$138,000 compared to \$133,000 for the six months ended June 30, 2012, an increase of \$5,000 resulting in effective tax rates for the comparative six month periods of 32.3% and 33.6%, respectively.

## Net Interest Income

Net interest income, the difference between interest earned on loans and investments and interest paid on deposits and other borrowings, is the principal component of our earnings. The following table provides a summary of average earning assets and interest-bearing liabilities as well as the income or expense attributable to each item for the periods indicated.

Average Balances, Net Interest Income, Yields Earned, and Rates Paid. The following table shows for the periods indicated the total dollar amount of interest from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. Tax-exempt income and yields have not been adjusted to a tax-equivalent basis. All average balances are based on monthly balances. Management does not believe that the monthly averages differ significantly from what the daily averages would be.

(Dollars in thousands)	Three Months Ended June 30,							
	2013		2012		2013		2012	
	Avg. Balance	Interest	Avg. Yield		Avg. Balance	Interest	Avg. Yield	
<b>Earning assets:</b>								
Loans (1)	\$ 100,180	\$ 1,455	5.83 %		\$ 85,971	\$ 1,276	5.97 %	
Debt Securities	6,142	46	3.00 %		6,713	28	1.68 %	
Other earning assets	4,951	2	0.16 %		7,865	3	0.15 %	
<b>Total earning assets</b>	<b>111,273</b>	<b>1,503</b>	<b>5.42 %</b>		<b>100,549</b>	<b>1,307</b>	<b>5.23 %</b>	
Non-earning assets	9,894				8,731			
<b>Total Assets</b>	<b>\$ 121,167</b>				<b>\$ 109,280</b>			
<b>Interest-bearing liabilities:</b>								
<b>Interest-bearing</b>								
checking	\$ 17,581	\$ 15	0.34 %		\$ 16,516	\$ 11	0.27 %	
Savings & MMDA	27,399	31	0.45 %		27,414	48	0.70 %	
Time deposits	40,971	88	0.86 %		34,672	97	1.13 %	
Other borrowings	4,699	5	0.43 %		1,462	5	1.38 %	
<b>Total interest-bearing liabilities</b>	<b>90,650</b>	<b>139</b>	<b>0.62 %</b>		<b>80,064</b>	<b>161</b>	<b>0.81 %</b>	
<b>Noninterest-bearing</b>								
deposits	9,631				9,425			
Other liabilities	1,084				929			
<b>Total Liabilities</b>	<b>101,365</b>				<b>90,418</b>			
Shareholders' equity	19,802				18,862			

Total Liabilities and Shareholders' Equity	\$ 121,167			\$ 109,280		
Net Interest Income & Spread	\$ 1,364	4.80	%	\$ 1,146	4.42	%
Net Interest Margin(2)		4.92	%		4.58	%
Average earning assets to interest-bearing liabilities		122.75	%		125.59	%

1) Loan interest income includes fee income of \$74,000 and \$46,000 for the three months ended June 30, 2013 and 2012, respectively. Average quarterly balance of loans includes average net deferred loan fees of \$77,000 and \$56,000 for June 30, 2013 and 2012, respectively. The average balance of nonaccrual loans has been included in net loans.

2) Net interest margin is computed by dividing net interest income by the total average earning assets.

Six Months Ended June 30,							
(dollars in thousands)	2013			2012			
	Avg. Balance	Interest	Avg. Yield	Avg. Balance	Interest	Avg. Yield	
<b>Earning assets:</b>							
Loans (1)	\$ 98,802	\$ 2,842	5.80 %	\$ 86,303	\$ 2,575	6.00 %	
<b>Debt</b>							
Securities	6,204	93	3.02 %	6,837	57	1.68 %	
Other earning assets	5,268	4	0.15 %	7,126	5	0.14 %	
Total earning assets	110,274	2,939	5.37 %	100,266	2,637	5.29 %	
<b>Non-earning assets</b>							
Total Assets	\$ 119,816			\$ 108,992			
<b>Interest-bearing liabilities:</b>							
<b>Interest-bearing</b>							
checking	\$17,584	\$26	0.30 %	\$15,981	\$23	0.29 %	
Savings & MMDA	27,433	69	0.51 %	27,072	110	0.82 %	
Time deposits	38,777	172	0.89 %	34,341	195	1.14 %	
Other borrowings	5,585	12	0.43 %	2,867	12	0.84 %	
Total interest-bearing liabilities	89,379	279	0.63 %	80,261	340	0.85 %	
<b>Noninterest-bearing</b>							
deposits	9,655			8,980			
Other liabilities	1,069			960			
Total Liabilities	100,103			90,201			
Shareholders' equity	19,713			18,791			
Total Liabilities and Shareholders' Equity	\$119,816			\$108,992			
<b>Net Interest Income &amp; Spread</b>							
		\$2,660	4.74 %		\$2,297	4.44 %	
<b>Net Interest Margin(2)</b>							
			4.86 %			4.61 %	
			123.38 %			124.92 %	

Average earning assets to  
interest-bearing liabilities

- 1) Loan interest income includes fee income of \$102,000 and \$103,000 for the six months ended June 30, 2013 and 2012, respectively. Average year-to-date balance of loans includes average deferred loan fees of \$73,000 and \$63,000 for June 30, 2013 and 2012, respectively. The average balance of nonaccrual loans has been included in net loans.
- 2) Net interest margin is computed by dividing net interest income by the total average earning assets.

Asset Quality

“Classified loans” are the loans and other credit facilities that we consider to be of the greatest risk to us and, therefore, they receive the highest level of attention by our account officers and senior credit management. Classified loans include both performing and nonperforming loans. During the second quarter of 2013, the Company continued to closely monitor all of its more significant loans, including all loans previously classified.

At June 30, 2013, the Company had \$410,000 in classified loans compared to \$537,000 at December 31, 2012. Of these loans, at June 30, 2013, \$350,000 was accruing loans and \$60,000 was non-accruing loans. Total loans included in classified loans at June 30, 2013 that were evaluated for impairment was \$60,000 compared to \$128,000 evaluated for impairment and included in classified loans at December 31, 2012. A loan “impairment” is a designation required under generally accepted accounting principles when it is considered probable that we may be unable to collect all amounts due according to the contractual terms of our loan agreement. Non-performing loans include loans past due 90 days or more that are still accruing interest and nonaccrual loans. At June 30, 2013, we had \$72,000 in non-performing loans. This compares to \$133,000 in non-performing loans at December 31, 2012. Non-performing loans as a percentage of total loans at June 30, 2013 were 0.07% as compared to 0.14% at December 31, 2012.

During the first quarter ended March 31, 2013, the Company foreclosed on a delinquent loan secured by residential 1-4 family real estate that had previously been included in non-accrual loans with an outstanding balance of \$62,000. Foreclosed assets are recorded at the lesser of the outstanding loan balance or cost at the time of foreclosure or fair value less estimated selling expenses. Total foreclosed assets at June 30, 2013 were \$62,000. There were no foreclosed assets at December 31, 2012. Total non-performing assets, including non-performing loans and foreclosed assets, as a percentage of total assets were 0.11% at June 30, 2013 and December 31, 2012.

The Company recovered \$3,000 of loan balances previously charged off in prior years and had no charge offs of loan balances during the quarter ended June 30, 2013. This compares \$1,000 of recoveries and no charge offs during the quarter ended June 30, 2012. For the six months ended June 30, 2013, recoveries totaled \$4,000 compared to \$13,000 in recoveries for the six months ended June 30, 2012. There were no charge offs in the comparative periods in 2013 and 2012.

#### Provision for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to earnings as losses are estimated to have occurred in our loan portfolio. The allowance for loan losses is maintained at a level to provide for probable credit losses related to specifically identified loans and for losses inherent in the loan portfolio that have been incurred as of the balance sheet date. The allowance for loan losses is comprised of specific allowances and a general allowance.

Specific provisions are assessed for each loan that is reviewed for impairment or for which a probable loss has been identified. The allowance related to loans that are identified as impaired is based on discounted expected future cash flows using the loan's initial effective interest rate, the observable market value of the loan, or the estimated fair value of the collateral for certain collateral dependent loans. Factors contributing to the determination of specific provisions include the financial condition of the borrower, changes in the value of pledged collateral and general economic conditions. General allowances are established based on historical charge-offs considering factors that include risk rating, concentrations and loan type. For the general allowance, management also considers trends in delinquencies and non-accrual loans, concentrations, volatility of risk ratings and the evolving mix in terms of collateral, relative loan size and the degree of seasoning within the various loan products.

Changes in underwriting standards, credit administration and collection policies, regulation and other factors which affect the credit quality and collectability of the loan portfolio also impact the allowance levels. The allowance for loan losses is based on management's estimate of probable credit losses inherent in the loan portfolio; actual credit losses may vary from the current estimate. The allowance for loan losses is reviewed periodically, taking into consideration the risk characteristics of the loan portfolio, past charge-off experience, general economic conditions and other factors that warrant current recognition. As adjustments to the allowance for loan losses become necessary, they are reflected as a provision for loan losses in current-period earnings. Actual loan charge-offs are deducted from and subsequent recoveries of previously charged-off loans are added to the allowance.

During the quarter ended June 30, 2013, we made a provision of \$36,000 compared to a provision of \$30,000 for the quarter ended June 30, 2012. For the six months ended June 30, 2013, total provisions were \$72,000 compared to \$60,000 for the six months ended June 30, 2012. At June 30, 2013, the Company had \$72,000 of non-performing loans compared to \$294,000 at June 30, 2012. To the best of management's knowledge, the allowance is maintained at a level believed to cover all known and inherent losses in the loan portfolio, both probable and reasonable to estimate.

#### Liquidity and Capital Resources

The Company maintains levels of liquid assets deemed adequate by management. The Company adjusts its liquidity levels to fund deposit outflows, repay its borrowings and to fund loan commitments. The Company also adjusts liquidity as appropriate to meet asset and liability management objectives.

The Company's primary sources of funds are deposits, loan payments, and to a lesser extent, funds provided from operations. While scheduled payments on loans are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. The Company sets the interest rates on its deposits to maintain a desired level of total deposits. In addition, the Company invests excess funds in short-term interest-earning accounts, if greater liquidity needs are expected in the near term, and medium- to longer-term investments if liquidity is expected to be in excess of needs for an extended period of time. Excess liquidity assists in providing availability of funds to meet lending requirements and additional demand from deposit accounts as the need arises. The Company's cash and cash equivalents amounted to \$7.6 million at June 30, 2013.



A portion of the Company's liquidity consists of non-interest earning deposits. The Company's primary sources of cash are payments on loans and increases in deposit accounts. If the Company requires funds beyond its ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Dallas, which provide an additional source of funds. During the first six months of 2013, the Company sold brokered deposits as an additional source of funding. This funding source presented the Company with the benefits of lower cost fixed-rate funding for a longer term with an average maturity of approximately three years. At June 30, 2013, the Company had short-term and long-term advances from the Federal Home Loan Bank of Dallas in the amounts of \$6.5 million and \$321,000, respectively with a total borrowing capacity of \$42.4 million. In addition, the Company had outstanding brokered deposits of \$6.8 million. Bank of Ruston was also a party to a Master Purchase Agreement with First National Bankers Bank whereby Bank of Ruston may purchase Federal Funds from First National Bankers Bank in an amount not to exceed \$5.4 million. There were no amounts purchased under this agreement as of June 30, 2013.

At June 30, 2013, the Company had outstanding loan commitments of \$3.0 million to originate loans and \$9.6 million of unfunded commitments under lines of credit. At June 30, 2013, certificates of deposit scheduled to mature in less than one year totaled \$28.7 million. Based on prior experience, management believes that a significant portion of such deposits will remain with us, although there can be no assurance that this will be the case. In addition, in a rising interest rate environment, the cost of such deposits could be significantly higher upon renewal. The Company intends to utilize its liquidity to fund its lending activities.

The Bank is required to maintain regulatory capital sufficient to meet tier-1 leverage, tier-1 risk-based and total risk-based capital ratios of at least 4.0%, 4.0% and 8.0%, respectively. At June 30, 2013, the Bank exceeded each of its capital requirements with ratios of 13.19%, 16.36% and 16.49%, respectively.

#### Impact of Inflation and Changing Prices

The financial statements and related financial data presented herein regarding the Company have been prepared in accordance with accounting principles generally accepted in the United States of America which generally require the measurement of financial position and operating results in terms of historical dollars, without considering changes in relative purchasing power over time due to inflation. Unlike most industrial companies, virtually all of the Company's assets and liabilities are monetary in nature. As a result, interest rates generally have a more significant impact on the Company's performance than does the effect of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services, since such prices are affected by inflation to a larger extent than interest rates.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

#### ITEM 4. CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

The Company's management has evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Exchange Act Rules 13(a)-15(e) as of the end of the period covered by this report. The Company's chief executive officer and chief financial officer participated in the evaluation. 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 this report date.

Internal Control Over Financial Reporting

No change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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## PART II – OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which the Company or its subsidiary is a party or of which any of their property is subject, other than ordinary routine litigation incidental to the business of the Company or its subsidiary. None of the ordinary routine litigation in which the Company or its subsidiary is involved is expected to have a material adverse impact upon the financial position or results of operations of the Company or its subsidiary.

## ITEM 1A. RISK FACTORS

Not applicable.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not applicable.

(b) Not applicable.

(c) Purchases of Equity Securities.

The following presents the Company's purchase activity during the three-month period ended June 30, 2013:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
April 1-30, 2013	-	\$ -	-	1,220
May 1-31, 2013	2,351	\$ 13.50	-	1,220
June 1-30, 2013	-	\$ -	-	1,220
Total	2,351	\$ 13.50	-	1,220

Notes to this table:

(1) The 2,351 shares were repurchased by the Company to meet the tax obligations of participants in the 2011 Recognition and Retention Plan.

(2) The Company's 2011 Recognition and Retention Plan was authorized to purchase up to a maximum of 42,320 shares of common stock, or 4.0% of the common stock sold in the initial public offering completed on September

30, 2010, as disclosed in the Company's prospectus dated August 11, 2010, and announced by press release on May 17, 2011.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

There are no matters required to be reported under this item.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

There are no matters required to be reported under this item.

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## ITEM 6. EXHIBITS

List of exhibits: (filed herewith unless otherwise noted)

Number	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer
32.1	Section 1350 Certification

The following Exhibits are being furnished as part of this report:

Number	Description
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document.*

\* These interactive data files are being furnished as part of this Quarterly Report, and, in accordance with Rule 402 of Regulation S-T, shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.

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.

CENTURY NEXT FINANCIAL CORPORATION

Date: August 9, 2013

By: /s/ William D. Hogan  
William D. Hogan  
President and Chief Executive  
Officer

Date: August 9, 2013

By: /s/ Mark A. Taylor  
Mark A. Taylor, CPA  
Senior Vice President and Chief  
Financial Officer