

GUARANTY FEDERAL BANCSHARES INC
Form 10-K
March 25, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2015

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

1341 West Battlefield, Springfield, Missouri 65807
(Address of Principal Executive Offices) (Zip Code)

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

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Securities registered pursuant to Section 12(b) of the Act:

| Title of Class | Exchange on which Registered |
|---|------------------------------|
| Common Stock, par value \$.10 per share | NASDAQ Global Market |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

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. (Check one):

Large accelerated file ___ 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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, based on the average bid and asked prices of the registrant's Common Stock as quoted on the Global Market of The NASDAQ Stock Market on June 30, 2015 (the last business day of the registrant's most recently completed second quarter) was \$57.9 million. As of March 14, 2016 there were 4,431,470 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders (the “Proxy Statement”) to be held on May 25, 2016 (Part III).

GUARANTY FEDERAL BANCSHARES, INC.

Form 10-K

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PART I

Item 1. Business

Guaranty Federal Bancshares, Inc.

Guaranty Federal Bancshares, Inc. (hereinafter referred to as “we,” “us,” “our,” or the “Company”) is a Delaware-chartered corporation that was formed in September 1997. The Company became a unitary savings and loan holding company for Guaranty Federal Savings Bank, a federal savings bank (the “Bank”) on December 30, 1997, in connection with a plan of conversion and reorganization involving the Bank and its then existing mutual holding company. The mutual holding company structure had been created in April 1995 at which time more than a majority of the shares of the Bank were issued to the mutual holding company and the remaining shares were sold in a public offering. In connection with the conversion and reorganization on December 30, 1997, the shares of the Bank held by the mutual holding company were extinguished along with the mutual holding company, and the shares of the Bank held by the public were exchanged for shares of the Company. All of the shares of the Bank which remained outstanding after the conversion are owned by the Company.

On June 27, 2003, the Bank converted from a federal savings bank to a state-chartered trust company with banking powers in Missouri, and the Company became a bank holding company. On this date, the name of the Bank was changed from Guaranty Federal Savings Bank to Guaranty Bank. The primary activity of the Company is to oversee its investment in the Bank. The Company engages in few other activities. For this reason, unless otherwise specified, references to the Company include operations of the Bank. Further, information in a chart or table based on Bank only data is identical to or immaterially different from information that would be provided on a consolidated basis. In addition to the Bank, the Company owns Guaranty Statutory Trust I and Guaranty Statutory Trust II, both Delaware statutory trusts.

At December 31, 2015, the Company’s consolidated assets were \$652.8 million, net loans were \$492.9 million, deposits were \$517.4 million and total stockholders’ equity was \$66.4 million. See Item 6 “Selected Consolidated Financial Data” for further details regarding the Company’s financial position and results of operations for the previous five fiscal years.

Guaranty Bank

The Bank's principal business has been, and continues to be, attracting retail deposits from the general public and investing those deposits, together with funds generated from operations, in commercial real estate loans, multi-family residential mortgage loans, construction loans, permanent one- to four-family residential mortgage loans, business, consumer and other loans. The Bank also invests in mortgage-backed securities, U.S. Government and federal agency securities and other marketable securities. The Bank's revenues are derived principally from interest on its loans and other investments and fees charged for services provided, and gains generated from sales of loans and investment securities, and 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 primary sources of funds are: deposits; borrowings; amortization and prepayments of loan principal; and amortizations, prepayments and maturities of investment securities.

The Bank is regulated by the Missouri Division of Finance ("MDF") and its deposits are insured by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation (the "FDIC"). See discussion under section captioned "Supervision and Regulation" in this Item 1. The Bank is a member of the FHLB of Des Moines, which is one of 11 regional Federal Home Loan Banks ("FHLB").

Internet Website

The Company's internet website address is www.gbankmo.com. The information contained on that website is not included as part of, or incorporated by reference into, this Annual Report on Form 10-K. The Company makes available through its website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and any amendments to these reports as soon as reasonably practicable after they are electronically filed or furnished to the Securities and Exchange Commission. These materials are also available free of charge (other than a user's regular internet access charges) on the Securities and Exchange Commission's website at www.sec.gov.

Market Area

The Bank's primary market areas are Greene and Christian Counties, which are in the southwestern corner of Missouri and includes the cities of Springfield, Nixa and Ozark, Missouri (our "Market Area"). The major components of the local economy are service industries, education, retail, light manufacturing and health care. There is a significant regional health care presence with two large regional hospitals. There also are four accredited colleges and one major university. Part of the area's growth can be attributed to its proximity to Branson, Missouri, which has developed a strong tourism industry related to country music and entertainment. Branson is located 30 miles south of Springfield, and attracts between five and six million tourists each year, many of whom pass through Springfield. The Bank also has a Loan Production Office in Webster County, Missouri.

Lending Activities

Like many commercial banks in our market, our loan portfolio is comprised of different types of industries. However, real estate lending is a significant portion of our business and accounted for more than 79% of our loan portfolio by value as of December 31, 2015. Set forth below is selected data relating to the composition of the Bank's loan portfolio at the dates indicated:

Composition of Loan Portfolio

| | As of December 31, | | 2014 | | 2013 | | 2012 | | 2011 | |
|--|--------------------|------|----------|------|----------|------|-----------|------|-----------|------|
| | 2015 | | \$ | % | \$ | % | \$ | % | \$ | % |
| | \$ | % | \$ | % | \$ | % | \$ | % | \$ | % |
| (Dollars in Thousands) | | | | | | | | | | |
| Mortgage loans (includes loans held for sale): | | | | | | | | | | |
| One to four family | \$100,160 | 20 % | \$99,116 | 20 % | \$94,422 | 20 % | \$102,225 | 21 % | \$101,734 | 21 % |
| Multi-family | 41,604 | 8 % | 33,786 | 7 % | 46,188 | 10 % | 46,405 | 10 % | 43,166 | 9 % |
| Construction | 45,463 | 9 % | 36,785 | 7 % | 43,266 | 9 % | 48,917 | 10 % | 44,912 | 9 % |
| Commercial real estate | 208,824 | 42 % | 215,605 | 44 % | 179,079 | 38 % | 167,761 | 35 % | 194,856 | 39 % |
| Total mortgage loans | 396,051 | 79 % | 385,292 | 78 % | 362,955 | 77 % | 365,308 | 77 % | 384,668 | 78 % |
| Commercial business loans | 81,007 | 16 % | 92,114 | 19 % | 92,722 | 20 % | 95,227 | 20 % | 88,089 | 18 % |
| Consumer loans | 21,992 | 4 % | 17,246 | 3 % | 17,303 | 4 % | 16,717 | 4 % | 20,758 | 4 % |
| Total commercial business and other | 102,999 | 21 % | 109,360 | 22 % | 110,025 | 23 % | 111,944 | 23 % | 108,847 | 22 % |

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| | | | | | | | | | | |
|-------------------------------|-----------|------|-----------|------|-----------|------|-----------|------|-----------|------|
| loans | | | | | | | | | | |
| Total loans | 499,050 | 100% | 494,652 | 100% | 472,980 | 100% | 477,252 | 100% | 493,515 | 100% |
| Less: | | | | | | | | | | |
| Deferred loan fees/costs, net | 333 | | 262 | | 175 | | 136 | | 238 | |
| Allowance for loan losses | 5,812 | | 6,589 | | 7,802 | | 8,740 | | 10,613 | |
| Total Loans, net | \$492,905 | | \$487,801 | | \$465,003 | | \$468,376 | | \$482,664 | |

The following table sets forth the maturity of the Bank's loan portfolio as of December 31, 2015. The table shows loans that have adjustable rates as due in the period during which they contractually mature. The table does not include prepayments or scheduled principal amortization.

| Loan Maturities | Due in | Due | Due | Total |
|---------------------------|------------------------|-----------|-----------|-----------|
| | One | After | After | |
| | Year or | One | Five | |
| | Less | Through | Years | |
| | | Five | | |
| | | Years | | |
| | (Dollars in thousands) | | | |
| One to four family | \$15,866 | \$45,598 | \$38,696 | \$100,160 |
| Multi-family | 1,172 | 32,315 | 8,117 | 41,604 |
| Construction | 32,128 | 8,415 | 4,920 | 45,463 |
| Commercial real estate | 36,222 | 95,853 | 76,749 | 208,824 |
| Commercial loans | 29,479 | 37,411 | 14,117 | 81,007 |
| Consumer loans | 8,071 | 8,037 | 5,884 | 21,992 |
| Total loans (1) | \$122,938 | \$227,629 | \$148,483 | \$499,050 |
| Less: | | | | |
| Deferred loan fees/costs | | | | 333 |
| Allowance for loan losses | | | | 5,812 |
| Loans receivable net | | | | \$492,905 |

(1) Includes mortgage loans held for sale of \$1,903

The following table sets forth the dollar amount, before deductions for unearned discounts, deferred loan fees/costs and allowance for loan losses, as of December 31, 2015 of all loans due after December 2016, which have pre-determined interest rates and which have adjustable interest rates.

| | Fixed | Adjustable | Total | % | |
|------------------------|------------------------|------------|-----------|------------|---|
| | Rates | Rates | | Adjustable | |
| | (Dollars in Thousands) | | | | |
| One to four family | \$51,967 | \$32,327 | \$84,294 | 38 | % |
| Multi-family | 34,900 | 5,532 | 40,432 | 14 | % |
| Construction | 7,966 | 5,370 | 13,336 | 40 | % |
| Commercial real estate | 109,311 | 63,291 | 172,602 | 37 | % |
| Commercial loans | 31,781 | 19,747 | 51,528 | 38 | % |
| Consumer loans | 3,130 | 10,790 | 13,920 | 78 | % |
| Total loans (1) | \$239,055 | \$137,057 | \$376,112 | 36 | % |

(1) Before deductions for unearned discounts, deferred loan fees/costs and allowances for loan losses.

Commercial Real Estate Loans. As of December 31, 2015, the Bank had commercial real estate loans totaling \$208.8 million or 42% of the Bank's total loan portfolio. Commercial real estate loans are generally originated in amounts up to 80% of the appraised value of the mortgaged property. The majority of the Bank's commercial real estate loans have been originated with adjustable rates of interest, the majority of which are quoted at a spread to the Wall Street Prime rate for the initial fixed rate period with subsequent adjustments at a spread to the Wall Street Prime rate. The Bank's commercial real estate loans are generally permanent loans secured by improved property such as office buildings, retail stores, small shopping centers, medical offices, motels, churches and other non-residential buildings.

To originate commercial real estate loans, the Bank generally requires a mortgage and security interest in the subject real estate, personal guarantees of the principals, a security interest in the related personal property, and a standby assignment of rents and leases. The Bank has established its loan-to-one borrower limitation, which was \$21.1 million as of December 31, 2015, as its maximum commercial real estate loan amount. Because of the small number of commercial real estate loans and the relationship of each borrower to the Bank, each such loan has differing terms and conditions applicable to the particular borrower.

Loans secured by commercial real estate are generally larger and involve a greater degree of risk than residential mortgage loans. Because payments on loans secured by commercial real estate are often dependent on successful operation or management of the properties, repayment of such loans may be subject, to a greater extent, to adverse conditions in the real estate market or the economy. The Bank seeks to minimize these risks by careful underwriting, requiring personal guarantees, lending only to established customers and borrowers otherwise known by the Bank, and generally restricting such loans to its primary Market Area.

As of December 31, 2015, the Bank's commercial real estate loan portfolio included approximately \$8.3 million, or 1.7% in loans to develop land into residential lots. The Bank utilizes its knowledge of the local market conditions and appraisals to evaluate the development cost and estimate projected lot prices and absorption rates to assess loans on residential subdivisions. The Bank typically loans up to 75% of the appraised value over terms up to two years. Development loans generally involve a greater degree of risk than residential mortgage loans because (1) the funds are advanced upon the security of the land which has a materially lower value prior to completion of the infrastructure required of a subdivision, (2) the cash flow available for debt repayment is a function of the sale of the individual lots, and (3) the amount of interest required to service the debt is a function of the time required to complete the development and sell the lots.

Commercial Business Loans. As of December 31, 2015, the Bank had commercial business loans totaling \$81.0 million or 16% of the Bank's total loan portfolio. Commercial business loans are generally secured by business assets, such as accounts receivable, equipment and inventory. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself. Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. The Bank expects to continue to expand its commercial business lending as opportunities present themselves.

One- to Four-Family Mortgage Loans. The Bank offers fixed- and adjustable-rate ("ARM") first mortgage loans secured by one- to four-family residences in the Bank's primary lending area. Typically, such residences are single family homes that serve as the primary residence of the owner. However, there are a number of loans originated by the Bank which are secured by non-owner occupied properties. Loan originations are generally obtained from existing or past customers, members of the local community, attorney referrals, established builders and realtors within our

Market Area. Originated mortgage loans in the Bank's portfolio include due-on-sale clauses which provide the Bank with the contractual right to deem the loan immediately due and payable in the event that the borrower transfers ownership of the property without the Bank's consent.

As of December 31, 2015, \$100.2 million or 20% of the Bank's total loan portfolio consisted of one- to four-family residential loans. The Bank currently offers ARM and balloon loans that have fixed interest rate periods of one to seven years. Generally, ARM loans provide for limits on the maximum interest rate adjustment ("caps") that can be made at the end of each applicable period and throughout the duration of the loan. ARM loans are originated for a term of up to 30 years on owner-occupied properties and generally up to 25 years on non-owner occupied properties. Typically, interest rate adjustments are calculated based on U.S. treasury securities adjusted to a constant maturity of one year (CMT), plus a 2.50% to 2.75% margin. Interest rates charged on fixed-rate loans are competitively priced based on market conditions and the cost of funds existing at the time the loan is committed. The Bank's fixed-rate mortgage loans are made for terms of 15 to 30 years which are currently being sold on the secondary market.

Generally, ARM loans pose credit risks different from the risks inherent in fixed-rate loans, primarily because as interest rates rise, the underlying payments of the borrower rise, thereby increasing the potential for default. At the same time, the marketability of the underlying property may be adversely affected by higher interest rates. The Bank does not originate ARM loans that provide for negative amortization.

The Bank generally originates both owner occupied and non-owner occupied one- to four-family residential mortgage loans in amounts up to 80% of the appraised value or the selling price of the mortgaged property, whichever is lower. The Bank on occasion may make loans up to 95% of appraised value or the selling price of the mortgage property, whichever is lower. However, the Bank typically requires private mortgage insurance for the excess amount over 80% for mortgage loans with loan to value percentages greater than 80%.

Multi-Family Mortgage Loans. The Bank originates multi-family mortgage loans in its primary lending area. As of December 31, 2015, \$41.6 million or 8% of the Bank's total loan portfolio consisted of multi-family residential real estate loans. With regard to multi-family mortgage loans, the Bank generally requires personal guarantees of the principals as well as a security interest in the real estate. Multi-family mortgage loans are generally originated in amounts of up to 80% of the appraised value of the property. A portion of the Bank's multi-family mortgage loans have been originated with adjustable rates of interest which are quoted at a spread to the FHLB advance rate for the initial fixed rate period with subsequent adjustments based on the Wall Street prime rate. The loan-to-one-borrower limitation, \$21.1 million as of December 31, 2015, is the maximum the Bank will lend on a multi-family residential real estate loan.

Loans secured by multi-family residential real estate generally involve a greater degree of credit risk than one- to four-family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family residential real estate is typically dependent upon the successful operation of the related real estate property. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

Construction Loans. As of December 31, 2015, construction loans totaled \$45.5 million or 9% of the Bank's total loan portfolio. Construction loans originated by the Bank are generally secured by permanent mortgage loans for the construction of owner-occupied residential real estate or to finance speculative construction secured by residential real estate or owner-operated commercial real estate. This portion of the Bank's loan portfolio consists of speculative loans, i.e., loans to builders who are speculating that they will be able to locate a purchaser for the underlying property prior to or shortly after the time construction has been completed.

Construction loans are made to contractors who have sufficient financial strength and a proven track record, for the purpose of resale, as well as on a "pre-sold" basis. Construction loans made for the purpose of resale generally provide for interest only payments at floating rates and have terms of six months to fifteen months. Construction loans for speculative purposes, models, and commercial properties typically have loan to value ratios of up to 80%. Loan proceeds are disbursed in increments as construction progresses and as inspections warrant.

Construction lending by its nature entails significant additional risks as compared with one-to four-family mortgage lending, attributable primarily to the fact that funds are advanced upon the security of the project under construction prior to its completion. As a result, construction lending often involves the disbursement of substantial funds with repayment dependent on the success of the ultimate project and the ability of the borrower or guarantor to repay the loan. Because of these factors, the analysis of the prospective construction loan projects requires an expertise that is different in significant respects from that which is required for residential mortgage lending. The Bank attempts to address these risks through its underwriting and construction monitoring procedures.

Consumer and Other Loans. The Bank also offers consumer loans, primarily consisting of loans secured by certificates of deposit, automobiles, boats and home equity loans. As of December 31, 2015, the Bank has such loans totaling \$22.0 million or 4% of the Bank's total loan portfolio. The Bank expects to continue to expand its consumer lending as opportunities present themselves.

Director and Insider loans. Management believes that loans to Directors and Officers are prudent and within the normal course of business. These loans reflect normal credit terms and represent no more collection risk than any other loan in the portfolio.

Delinquencies, Non-Performing and Problem Assets.

Delinquent Loans. As of December 31, 2015, the Bank has eight loans 90 days or more past due with a principal balance of \$2,423,350 and ten loans between 30 and 89 days past due with an aggregate principal balance of \$265,987. The Bank generally does not accrue interest on loans past due more than 90 days.

The following table sets forth the Bank's loans that were accounted for on a non-accrual basis or 90 days or more delinquent at the dates indicated.

| Delinquency Summary | As of | | | | |
|---|------------------------|---------|----------|----------|----------|
| | December 31, | | | | |
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| | (Dollars in Thousands) | | | | |
| Loans accounted for on a non-accrual basis or contractually past due 90 days or more | | | | | |
| Mortgage Loans: | | | | | |
| One to four family | \$2,272 | \$911 | \$816 | \$2,281 | \$1,671 |
| Multi-family | - | - | - | - | - |
| Construction | 8,080 | 2,893 | 4,530 | 6,274 | 8,514 |
| Commercial real estate | 1,241 | 460 | 3,663 | 3,664 | 4,083 |
| | 11,593 | 4,264 | 9,009 | 12,219 | 14,268 |
| Non-mortgage loans: | | | | | |
| Commercial loans | 2,149 | 1,027 | 6,776 | 2,793 | 2,377 |
| Consumer and other loans | 13 | - | 63 | 319 | 357 |
| | 2,162 | 1,027 | 6,839 | 3,112 | 2,734 |
| Total non-accrual loans | 13,755 | 5,291 | 15,848 | 15,331 | 17,002 |
| Accruing loans which are contractually past maturity or past due 90 days or more: | | | | | |
| Mortgage Loans: | | | | | |
| One to four family | - | - | - | - | - |
| Multi-family | - | - | - | - | - |
| Construction | - | - | - | - | - |
| Commercial real estate | - | - | - | - | - |
| | - | - | - | - | - |
| Non-mortgage loans: | | | | | |
| Commercial loans | - | - | - | - | - |
| Consumer and other loans | - | - | - | - | - |
| | - | - | - | - | - |
| Total past maturity or past due accruing loans | - | - | - | - | - |
| Total accounted for on a non-accrual basis or contractually past maturity or 90 days or more past due | \$13,755 | \$5,291 | \$15,848 | \$15,331 | \$17,002 |
| Total accounted for on a non-accrual basis or contractually past maturity or 90 days or more past due as a percentage of net loans | 2.79 % | 1.08 % | 3.41 % | 3.27 % | 3.52 % |
| Total accounted for on a non-accrual basis or contractually past maturity or 90 days or more past due as a percentage of total assets | 2.11 % | 0.84 % | 2.56 % | 2.32 % | 2.62 % |

Non-Performing Assets. Loans are reviewed on a regular basis and are placed on non-accrual status when, in the opinion of management, the collection of all interest at contractual rates becomes doubtful. As part of such review, mortgage loans are placed on non-accrual status generally when either principal or interest is more than 90 days past

due, or when other circumstances indicate the collection of principal or interest is in doubt. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income.

Real estate acquired by the Bank as a result of foreclosure or by deed in lieu of foreclosure is deemed a foreclosed asset held for sale until such time as it is sold. When a foreclosed asset held for sale is acquired it is recorded at its estimated fair value, less estimated selling expenses. Valuations of such foreclosed assets are periodically performed by management, and any subsequent decline in estimated fair value is charged to operations.

The following table shows the principal amount of non-performing assets (i.e. loans that are not performing under regulatory guidelines) and all foreclosed assets, including assets acquired in settlement of loans and the resulting impact on interest income for the periods then ended.

| Non-Performing Assets | As of December 31, | | | | |
|---|------------------------|---------|----------|----------|----------|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| | (Dollars in Thousands) | | | | |
| Non-accrual loans: | | | | | |
| Mortgage loans: | | | | | |
| One to four family | \$2,272 | \$911 | \$816 | \$2,281 | \$1,671 |
| Multi-family | - | - | - | - | - |
| Construction | 8,080 | 2,893 | 4,530 | 6,274 | 8,514 |
| Commercial real estate | 1,241 | 460 | 3,663 | 3,664 | 4,083 |
| | 11,593 | 4,264 | 9,009 | 12,219 | 14,268 |
| Non-mortgage loans: | | | | | |
| Commercial loans | 2,149 | 1,027 | 6,776 | 2,793 | 2,377 |
| Consumer and other loans | 13 | - | 63 | 319 | 357 |
| | 2,162 | 1,027 | 6,839 | 3,112 | 2,734 |
| Total non-accrual loans | 13,755 | 5,291 | 15,848 | 15,331 | 17,002 |
| Real estate and other assets acquired in settlement of loans | 2,392 | 3,165 | 3,822 | 4,530 | 10,012 |
| Total non-performing assets | \$16,147 | \$8,456 | \$19,670 | \$19,861 | \$27,014 |
| Total non-accrual loans as a percentage of net loans | 2.79 % | 1.08 % | 3.41 % | 3.27 % | 3.52 % |
| Total non-performing assets as a percentage of total assets | 2.47 % | 1.35 % | 3.17 % | 3.01 % | 4.17 % |
| Impact on interest income for the period: | | | | | |
| Interest income that would have been recorded on non-accruing loans | \$573 | \$337 | \$572 | \$484 | \$243 |

Problem Assets. Federal regulations require that the Bank review and classify its assets on a regular basis to determine those assets considered to be of lesser quality. In addition, in connection with examinations of insured institutions, bank examiners have authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful, and loss. "Substandard assets" must have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. "Doubtful assets" have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable, and improbable. An asset classified "loss" is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. The regulations have also created a "special mention" category, described as assets which do not currently expose an insured institution to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving management's close attention. Federal regulations require the Bank to establish general allowances for loan losses from assets classified as substandard or doubtful. If an asset or portion thereof is classified as loss, the insured institution must either establish specific allowances for loan losses in the amount of 100% of the portion of the asset classified loss or charge off such amount. A portion of general loss allowances established to cover possible losses related to assets classified substandard or doubtful may be included in determining an institution's regulatory capital.

For management purposes, the Bank also designates certain loans for additional attention. Such loans are called "Special Mention" and have identified weaknesses, that if the situation deteriorates, the loans would merit a substandard classification.

The following table shows the aggregate amounts of the Bank's classified assets as of December 31, 2015.

| | Special Mention | | Substandard | | Doubtful | | Total | |
|----------------------------------|------------------------|----------|-------------|-----------|----------|--------|--------|-----------|
| | Number | Amount | Number | Amount | Number | Amount | Number | Amount |
| | (Dollars in Thousands) | | | | | | | |
| Loans: | | | | | | | | |
| One to four family | 2 | \$ 3,319 | 33 | \$ 3,671 | - | \$ - | 35 | \$ 6,990 |
| Multi-family | - | - | - | - | - | - | - | - |
| Construction | - | - | 7 | 8,080 | - | - | 7 | 8,080 |
| Commercial real estate | 5 | 3,657 | 17 | 6,937 | - | - | 22 | 10,594 |
| Commercial | 3 | 2,267 | 20 | 4,730 | 2 | 603 | 25 | 7,600 |
| Consumer and Other | - | - | 3 | 217 | - | - | 3 | 217 |
| Total loans | 10 | 9,243 | 80 | 23,635 | 2 | 603 | 92 | 33,481 |
| Foreclosed assets held-for-sale: | | | | | | | | |
| One to four family | - | - | - | - | - | - | - | - |
| Land and other assets | - | - | 7 | 2,392 | - | - | 7 | 2,392 |
| Total foreclosed assets | - | - | 7 | 2,392 | - | - | 7 | 2,392 |
| Total | 10 | \$ 9,243 | 87 | \$ 26,027 | 2 | \$ 603 | 99 | \$ 35,873 |

Allowance for Loan Losses and Provision for Loan Losses

The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risk inherent in its loan portfolio and the general economy. Such evaluation, which includes a review of all loans on which full collectability may not be reasonably assured, considers among other matters, the estimated fair value of the underlying collateral, economic conditions, historical loan loss experience, and other factors that warrant recognition in providing for an adequate loan loss allowance. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and valuation of foreclosed assets held for sale. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

As of December 31, 2015, the Bank's total allowance for loan losses was \$5.8 million or 1.17% of gross loans outstanding (excluding mortgage loans held for sale), a decrease of \$777,000 from December 31, 2014. The Bank experienced loan charge offs in excess of recoveries as management charged off specific loans that had been previously identified and classified as impaired. This allowance reflects not only management's determination to maintain an allowance for loan losses consistent with regulatory expectations for non-performing or problem assets, but also reflects the regional economy and the Bank's policy of evaluating the risks inherent in its loan portfolio.

Management records a provision for loan losses to bring the total allowance for loan losses to a level considered adequate based on the Bank's internal analysis and methodology. During 2015, the Bank recorded a provision for loan loss expense, as shown in the table below. Management anticipates the need to continue adding to the allowance through charges to provision for loan losses as growth in the loan portfolio or other circumstances warrant.

The following tables set forth certain information concerning the Bank's allowance for loan losses for the periods indicated.

| Allowance for Loan Losses | Year ended | | | | |
|----------------------------------|------------------------|---------|---------|----------|----------|
| | December 31, | | | | |
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| | (Dollars in Thousands) | | | | |
| Beginning balance | \$6,589 | \$7,802 | \$8,740 | \$10,613 | \$13,083 |
| Gross loan charge offs | | | | | |
| Mortgage Loans: | | | | | |
| One to four family | (99) | (127) | (139) | (265) | (966) |
| Multi-family | - | - | - | - | - |
| Construction | (1,233) | (411) | (879) | (1,335) | (2,381) |
| Commercial real estate | - | (9) | (277) | (985) | (2,744) |
| | (1,332) | (547) | (1,295) | (2,585) | (6,091) |
| Non-mortgage loans: | | | | | |
| Commercial loans | - | (2,018) | (1,268) | (5,547) | (1,362) |
| Consumer and other loans | (119) | (150) | (164) | (73) | (322) |
| | (119) | (2,168) | (1,432) | (5,620) | (1,684) |
| Total charge offs | (1,451) | (2,715) | (2,727) | (8,205) | (7,775) |
| Recoveries | | | | | |
| Mortgage Loans: | | | | | |
| One to four family | 20 | 9 | 23 | 25 | 45 |
| Multi-family | - | - | - | - | - |
| Construction | 10 | 5 | 50 | 28 | 77 |
| Commercial real estate | - | 99 | - | 94 | 221 |
| | 30 | 113 | 73 | 147 | 343 |
| Non-mortgage loans: | | | | | |
| Commercial loans | 4 | 65 | 110 | 198 | 322 |
| Consumer and other loans | 40 | 49 | 56 | 37 | 1,290 |

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| | | | | | | | | | | |
|---|---------|---------|---------|---------|----------|---|------|---|------|---|
| | 44 | 114 | 166 | 235 | 1,612 | | | | | |
| Total recoveries | 74 | 227 | 239 | 382 | 1,955 | | | | | |
| Net loan charge-offs | (1,377) | (2,488) | (2,488) | (7,823) | (5,820) | | | | | |
| Provision charged to expense | 600 | 1,275 | 1,550 | 5,950 | 3,350 | | | | | |
| Ending balance | \$5,812 | \$6,589 | \$7,802 | \$8,740 | \$10,613 | | | | | |
| Net charge-offs as a percentage of average loans, net | 0.27 | % | 0.53 | % | 0.53 | % | 1.68 | % | 1.19 | % |
| Allowance for loan losses as a percentage of average loans, net | 1.16 | % | 1.41 | % | 1.67 | % | 1.88 | % | 2.17 | % |
| Allowance for loan losses as a percentage of total non-performing loans | 42 | % | 125 | % | 49 | % | 57 | % | 62 | % |

Allocation of Allowance for Loan Losses

The following table shows the amount of the allowance allocated to the mortgage and non-mortgage loan categories and the respective percent of that loan category to total loans.

| | As of December 31, | | 2014 | | 2013 | | 2012 | | 2011 | |
|--------------------|------------------------|------|---------|------|---------|------|---------|------|----------|------|
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % |
| | (Dollars in thousands) | | | | | | | | | |
| Mortgage Loans | \$3,770 | 65 % | \$4,349 | 66 % | \$5,652 | 72 % | \$6,642 | 76 % | \$7,358 | 69 % |
| Non-Mortgage Loans | 2,042 | 35 % | 2,240 | 34 % | 2,150 | 28 % | 2,098 | 24 % | 3,255 | 31 % |
| Total | \$5,812 | 100% | \$6,589 | 100% | \$7,802 | 100% | \$8,740 | 100% | \$10,613 | 100% |

Investment Activities

The investment policy of the Company, which is established by the Company's Board of Directors and reviewed by the Asset/Liability Committee of the Company's Board of Directors, is designed primarily to provide and maintain liquidity, to generate a favorable return on investments, to help mitigate interest rate and credit risk, and to complement the Bank's lending activities. The policy currently provides for held-to-maturity and available-for-sale investment security portfolios. The Company does not currently engage in trading investment securities and does not anticipate doing so in the future. As of December 31, 2015, the Company has investment securities with an amortized cost of \$98.4 million and an estimated fair value of \$97.3 million. See Note 1 of the Notes to Consolidated Financial Statements for description of the accounting policy for investments. Based on the carrying value of these securities, \$97.3 million, or 99.9%, of the Company's investment securities portfolio are available-for-sale.

From time to time, the Company will sell a security to change its interest rate risk profile or restructure the portfolio and its cash flows. In 2015, the Company sold \$33.1 million in securities and recognized \$187,090 of gains.

The Company has the authority to invest in various types of liquid assets, including United States Treasury obligations, securities of various federal agencies, corporate securities, trust preferred securities, certain certificates of deposit of insured banks and savings institutions, certain bankers' acceptances, repurchase agreements, and sale of federal funds.

Composition of Investment Securities Portfolio

The following tables set forth the amortized cost and approximate fair market values of the available-for-sale securities and held-to-maturity securities.

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Approximate Fair Value |
|--|-------------------|------------------------------|---------------------------------|------------------------------|
| As of December 31, 2015 | | | | |
| AVAILABLE-FOR-SALE SECURITIES: | | | | |
| Equity Securities | \$ 102,212 | \$ 10,081 | \$(12,776) | \$ 99,517 |
| Debt Securities: | | | | |
| U. S. government agencies | 8,533,885 | - | (137,101) | 8,396,784 |
| Corporates | 3,965,719 | - | (152,019) | 3,813,700 |
| Municipals | 31,132,635 | 302,335 | (85,808) | 31,349,162 |
| Government sponsored mortgage-backed securities and SBA loan pools | 54,643,681 | 13,764 | (1,024,121) | 53,633,324 |
| HELD-TO-MATURITY SECURITIES: | | | | |
| Government sponsored mortgage-backed securities | 43,099 | 836 | - | 43,935 |
| | \$ 98,421,231 | \$ 327,016 | \$(1,411,825) | \$ 97,336,422 |
| | | | | |
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Approximate Fair Value |
| As of December 31, 2014 | | | | |
| AVAILABLE-FOR-SALE SECURITIES: | | | | |
| Equity Securities | \$ 102,212 | \$ 16,121 | \$(13,310) | \$ 105,023 |
| Debt Securities: | | | | |
| U. S. government agencies | 10,528,055 | - | (271,282) | 10,256,773 |
| Municipals | 15,474,316 | 185,747 | (70,173) | 15,589,890 |
| Government sponsored mortgage-backed securities and SBA loan pools | 61,075,181 | 235,977 | (794,859) | 60,516,299 |
| HELD-TO-MATURITY SECURITIES: | | | | |
| Government sponsored mortgage-backed securities | 60,993 | 1,626 | - | 62,619 |
| | \$ 87,240,757 | \$ 439,471 | \$(1,149,624) | \$ 86,530,604 |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Approximate Fair Value |
|---|-------------------|------------------------------|---------------------------------|------------------------------|
| As of December 31, 2013 | | | | |
| AVAILABLE-FOR-SALE SECURITIES: | | | | |
| Equity Securities | \$ 102,212 | \$ 16,007 | \$(18,913) | \$ 99,306 |
| Debt Securities: | | | | |
| U. S. government agencies | 33,198,865 | - | (1,437,478) | 31,761,387 |
| Corporates | 990,663 | 3,609 | - | 994,272 |
| Municipals | 14,133,821 | 18,827 | (660,021) | 13,492,627 |
| Government sponsored mortgage-backed securities | 53,245,297 | 265,038 | (2,165,242) | 51,345,093 |
| HELD-TO-MATURITY SECURITIES: | | | | |
| Government sponsored mortgage-backed securities | 79,162 | 1,927 | - | 81,089 |
| | \$ 101,750,020 | \$ 305,408 | \$(4,281,654) | \$ 97,773,774 |

The following tables set forth certain information regarding the weighted average yields and maturities of the Bank's investment securities portfolio as of December 31, 2015.

| Investment Portfolio Maturities and Average Weighted Yields | Amortized Cost | Weighted Average Yield | Approximate Fair Value |
|--|-------------------|------------------------------|---------------------------|
| Due in one to five years | 6,011,451 | 1.43 % | 4,987,190 |
| Due in five to ten years | 16,144,448 | 2.50 % | 16,134,279 |
| Due after ten years | 22,476,340 | 3.66 % | 22,438,177 |
| Equity securities not due on a single maturity date | 102,212 | 0.00 % | 99,517 |
| Government sponsored mortgage-backed securities and SBA loan pools not due on a single maturity date | 54,686,780 | 2.74 % | 53,677,259 |
| | \$ 99,421,231 | 2.78 % | \$ 97,336,422 |

| | | | Securities | | |
|---------------------------------------|---------------------------------------|--------------------|---|----------------------|-------|
| After One Through Five Years | After Five Through Ten Years | After Ten Years | Not Due on a Single Maturity Date | Equity Securities | Total |

As of December 31, 2015

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| | | | | | | |
|--|-------------|--------------|--------------|--------------|-----------|--------------|
| Equity Securities | \$- | \$- | \$- | \$- | \$ 99,517 | \$99,517 |
| Debt Securities: | | | | | | |
| U. S. government agencies | 3,474,680 | 4,922,104 | - | - | - | 8,396,784 |
| Corporates | - | - | 3,813,700 | - | - | 3,813,700 |
| Municipals | 1,512,510 | 11,212,175 | 18,624,477 | - | - | 31,349,162 |
| Government sponsored mortgage-backed securities and SBA loan pools | - | - | - | 53,677,259 | - | 53,677,259 |
| | \$4,987,190 | \$16,134,279 | \$22,438,177 | \$53,677,259 | \$ 99,517 | \$97,336,422 |

Sources of Funds

General. The Company's primary sources of funds are retail and commercial deposits, borrowings, amortization and prepayments of loans and amortization, prepayments and maturities of investment securities.

Deposits. The Bank offers a variety of deposit accounts having a range of interest rates and terms. The Bank has concentrated on a diverse deposit mix, such that transaction accounts make a greater percent of funding than in the past. The Bank offers various checking accounts, money markets, savings, fixed-term certificates of deposit and individual retirement accounts.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and prevailing interest rates, local competition, and competition from non-bank financial service providers. The Company closely manages its deposit position and mix to manage interest rate risk and improve its net interest margin. The Bank's deposits are typically obtained from the areas in which its offices are located. The Bank relies primarily on customer service and long-standing relationships with customers to attract and retain these deposits.

The Bank seeks to maintain a high level of stable core deposits by providing high quality service through its employees and its convenient office and banking center locations.

Deposit Account Types

The following table sets forth the distribution of the Bank's deposit accounts at the dates indicated (dollars in thousands).

| | As of December 31, 2015 | | | As of December 31, 2014 | | | As of December 31, 2013 | | |
|---------|-----------------------------|-----------|------------------------------------|-----------------------------|-----------|------------------------------------|-----------------------------|----------|------------------------------------|
| | Average Interest Rate | Amount | Percent of Total Deposits | Average Interest Rate | Amount | Percent of Total Deposits | Average Interest Rate | Amount | Percent of Total Deposits |
| NOW | 0.31% | \$137,473 | 27% | 0.34% | \$111,561 | 23% | 0.35% | \$86,601 | 18% |
| Savings | 0.20% | 25,865 | 5% | 0.20% | 23,619 | 5% | 0.21% | 23,726 | 5% |

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| | | | | | | | | | | | | |
|--|-------|-----------|-----|---|-------|-----------|-----|---|-------|-----------|-----|---|
| Money Market | 0.42% | 170,603 | 33 | % | 0.43% | 171,948 | 36 | % | 0.47% | 204,740 | 42 | % |
| Non-interest bearing demand | 0.00% | 67,897 | 13 | % | 0.00% | 51,708 | 11 | % | 0.00% | 48,678 | 10 | % |
| Total | | 401,838 | 78 | % | | 358,836 | 75 | % | | 363,745 | 75 | % |
| Certificates of Deposit: (fixed-rate, fixed-term) | | | | | | | | | | | | |
| 1-11 months | 0.54% | 45,517 | 9 | % | 0.55% | 56,369 | 12 | % | 0.58% | 63,789 | 13 | % |
| 12-23 months | 0.82% | 43,523 | 8 | % | 0.81% | 27,938 | 6 | % | 0.87% | 37,225 | 8 | % |
| 24-35 months | 1.02% | 12,654 | 2 | % | 1.10% | 21,925 | 5 | % | 1.26% | 9,588 | 2 | % |
| 36-47 months | 1.35% | 6,895 | 1 | % | 1.28% | 6,709 | 1 | % | 1.44% | 6,954 | 1 | % |
| 48-59 months | 1.44% | 4,671 | 1 | % | 1.41% | 4,528 | 1 | % | 1.38% | 3,416 | 1 | % |
| 60-71 months | 1.47% | 2,274 | 0 | % | 1.50% | 3,315 | 1 | % | 1.42% | 2,433 | 0 | % |
| 72-95 months | 1.34% | 14 | 0 | % | 1.43% | 198 | 0 | % | 1.44% | 169 | 0 | % |
| Total | | 115,548 | 22 | % | | 120,982 | 25 | % | | 123,574 | 25 | % |
| Total Deposits | | \$517,386 | 100 | % | | \$479,818 | 100 | % | | \$487,319 | 100 | % |

Maturities of Certificates of Deposit of \$100,000 or More

In 2015, management continued to place emphasis on reducing the dependence on jumbo deposits (\$100,000 or more). The following table indicates the approximate amount of the Bank's certificate of deposit accounts of \$100,000 or more by time remaining until maturity as of December 31, 2015.

| | (Dollars in thousands) As of December 31, 2015 |
|--------------------------------|--|
| Three months or less | \$ 9,328 |
| Over three through six months | 3,304 |
| Over six through twelve months | 13,686 |
| Over twelve months | 37,124 |
| Total | \$ 63,442 |

Borrowings

The Company's borrowings consist primarily of FHLB advances, Federal Reserve advances, issuances of junior subordinated debentures and securities sold under agreements to repurchase.

Deposits are the primary source of funds for the Bank's lending activities and other general business purposes. However, during periods when the supply of lendable funds cannot meet the demand for such loans, the FHLB System, of which the Bank is a member, makes available, subject to compliance with eligibility standards, a portion of the funds necessary through loans (advances) to its members. Use of FHLB advances is a common practice, allowing the Bank to provide funding to its customers at a time when significant liquidity is not present, or at a rate advantageous relative to current market deposit rates. FHLB advances, due to their structure, allow the Bank to better manage its interest rate and liquidity risk. The following table presents certain data for FHLB advances as of the dates indicated.

| | As of December 31, | | |
|---------------------|------------------------|---------|------|
| | 2015 | 2014 | 2013 |
| | (Dollars in Thousands) | | |
| Remaining maturity: | | | |
| Less than one year | \$- | \$8,250 | \$- |
| One to two years | - | - | 250 |

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| | | | |
|---|----------|----------|----------|
| Two to three years | - | - | - |
| Three to four years | 50,000 | - | - |
| Four to five years | 2,100 | 50,000 | 50,000 |
| Over five years | - | 2,100 | 2,100 |
| Total | \$52,100 | \$60,350 | \$52,350 |
| Weighted average rate at end of period | 2.25 % | 2.00 % | 2.26 % |
| For the period: | | | |
| Average outstanding balance | \$52,592 | \$54,588 | \$56,144 |
| Weighted average interest rate | 2.24 % | 2.18 % | 2.28 % |
| Maximum outstanding as of any month end | \$56,500 | \$66,700 | \$67,950 |

Junior Subordinated Debentures:

On December 15, 2005, the Company completed an offering of \$15 million of “Trust Preferred Securities” (defined hereinafter). The Company formed two wholly-owned subsidiaries, Guaranty Statutory Trust I (“Trust I”) and Guaranty Statutory Trust II (“Trust II”) each a Delaware statutory trust (each a “Trust”, and collectively, the “Trusts”), for the purpose of issuing the \$15 million of Trust Preferred Securities. The proceeds of the sale of Trust Preferred Securities, together with the proceeds of the Trusts’ sale of their common securities to the Company, were used by each Trust to purchase certain debentures from the Company. The Company issued 30-year junior subordinated deferrable interest debentures to the Trusts in the principal amount of \$5,155,000 (“Trust I Debentures”) and \$10,310,000 (“Trust II Debentures”, and together with the Trust I Debentures, the “Debentures”) pursuant to the terms of Indentures dated December 15, 2005 by and between the Company and Wilmington Trust Company, as trustee. The Trust I Debentures bear interest at a fixed rate of 6.92%, payable quarterly. The Trust II Debentures bear interest at a fixed rate of 6.47% for 5 years, payable quarterly, after issuance and thereafter at a floating rate equal to the three month LIBOR plus 1.45%. The interest payments by the Company to the Trusts will be used to pay the dividends payable by the Trusts to the holders of the Trust Preferred Securities.

The Debentures mature on February 23, 2036. Subject to prior approval by the Federal Reserve Board, the Debentures and the Trust Preferred Securities are each callable by the Company or the Trusts, respectively and as applicable, at its option after five years from issuance, and sooner in the case of a special redemption at a special redemption price ranging up to 103.2% of the principal amount thereof, and upon the occurrence of certain events, such as a change in the regulatory capital treatment of the Trust Preferred Securities, either Trust being deemed an investment company or the occurrence of certain adverse tax events. In addition, the Company and the Trusts may defer interest and dividend payments, respectively, for up to five consecutive years without resulting in a default. An event of default may occur if the Company declares bankruptcy, fails to make the required payments within 30 days or breaches certain covenants within the Debentures. The Debentures are subordinated to the prior payment of any other indebtedness of the Company.

Pursuant to two guarantee agreements by and between the Company and Wilmington Trust Company, the Company issued a limited, irrevocable guarantee of the obligations of each Trust under the Trust Preferred Securities whereby the Company has guaranteed any and all payment obligations of the Trusts related to the Trust Preferred Securities including distributions on, and the liquidation or redemption price of, the Trust Preferred Securities to the extent each Trust does not have funds available.

The following table sets forth certain information as to the Company's subordinated debentures issued to the Trusts at the dates indicated.

| | | |
|--------------------|------|------|
| As of December 31, | | |
| 2015 | 2014 | 2013 |

(Dollars in Thousands)

| | | | |
|---|----------|----------|----------|
| Subordinated debentures | \$15,465 | \$15,465 | \$15,465 |
| Weighted average interest rate of subordinated debentures | 3.48 % | 3.45 % | 3.47 % |

Federal Reserve Bank Borrowings

During 2008, the Bank established a borrowing line with Federal Reserve Bank. The Bank had the ability to borrow \$30.6 million as of December 31, 2015. The Federal Reserve Bank requires the Bank to maintain collateral in relation to borrowings outstanding. The Bank had no borrowings on this line as of December 31, 2015 and 2014.

Securities Sold Under Agreements to Repurchase

In January 2008, the Company borrowed \$30.0 million under three structured repurchase agreements. Interest was based on a fixed weighted average rate of 2.65% until maturity in January 2018. Beginning in February 2010, the counterparty, Barclay's Capital, Inc., had the option to terminate the agreements on a quarterly basis until maturity.

Prior to the stated maturity date, the Company paid off one of these agreements in the amount \$15.0 million in May 2013 and another agreement in the amount of \$5.0 million in November 2011.

In June 2015, the Company executed a structured transaction in order to pay off the remaining \$10.0 million, prior to its stated maturity date, incurring a prepayment penalty of \$463,992.

Subsidiary Activity and Segment Information

The Company has three wholly-owned subsidiaries: (i) the Bank, the Company's principal subsidiary and a state-chartered bank with trust powers in Missouri; (ii) Trust I; and (iii) Trust II. As discussed in more detail above, Trust I and Trust II were formed in December 2005 for the exclusive purpose of issuing trust preferred securities to acquire junior subordinated debentures issued by the Company. Those debentures are the sole assets of the Trusts. The interest payments by the Company on the debentures are the sole revenues of the Trusts and are used by the Trusts to pay the dividends to the holders of the trust preferred securities. The Company has guaranteed any and all payment obligations of the Trusts related to the trust preferred securities. Under generally accepted accounting principles, the Trusts are not consolidated with the Company.

The Bank has one service corporation subsidiary, Guaranty Financial Services of Springfield, Inc., a Missouri corporation. This service corporation, which has been inactive since February 1, 2003, had agreements with third party providers for the sale of securities and casualty insurance products.

The Company's banking operation conducted through its principal subsidiary, the Bank, is the Company's only reportable segment. Other information about the Company's business segment is contained in the section captioned "Segment Information" in Note 1 to the Notes of the Consolidated Financial Statements in this report.

Return on Equity and Assets

The following table sets forth certain dividend, equity and asset ratios of the Company for the periods indicated.

| | Year ended December 31, 2015 | | Year ended December 31, 2014 | | Year ended December 31, 2013 | |
|--------------------------------|--|---|--|---|--|---|
| Common Dividend Payout Ratio | 18 | % | 11 | % | 0 | % |
| Return on Average Assets | 0.88 | % | 0.92 | % | 0.82 | % |
| Return on Average Equity | 8.81 | % | 9.67 | % | 10.34 | % |
| Stockholders' Equity to Assets | 10.17 | % | 9.78 | % | 8.12 | % |
| EPS Diluted | \$ 1.30 | | \$ 1.33 | | \$ 1.58 | |
| Dividends on Common Shares | \$ 0.23 | | \$ 0.15 | | \$ - | |

Employees

As of December 31, 2015, the Bank had 138 full-time employees and 32 part-time employees. As of December 31, 2015, the Company had no employees. None of the Bank's employees are represented by a collective bargaining group.

Competition

The Bank experiences substantial competition both in attracting and retaining deposit accounts and in the origination of loans. The Bank's primary competitors are the financial institutions near each of the Bank's offices. In the Springfield metropolitan area, where the Bank's main office and branch offices are located, primary competition consists of commercial banks, credit unions, and savings institutions.

Direct competition for deposit accounts comes from other commercial banks, credit unions, regional bank and thrift holding companies, and savings institutions located in the remainder of our Market Area. Significant competition for the Bank's other deposit products and services come from money market mutual funds, brokerage firms, insurance companies, and retail stores. Recently, online firms have offered attractive financial service products to consumers, irrespective of location. The primary factors in competing for loans are interest rates and loan origination fees and the range of services offered by various financial institutions. Our larger competitors have a greater ability to finance wide-ranging advertising campaigns through their greater capital resources. Our marketing efforts depend heavily upon referrals from officers, directors and shareholders, selective advertising in local media and direct mail solicitations. The Bank believes it is able to compete effectively in its primary Market Area by offering competitive interest rates and loan fees, and a variety of deposit products, and by emphasizing personal customer service.

Supervision and Regulation

General

The Company and the Bank are subject to an extensive regulatory framework under federal and state law. Consequently, the Company's growth and earnings performance may be affected by the requirements of federal and state statutes and by regulations and policies of various bank regulatory authorities, including the:

Board of Governors of the Federal Reserve System (“FRB”);

Missouri Division of Finance;

Federal Deposit Insurance Corporation; and

Consumer Financial Protection Bureau (“CFPB”).

Additionally, the Company’s business may be impacted by assorted laws and rules, including:

anti-money laundering laws enforced by the U.S. Department of Treasury (Treasury);

taxation laws administered by the Internal Revenue Service (IRS) and state taxing authorities;

accounting rules developed by the Financial Accounting Standards Board (FASB); and

securities laws administered by the Securities and Exchange Commission (SEC) and state securities authorities.

Regulatory agencies often have significant discretion regarding their supervisory and enforcement activities. This comprehensive supervisory and regulatory framework significantly impacts the Company's operations and results. Additionally, new legislation is introduced from time to time that could impact the Company and the Bank in substantial ways and the nature, extent, or impact of new statutes or regulations on the Company's or the Bank's operations or financial conditions cannot be predicted with any certainty.

Set forth below is a brief summary of certain material laws and regulations applicable to the Company and the Bank. These laws and regulations are primarily intended for the protection of the Bank's customers and depositors and not for the benefit of the stockholders or creditors of the Company. The following description does not purport to be complete and is qualified in its entirety by reference to the full text of the statutes and regulations described below.

Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act" or "Dodd-Frank") significantly changed the regulatory framework for financial institutions and their holding companies. Among other provisions, the Dodd-Frank Act:

created the CFPB, which is responsible for implementing, supervising, and enforcing compliance with consumer financial protection laws;

increased the deposit insurance coverage limit and changed the assessment base for calculating a bank's deposit insurance assessments;

repealed the prohibition on payment of interest on demand deposits;

provided for new disclosures related to executive compensation and corporate governance and prohibited compensation arrangements that encourage inappropriate risks or that could provide excessive compensation;

imposed new capital requirements on banking institutions (see "New Capital Rules" below);

enhanced the authority of the Federal Reserve Board to examine the Company and its non-bank subsidiaries; and

imposed new requirements and restrictions on consumer mortgage banking.

The Dodd-Frank Act contains numerous provisions scheduled to be implemented through rulemakings by various federal regulatory agencies over a period of several years. Many, but not all, of the regulations have been issued and full implementation of the Dodd-Frank Act is still not complete. This law will continue to significantly influence the regulatory environment in which the Bank and the Company operate. As a result, the Company cannot predict the Dodd-Frank Act's ultimate impact on the Company or the Bank at this time. Certain rules proposed or adopted under the Dodd-Frank Act are discussed throughout this section.

Minimum Capital Requirements

In July 2013, the U.S. federal banking agencies approved a final rule to comprehensively revise the regulatory capital framework for the U.S. banking sector, implementing many aspects of the framework agreed to by the international Basel Committee on Bank Supervision and incorporating changes required by the Dodd-Frank Act (the "Basel III Rule"). The new capital requirements apply to all banks and savings associations, bank holding companies with more than \$500 million in assets and savings and loan holding companies (other than certain savings and loan holding companies engaged in insurance underwriting and grandfathered diversified holding companies). The Basel III Rule establishes new higher capital ratio requirements, tightens the definition of "capital," imposes new operating restrictions on banking organizations with insufficient capital buffers, and increases the risk-weighting of certain assets. Cumulatively, these changes result in substantially more demanding capital standards for U.S. banking organizations.

The Basel III Rule distinguishes between banking organizations subject to the “advanced approaches” method of computing risk-based regulatory capital, which are those with \$250 billion or more in total consolidated assets or \$10 billion or more in foreign exposures, and other banking organizations that successfully opt-in (“Advanced Banks”) and other banking organizations, such as the Company and the Bank, which operate under the “standardized approach” (“Standardized Banks”). The new rules became effective for the Company and the Bank on January 1, 2015, with certain requirements to be phased-in between January 2016 and January 2019.

The Basel III Rule, among other features:

Introduces a new capital measure, Common Equity Tier 1 (“CET1” or “Tier 1 Common”), which is defined as common stock instruments, related surplus (net of Treasury stock), and retained earnings, subject to certain regulatory adjustments; and

Requires banking institutions to maintain:

o a new minimum ratio of CET1 to risk-weighted assets of at least 4.5% (plus a capital conservation buffer);

o a minimum amount of Tier 1 capital (the sum of Common Equity Tier 1 and Additional Tier 1 capital) to risk-weighted assets of at least 6%, which is an increase from 4% (plus a capital conservation buffer);

o a total capital (the sum of Tier 1 and Tier 2 capital) ratio of at least 8% of risk-weighted assets (plus a capital conservation buffer); and

o a minimum leverage ratio of Tier 1 capital of 4%.

In addition, the Basel III Rule requires that banking organizations maintain a “capital conservation buffer” comprised of CET1 in order to avoid restrictions on the ability to make capital distributions (including dividends and stock purchases) and pay discretionary bonuses to executive officers. The capital conservation buffer is equal to 2.5% of risk-weighted assets, in addition to the minimum CET1, Tier 1, and total capital ratios. The capital conservation buffer will be phased-in beginning at 0.625% of risk-weighted assets on January 1, 2016 and increasing each subsequent year by an additional 0.625%, to reach the final level of 2.5% of risk-weighted assets on January 1, 2019. Accordingly, factoring in the capital conservation buffer, the minimum ratios noted above increase to 7% for CET1, 8.5% for Tier 1 capital, and 10.5% for total capital.

Furthermore, the Basel III Rule includes more restrictive definitions for the components of capital. For example, cumulative perpetual preferred stock and trust preferred securities have been phased-out of Tier 1 capital. However,

for smaller entities with less than \$15 billion in assets as of December 31, 2009, such as the Bank, the final rule permanently grandfathers as Tier 1 capital trust preferred securities and similar instruments issued by such entities prior to May 19, 2010. The final Basel III Rule provides entities such as the Company and the Bank with a one time “opt-out” right to continue excluding accumulated other comprehensive income (“AOCI”) from CET1 capital. This opt-out was required to be made in the first quarter of 2015 and the Company and Bank made this election. Accordingly, the Bank and the Company need not include AOCI in CET1 capital going forward. The rule also requires that goodwill and certain other intangible assets, other than mortgage servicing assets, net of associated deferred tax liabilities, be deducted from CET1 capital. Additionally, certain deferred tax assets and mortgage servicing assets must be deducted from CET1 capital if such assets exceed a certain percentage of an institution’s CET1 capital. Generally, greater deductions from CET1 reduce an institution’s capital base.

Moreover, the Basel III Rule changes the risk-weightings for certain assets that are used to calculate capital ratios. All else being equal, a higher risk weight results in a higher risk-weighted asset amount which, in turn, gives rise to a lower risk-based capital ratio. The final rule assigns a higher risk-weighting of 150% (up from 100%) for exposures that are more than 90 days past due and assigns a higher risk-weighting of 150% (up from 100%) for high-volatility commercial real estate loans, which are credit facilities that, prior to conversion to permanent financing, finance or have financed the acquisition, development, or construction of real property, subject to certain exclusions. Although initially contemplated, there was no change to the risk-weighting treatment of residential mortgage loans in the final Basel III Rule.

Although the Basel III Rule is more stringent than previous capital rules, the Basel III Rule has had minimal impact on the Company and the Bank, to date. The Company and the Bank have a strong capital base and currently maintain adequate capital to meet the new standards.

Nonetheless, federal banking guidelines provide that financial institutions experiencing significant growth could be expected to maintain capital levels above the minimum requirements without significant reliance on intangible assets. Additionally, higher capital levels could be required under certain circumstances, such as situations involving interest rate risk, risk from concentrations of credit, or nontraditional activities. Accordingly, the Company and the Bank could be required to maintain higher capital levels in the future.

Regulation of the Bank

General. The Bank, as a Missouri-chartered non-member depository trust company, is primarily regulated by the MDF and FDIC. The Bank is subject to extensive federal and state regulatory oversight in all areas of banking operations, including, but not limited to, lending activities, investments, loans, deposits, interest rates payable on deposits, establishment of branches, corporate restructuring, and capital adequacy. The Bank is also subject to certain reserve requirements promulgated by the FRB.

The MDF, in conjunction with the FDIC, regularly examines the Bank and reports to the Bank's Board of Directors on any deficiencies that are found in the Bank's operations. The Bank must also file reports with the MDF and the FDIC concerning its activities and financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with or acquisitions of other banks or savings institutions. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities and examination policies. Regulation by these agencies is designed to protect the Bank's depositors and not the Company's shareholders.

Insurance of Deposit Accounts and Assessments. The deposit accounts held by the Bank are insured by the DIF. The Dodd-Frank Act permanently increased the maximum amount of deposit insurance for banks, savings institutions, and credit unions to \$250,000 per insured depositor, retroactive to January 1, 2009. The Dodd-Frank Act also increased the minimum ratio of net worth to insured deposits of the DIF from 1.15% to 1.35%.

A bank's insurance assessment is determined quarterly by multiplying its assessment rate by its assessment base. Per FDIC rules, a bank's assessment base is the institution's average consolidated total assets minus its average tangible equity. The FDIC has adopted a risk-based system for assessment rates. For banks with less than \$10 billion in assets, such as the Bank, the risk classification is based on the Bank's capital levels and level of supervisory risk. Assessment rates are subject to adjustment and (1) decrease for issuance of long-term unsecured debt (including senior unsecured debt and subordinated debt); (2) increase for holdings of long-term unsecured or subordinated debt issued by other

insured banks; and (3) for banks that are not well-rated or not well-capitalized, increase for significant holdings of brokered deposits.

The FDIC may terminate a bank's deposit insurance if it finds that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Regulatory Capital Requirements and Prompt Corrective Action. The FDIC is required to take prompt corrective action if an insured depository institution, such as the Bank, does not meet its minimum capital requirements. The FDIC has established five capital tiers: "well-capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized" and "critically undercapitalized". A depository institution's capital tier depends upon its capital levels in relation to various relevant capital measures, which, among others, include a Tier 1 and total risk-based capital measure and a leverage ratio capital measure. The Prompt Corrective Action rules were amended effective January 1, 2015 to incorporate changes under the Basel III Rule, including the CET1 requirements, and to raise capital requirements for certain categories. An insured financial institution is considered:

"Well-capitalized" if it has a Tier 1 leverage ratio of 5% or greater, a CET1 to risk-based capital ratio of 6.5% or greater, a Tier 1 to risk-based capital ratio of 8% or greater, a total risk-based capital ratio of 10% or greater and is not subject to any written agreement, order, capital directive, or prompt corrective action directive;

“Adequately capitalized” if it has it has a Tier 1 leverage ratio of 4% or greater, a CET1 to risk-based capital ratio of 4.5% or greater, a Tier 1 to risk-based capital ratio of 6% or greater, and a total risk-based capital ratio of 8% or greater;

“Undercapitalized” if it has a Tier 1 leverage ratio of less than 4%, a CET1 to risk-based capital ratio of less than 4.5%, a Tier 1 to risk-based capital ratio of less than 6% and a total risk-based capital ratio of less than 8%;

“Significantly undercapitalized” if it has a Tier 1 leverage ratio of less than 3%, a CET1 to risk-based capital ratio of less than 3%, a Tier 1 to risk-based capital ratio of less than 4%, and a total risk-based capital ratio of less than 6%; and

“Critically undercapitalized” if it has a tangible equity capital to total assets ratio equal to or less than 2%.

The FDIC may, under certain circumstances, reclassify a well-capitalized insured depository institution as adequately capitalized. It is also permitted to require an adequately capitalized or undercapitalized institution to comply with supervisory provisions as if the institution were in the next lower category (but not treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than the capital levels of the institution. An institution may be reclassified if the FDIC determines (after notice and opportunity for hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice.

Federal banking agencies are required to take prompt corrective action to resolve capital deficiencies at insured depository institutions. Failure to meet the capital guidelines could subject a bank to a variety of enforcement actions, including the issuance of a capital directive, prohibition on paying dividends or management fees, prohibition on accepting brokered deposits, and restrictions on paying bonuses or increasing compensation for executive officers. For critically undercapitalized institutions, a receiver may be appointed.

The Bank met its minimum capital adequacy guidelines, and the Bank was categorized as “well-capitalized”, as of December 31, 2015. Applicable capital and ratio information is contained under the section titled “Regulatory Matters” in Note 1 to the Notes of the Consolidated Financial Statements in this report.

Safety and Soundness Standards. The federal bank regulators have adopted guidelines to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest-rate-risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits and other operational and managerial standards. The guidelines provide standards in each area and an institution must establish its own procedures to achieve such goals.

If an institution fails to meet a standard, a regulator may require the institution to submit an acceptable plan to achieve compliance with the standard. If an institution fails to submit an acceptable plan or fails to implement an accepted plan, an agency must, by order, require the institution to correct the deficiency. The agency may, and in some cases must, take other supervisory actions until the deficiency has been corrected.

Federal Home Loan Bank System. The Bank is a member of the FHLB of Des Moines, which is one of 11 regional Federal Home Loan Banks (“FHLB”). The FHLB system’s primary purpose is to provide stable funding to member institutions that such institutions in turn use to make loans to families, farms and businesses. The FHLBanks are overseen by the Federal Housing Finance Agency (“FHFA”). As a member, the Bank is required to purchase and maintain a minimum investment in the stock of the FHLB. As of December 31, 2015, the Bank was in compliance with this requirement.

Dividend Limitations. The amount of dividends that the Bank may pay is subject to various regulatory limitations. Under federal law, an FDIC-insured institution may not pay dividends if it is undercapitalized or if payment would cause it to be undercapitalized. If the FDIC believes that a bank is engaged in, or about to engage in, an unsafe or unsound practice, the FDIC may require, after notice and hearing, that the bank cease and desist from that practice. In addition, under Missouri law, the Bank may pay dividends to the Company only from a portion of its undivided profits and may not pay dividends if its capital is impaired. Additionally, under Missouri statute, dividends paid by the Bank are restricted by a statutory formula, which provides for the maintenance of a surplus fund and prohibits the payment of dividends which would impair the surplus fund.

Anti-Money Laundering and Anti-Terrorism Regulation. The Bank Secrecy Act (“BSA”) establishes the framework for anti-money laundering (“AML”) obligations imposed on U.S. financial institutions. The purpose of the BSA is to prevent banks and other financial services providers from being used as intermediaries for, or to hide the transfer or deposit of money derived from, drug trafficking, money laundering, and other crimes. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“USA Patriot Act”) amended the BSA and imposes a number of obligations on banks, including the requirement to implement policies, procedures and controls reasonably designed to detect and report instances of money laundering and terrorism financing. The USA Patriot Act also requires financial institutions to develop written customer identification programs. In addition, the U.S. Department of Treasury’s Office of Foreign Asset Controls (“OFAC”) administers and enforces economic and trade sanctions based on U.S. foreign policy and national security against entities such as targeted foreign countries and terrorists.

Consumer Protection Laws. In connection with its banking activities, the Bank is subject to a number of federal and state laws designed to protect consumers in their transactions with banks. These laws include, but are not limited to, the Equal Credit Opportunity Act (“ECOA”), Fair Credit Reporting Act (“FCRA”), Fair and Accurate Credit Transaction Act of 2003 (“FACTA”), Gramm-Leach-Bliley Act (“GLBA”), Electronic Funds Transfer Act (“EFTA”), Home Mortgage Disclosure Act (“HMDA”), Real Estate Settlement Procedures Act (“RESPA”), and Truth in Lending Act (“TILA”), and their various state counterparts. In addition, the Dodd-Frank Act prohibits unfair, deceptive, or abusive acts or practices (“UDAAP”). Moreover, several federal laws, including GLBA, FCRA, and FACTA, regulate consumer financial privacy and restrict the sharing of consumer financial information.

Transactions with Affiliates and Insiders. Federal law imposes certain limitations on the ability of a bank to engage in “covered transactions” with affiliates. The Company is an affiliate of the Bank for purposes of these restrictions. The definition of “covered transactions,” which was expanded under the Dodd-Frank Act and includes extensions of credit to affiliates, investments in stock or other securities of affiliates, and acceptance of the stock or other securities of an affiliate as collateral for loans. Additionally, federal law prohibits institutions from engaging in certain transactions with affiliates unless the transactions are on terms substantially the same as, or at least as favorable to the bank as, those prevailing at the time for comparable transactions with non-affiliated companies. Federal law also restricts the Bank’s ability to extend credit to its executive officers, directors, principal shareholders, and their related interests, including that such credit extensions must be made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with unrelated third parties, and not involve more than the normal risk of repayment or present other unfavorable features.

Transaction Account Reserve Requirements. The FRB requires insured depository institutions to maintain reserves against specified deposit liabilities. Reservable liabilities consist of net transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities. For 2016, the first \$15.2 million of otherwise reservable balances are exempt from the reserve requirements; the reserve requirement is 3% for net transaction accounts between \$15.5 million and \$110.2 million; and the reserve requirement is 10% for net transaction accounts in excess of \$110.2 million. These reserve requirements are subject to annual adjustment.

Commercial Real Estate Lending. The Bank may be subject to greater scrutiny from federal banking regulators based on its concentration of commercial real estate (“CRE”) loans. Federal regulators have issued guidance to address concerns about CRE concentrations and to provide expectations for managing a concentrated portfolio. The guidance includes development and construction loans for which repayment is dependent upon the sale of the property, as well as properties for which repayment is dependent upon rental income.

Per the guidance, institutions that may have significant CRE concentration risk are those that have experienced rapid growth in CRE lending, have notable exposures to a specific type of CRE, or are approaching or exceed the following supervisory criteria: (i) total loans for construction, land development, and other land represent 100% or more of the institution’s total capital; or (ii) total CRE loans represent 300% or more of the institution’s total capital, and the outstanding balance of the institution’s CRE loan portfolio has increased by 50% or more during the prior 36 months. If a bank’s portfolio goes outside of these general guidelines, the bank must engage in heightened risk management practices.

Residential Real Estate Lending. The CFPB has issued new rules implementing several Dodd-Frank requirements regarding residential mortgage lending. Lenders must assess a borrower’s ability to repay the mortgage-related obligation and must consider certain underwriting factors. Lenders also receive certain protections from liability if they make “qualified mortgages.” Additionally, new rules prohibit certain loan features, such as negative amortization, interest-only payment, balloon payments, and restrict points and fees paid by a borrower and prepayment penalties.”

Volcker Rule. The Volcker Rule, issued by the federal banking and securities regulators pursuant to the Dodd-Frank Act, generally prohibits insured depository institutions and their affiliated companies from: (i) short-term proprietary trading in securities and other financial instruments; and (ii) sponsoring or acquiring or retaining an ownership interest in private equity and hedge funds, subject to certain exceptions.

Community Reinvestment Act. Under the Community Reinvestment Act of 1977 (“CRA”), the Bank has a continuing and affirmative obligation, consistent with safe and sound operation, to help meet the credit needs of its communities, including low- and moderate-income neighborhoods. As part of its examinations, the FDIC evaluates the Bank’s record in meeting these obligations. CRA ratings are also taken into account by regulators in evaluating applications for mergers, acquisitions, or to open a new branch or facility. Based on its most recent CRA compliance examinations, the Bank has received a “Satisfactory” CRA rating.

Regulation of the Company

General. The Company is a registered bank holding company subject to regulation and supervision by the FRB under the Bank Holding Company Act of 1956 (“BHCA”). The Company is required to file periodic reports of its operations with the FRB. Additionally, the Company is legally obligated to act as a source of strength to the Bank and to commit resources to support the Bank.

Regulatory Capital Requirements. The new capital adequacy requirements under the Basel III Rule that went into effect January 1, 2015, discussed above, apply to the Company as well as the Bank. The FRB has adopted the new minimum capital ratios and guidelines to provide a framework for assessing the adequacy of a bank holding company’s capital. Consistent with the principle that a bank holding company should serve as a source of managerial and financial strength to its subsidiary banks, the FRB expects a bank holding company to hold capital commensurate with its overall risk profile.

In assessing a bank holding company’s capital adequacy, the FRB evaluates the comprehensiveness and effectiveness of management’s capital planning. The FRB has indicated that effective capital planning process requires a banking organization to assess the risks to which it is exposed and its processes for managing and mitigating those risks, evaluate its capital adequacy relative to its risks, and consider the potential impact on its earnings and capital base from current and prospective economic conditions. If a bank holding company’s capital falls below the minimum requirements, the bank holding company will be required to submit an acceptable plan to increase its capital and its ability to pay dividends and make acquisitions may be restricted.

As of December 31, 2015, the Company met the applicable minimum capital adequacy guidelines. Additional capital and ratio information is contained in Item 8 under the section titled “Regulatory Matters” in Note 1 to the Consolidated

Financial Statements in this report.

Restrictions on Dividends and Stock Repurchases. The Company's source of funds (including cash flow to pay dividends to stockholders) is dividends paid to it by the Bank. The right of the Company to receive dividends or other distributions from the Bank is subject to the prior claims of creditors of the Bank, including depositors, and applicable regulatory restrictions, including prior approval in certain situations.

The amount of dividends that the Company may pay is subject to various regulatory limitations, including the requirement to maintain adequate capital. Financial institutions are generally prohibited from paying dividends if, following payment of dividends, the institution would be considered undercapitalized. Additionally, under the Basel III Rule, institutions seeking to pay dividends must maintain the required capital conservation buffer. Also, the FRB strongly encourages financial institutions to consult with the agency prior to paying dividends. The FRB has indicated that a board of directors should "eliminate, defer, or severely limit" dividends if:

the bank holding company's net income available to shareholders for the past four quarters, net of dividends paid during that period, is not sufficient to fully fund the dividends;

the bank holding company's rate of earnings retention is inconsistent with capital needs and overall macroeconomic outlook; or

the bank holding company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

Banking regulators also have the authority to prohibit banks and bank holding companies from paying a dividend if such payment would be an unsafe or unsound practice.

Generally, a bank holding company must notify the FRB prior to the purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when aggregated with the net consideration paid for all such purchases during the preceding twelve months is equal to 10% or more of the bank holding company's consolidated net worth. Prior approval may not be required if the bank holding company, among other things, will meet or exceed "well capitalized" thresholds both before and after the repurchase, is considered "well managed," and is not subject to any unresolved supervisory issues. Additionally, bank holding companies are expected to consult with the FRB before redeeming or repurchasing stock if:

the bank holding company is at "significant risk" of developing a financial weakness;

the bank holding company is considering expansion (either acquisition or new activities); and

if such redemption or repurchase will cause a net reduction in capital from the beginning of the quarter in which the redemption or repurchase occurs.

The FRB may disapprove of the purchase or redemption if it determines, among other things, that the proposal would constitute an unsafe or unsound business practice.

Support of Banking Subsidiaries. Under FRB policy, the Company is expected to act as a source of financial strength to the Bank and, where required, to commit resources to support the Bank. Financial support from the Company may be required even when the Company might not otherwise be inclined to provide it. Moreover, if the Bank should become undercapitalized, the Company would be required to guarantee the Bank's compliance with its capital restoration plan in order for such plan to be accepted by the FDIC.

Acquisitions, Activities, and Changes in Control. Under the BHCA, the Company must obtain the prior approval of the FRB before the Company may: (i) acquire substantially all the assets of a bank; (ii) acquire direct or indirect

ownership or control of more than 5% of the voting shares of any bank; or (iii) or merge or consolidate with any other bank holding company. The BHCA also restricts the Company's ability to acquire direct or indirect ownership or control of 5% or more of any class of voting shares of any nonbanking corporation. The FRB is required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. Consideration of financial resources generally focuses on capital adequacy. Consideration of convenience and needs includes the involved institutions' performance under the CRA. The FRB may not approve a transaction if it would result in or tend to create a monopoly, substantially lessen competition, or otherwise function as a restraint of trade, unless the anti-competitive effects are clearly outweighed by the public interest in meeting the needs and convenience of the community to be served.

Additionally, FRB approval is required prior to any person or company acquiring "control" of a bank holding company. "Control" is conclusively presumed to exist if a person or company acquires 25% or more of the outstanding voting shares of a bank holding company. There is a rebuttable presumption of control if a person or company acquires more than 10% but less than 25% of any class of voting securities.

Moreover, bank holding companies are generally prohibited from engaging in any business other than that of banking, managing, and controlling banks or furnishing services to banks and their subsidiaries, although bank holding companies are permitted to engage in activities that are determined to be "closely related to banking" and "a proper incident thereto."

Transactions with Affiliates. As discussed above, federal regulations restrict the extent to which the Company and its officers and directors may engage in certain "covered transactions" with the Bank, including borrowing or otherwise obtaining credit from or selling assets or securities to the Bank. Additionally, any transactions that are "covered transactions" with the Bank must be on nonpreferential terms.

Federal Securities Regulation and Corporate Governance. The Company's stock is registered with the SEC and, therefore, the Company is subject to SEC restrictions and requirements, including rules regarding information sharing, proxy solicitation, and insider trading.

The Sarbanes-Oxley Act of 2002 ("SOX") addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. Per SOX, the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are required to certify that the quarterly and annual reports do not contain any untrue statement of a material fact. The SEC's rules regarding CEO and CFO certifications require these officers to certify, among others, that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of internal controls over financial reporting; they have made certain disclosures to auditors and the audit committee of the board of directors; and they have included information in quarterly and annual reports about their evaluation and whether there have been changes in internal controls over financial reporting or in other factors that could materially affect internal control over financial reporting.

The Dodd-Frank Act provides other investor protections, corporate governance, and executive compensation requirements that affect U.S. publicly traded companies. For example, the Dodd-Frank Act requires companies to give shareholders a non-binding vote approving executive compensation and "golden parachute" payments. Pursuant to the Dodd Frank Act, in July 2015, the SEC proposed a rule that companies whose securities are listed on national securities exchanges and associations (including the Company whose securities are listed on the NASDAQ Global Market) would be required to develop and enforce recovery policies that, in the event of an accounting restatement, would "claw back" from current and former executive officers incentive-based compensation they should not have received based on the restatement. Recovery would be required without regard to fault and without regard to whether any misconduct occurred in connection with or an executive officer's responsibility for the erroneous misstatement. The proposed rules would also require disclosure of listed companies' recovery policies, and their actions under those policies. The proposed rules are not yet final.

Executive Officers of the Registrant

Set forth below is information concerning the executive officers of the Company. Each executive officer is annually elected to a one-year term by the Board of Directors of the Company.

Shaun A. Burke joined the Bank in March 2004 as President and Chief Executive Officer and was appointed President and Chief Executive Officer of the Company on February 28, 2005. He has over 30 years of banking experience. Mr. Burke received a Bachelor of Science Degree in Finance from Missouri State University and is a graduate of the Graduate School of Banking of Colorado. Mr. Burke currently serves on the board of the Missouri Bankers Association as Vice Chairman of the Legislative Affairs Committee and was previously Chairman of the Audit Committee. In 2014, he began a three-year term on the Community Bankers Council of the American Bankers Association. In March 2016 he was appointed to the Federal Reserve Bank of St. Louis' Community Depository Institutions Advisory Council. From 2012 to 2014, he was a Board Member of the Springfield Area Chamber of Commerce serving as Vice Chairman of Economic Development in 2014. From 2009 through 2014, he was a Board Member of the Springfield Business Development Corporation, the economic development subsidiary of the Springfield Area Chamber of Commerce serving as President in 2012. He is also a past Member of the United Way Allocations and Agency Relations Executive Committee, Salvation Army Board, and Big Brothers Big Sisters Board.

Carter Peters is Executive Vice President and Chief Financial Officer of the Bank and the Company. Mr. Peters has over 23 years of experience in the financial services and public accounting industries. Prior to joining the Company in August 2005, Mr. Peters served as the Chief Financial Officer of Southern Missouri Bank for approximately two years and was employed by BKD, LLP, a certified public accounting and advisory firm, for eleven years. He is a Certified Public Accountant with a Bachelor of Science Degree in Accounting from Missouri State University. He is a member of the American Institute of Certified Public Accountants and the Missouri Society of Certified Public Accountants. Mr. Peters has been recognized by the Springfield Business Journal as a "40 Under 40" honoree. He has served several not-for-profit organizations, including past Chairman of the Southwest Missouri Regional Board of the Make-A-Wish Foundation of Missouri.

H. Michael Mattson is Executive Vice President and Chief Lending Officer of the Bank. He joined the Bank in June 2006. Mr. Mattson has over 30 years of commercial banking experience. Mr. Mattson is currently a member of the Springfield Area Chamber of Commerce and has served on its board nominating committee and venture capital committee. He is on the board of directors of Ozarks Food Harvest, previously serving as its president and co-chair of their capital campaign. He is a member of Leadership Springfield Class XI and a graduate of Rockhurst University and the Graduate School of Banking of The South at Baton Rouge, LA. Mr. Mattson has informed the Company of his retirement that will be effective on June 30, 2016.

Sheri Biser is Executive Vice President and Chief Credit Officer of the Bank. She joined the Bank in February 2009. Ms. Biser has 29 years of banking experience. Prior to joining the Bank, Ms. Biser served as Chief Credit Officer of

Metropolitan National Bank for nearly eight years and worked in credit administration for fourteen years at another financial institution. She received a Bachelor of Science Degree in Accounting from Fort Hays State University.

Robin E. Robeson is Executive Vice President and Chief Operating Officer of the Bank. She joined the Bank in July 2012. Ms. Robeson has over 20 years of experience in the financial services industry and 3 years of executive management experience in the technology industry. She has a Bachelor of Art Degree in Communication from the University of Missouri-Columbia and a Master of Business Administration Degree from Drury University. In addition, Ms. Robeson was awarded the Certified Trust & Financial Advisor (CTFA) professional designation from the Institute of Certified Bankers. She served as a board Vice Chairman for City Utilities of Springfield, is Past President of the Big Brothers/Big Sisters of the Ozarks and Rotary Club of Springfield boards and as a member of the Ozarks Transportation Organization Board. She is a graduate of Leadership Springfield Class XIII, and has been recognized by the Springfield Business Journal as one of the “20 Most Influential Women in Business” and been named a “40 Under 40” honoree.

As of December 31, 2015, the age of these individuals was 52 for Mr. Burke, 46 for Mr. Peters, 62 for Mr. Mattson, 52 for Ms. Biser and 50 for Ms. Robeson.

Item 1A. Risk Factors

Our business and operations are subject to, and may be adversely affected by, certain risks and uncertainties. An investment in our common stock is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included and incorporated by reference in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations. The value or market price of our common stock could decline due to any of these identified or other risks, and you could lose all or part of your investment.

Our business is concentrated in and largely dependent upon the continued growth and welfare of the general geographical markets in which we operate.

Our operations are heavily concentrated in Greene County and Christian County, which are in the southwestern corner of Missouri, including the cities of Springfield, Nixa and Ozark, Missouri (our “Market Area”). Our success depends to a significant extent upon the business activity, population, income levels, deposits and real estate activity in these markets. Although our customers' business and financial interests may extend well beyond these market areas, adverse economic conditions that affect these market areas could reduce our growth rate, affect the ability of our customers to repay their loans to us, affect the value of collateral underlying loans and generally affect our financial condition and results of operations. Because of our geographic concentration, we are less able than other regional or national financial institutions to diversify our credit risks across multiple markets.

Our loan/lease portfolio possesses increased risk due to our relatively high concentration of real estate loans, which involve risks specific to real estate values.

Real estate lending comprises a significant portion of our lending business. Real estate loans were \$396.1 million, or approximately 79% of our total loan/lease portfolio, as of December 31, 2015. The market value of real estate securing our real estate loans can fluctuate significantly in a short period of time as a result of market conditions in our Market Area which is where most of the real estate on which our real estate loans are made is located. Adverse developments affecting real estate values in our Market Area could increase the credit risk associated with our loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of our control or that of our borrowers could negatively impact the future cash flow and market values of the affected properties impairing the ability of our borrowers to repay their loans which could materially and adversely affect the Bank's financial condition and results of operations depending on the severity of the economic downturn or the nature of the regulatory changes.

Deterioration in asset quality could have an adverse impact on our business.

A significant source of risk for us arises from the possibility that losses will be sustained because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loans. With respect to secured loans, the collateral securing the repayment of these loans includes a wide variety of diverse real and personal property that may be affected by changes in prevailing economic, environmental and other conditions, including declines in the value of real estate, changes in interest rates, changes in monetary and fiscal policies of the federal government, environmental contamination (as discussed in more detail below) and other external events. In addition, decreases in real estate values due to the nature of the Bank's loan portfolio (discussed above) could affect the ability of customers to repay their loans. The Bank's loan policies and procedures may not prevent unexpected losses that could have a material adverse effect on our business, financial condition, results of operation or liquidity.

We are subject to environmental liability risk associated with real estate collateral securing our loans.

A significant portion of our loan portfolio is secured by real property. Under certain circumstances, we may take title to the real property collateral through foreclosure or other means. As the titleholder of the property, we may be responsible for environmental risks, such as hazardous materials, which attach to the property. For these reasons, prior to extending credit, we conduct an environmental review to identify any known environmental risks associated with the real property that will secure our loans. In addition, we routinely inspect properties prior to foreclosing. If environmental risks are found, environmental laws and regulations may prescribe our approach to remediation. As a result, while we have ownership of a property, we may incur substantial expense and bear potential liability for any damages caused. The environmental risks may also materially reduce the property's value or limit our ability to use or sell the property. We also cannot guarantee that our environmental review will detect all environmental issues relating to a property, which could subject us to additional liability.

Our loan portfolio possesses increased risk due to the percentage of commercial real estate loans and commercial business loans.

Our loan portfolio includes a significant amount of commercial real estate loans and commercial business loans. The credit risk related to these types of loans is considered to be greater than the risk related to owner-occupied residential real estate loans or consumer loans because commercial loans often have larger balances, and repayment usually depends on the borrowers' successful business operations. The underlying commercial real estate values, customer cash flow and payment expectations on such loans can be more easily influenced by adverse conditions in the related industries, the real estate market or in the economy in general. Any significant deterioration in the credit quality of the commercial loan portfolio or underlying collateral values would have a material adverse effect on our financial condition and results of operation.

Our future success is dependent on our ability to compete effectively in the highly competitive banking industry.

We face competition in attracting and retaining deposits, making loans, and providing other financial services throughout our market area. Our competitors include other community banks, regional and super-regional banking institutions, national banking institutions, and a wide range of other financial institutions such as credit unions, government-sponsored enterprises, mutual fund companies, insurance companies, brokerage companies, and other non-bank businesses. Many of these competitors have substantially greater resources than we do and are not subject to the same regulatory restrictions as we are. Many of our competitors compete across geographic boundaries and are able to provide customers with a feasible alternative to traditional banking services.

As we try to meet our competitors' terms and pricing, increased competition in our markets may result in:

interest rate changes to various types of accounts;
a decrease in the amounts of our loans and deposits;
reduced spreads between loan rates and deposit rates; or
loan terms that are more favorable to the borrower and less favorable to the bank.

Any of these results could have a material adverse effect on our ability to grow and remain profitable. If increased competition causes us to significantly discount the interest rates we offer on loans or increase the amount we pay on deposits, our net interest income could be adversely impacted.

Our operations are concentrated in one subsidiary bank; an event or a series of events having a material adverse impact on the financial condition and results of operations of the Bank would have a material adverse impact on our financial condition and results of operation and, accordingly, on your investment in us.

As a holding company with only one subsidiary bank, our investment risk is concentrated in just one primary operating asset in a relatively small geographic location. A substantial portion of our cash flow comes from dividends paid directly to us by the Bank. If and to the extent our Bank is not successful or an event were to occur that prevents it or hinders it from operating effectively, our financial condition and results of operation could be materially and adversely impacted. Larger bank holding companies with more subsidiary banks or bank facilities and which are more geographically dispersed are not as susceptible to the concentrated risks we are if one of their subsidiary banks or facilities was not able to operate effectively.

Cybersecurity threats and privacy breaches could subject us to increased operating costs as well as litigation and other liabilities.

Our operations are dependent upon our ability to protect our computer equipment not only against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, but also from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in our operations could have a material adverse effect on our financial condition and results of operations. Our communication and information systems may present security risks due to susceptibility of digitally stored information to hacking or identity theft. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are not fully covered through any insurance maintained by us. This could also result in damage to our reputation or a loss of confidence in the security of our systems and products.

Our information security risks have increased recently in part because of new technologies, the use of the internet and telecommunication technologies (including mobile devices) to conduct financial and other business transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists, and others. While we have established policies and procedures to prevent or limit the impact of systems failures and interruptions, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, with the help of third-party service providers, we intend to continue to implement security technology and establish operational procedures to prevent such damage. Nevertheless, we may not be able to anticipate or implement effective preventative measures against all security breaches of these types, especially because the techniques used change frequently and because attacks can originate from a wide variety of sources. In addition, our security measures may not be able to detect all cyber threats and therefore there is a risk that data breaches may go undetected for extended periods of time.

The occurrence of any of these events could have a material adverse effect on our business.

We are dependent upon outside third parties for processing and handling of our records and data.

We rely on third party vendors for a substantial portion of our communications, record retention, operations and financial control systems technology. While we place a high priority on reliability and competency in our selection of third party vendors, we do not control their actions. Any problems caused by these third parties, including as a result of their not providing us their services for any reason or their performing their services poorly, could materially and adversely affect our ability to deliver products and services to our customers or otherwise conduct our business efficiently and effectively. Replacing these third party vendors could also entail significant delay and expense.

In addition to issues with the services provided by third parties, the vendors we use are also subject to the same cybersecurity risks discussed above. Although we conduct a review of third party vendors prior to contracting with them, we cannot control the security of their systems. Therefore, in addition to cybersecurity threats against us, we are also at risk if our third parties vendors are unable to adequately protect our information. If our data was accessed through information provided to a third party vendor, we could face significant legal and financial exposure and damage to our reputation.

We continually encounter technological change, and we cannot predict how changes in technology will affect our business.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements than we do. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse effect on our business and, in turn, our financial condition and results of operations.

Rapidly changing interest rate environments could reduce our net interest margin and otherwise negatively impact our results of operations.

Interest and fees on loans and securities, net of interest paid on deposits and borrowings, are a large part of our net income. Interest rates are the key drivers of our net interest margin and are subject to many factors beyond the control of management. As interest rates change, our net interest income is affected. Rapid increases in interest rates in the future could result in our interest expense increasing faster than interest income because of mismatches in the maturities of our assets and liabilities. Furthermore, substantially higher rates generally reduce loan demand and may result in slower loan growth for us. Decreases or increases in interest rates could have a negative effect on the spreads between our interest rates earned on assets and our rates of interest paid on liabilities, and therefore decrease our net interest income, which would have a material adverse effect on our financial condition and results of operation.

Interest rate changes may affect borrowers' repayment schedules, negatively impacting our financial condition.

Interest rate increases often result in larger payment requirements for our borrowers, which increase the potential for default. At the same time, the marketability of underlying collateral may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on certain of our loans as borrowers refinance at lower rates. Fluctuation in interest rates may therefore change borrowers' timing of repayment of, or ability to repay loans, which could have a material adverse impact on our financial condition.

Changes in interest rates could negatively impact our nonperforming assets, decreasing net interest income.

Changes in interest rates also can affect the value of loans. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in our nonperforming assets and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. Subsequently, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets resulting from changes in interest rates would have an adverse impact on net interest income, which could have a material adverse effect on our financial condition and results of operation.

The financial condition of the Bank's customers and borrowers could adversely affect the Bank's liquidity.

Two of the Bank's primary sources of funds are loan repayments and customer deposits. Though scheduled loan repayments are a relatively stable source of liquidity, they are subject to the borrowers' ability to repay their loans. The ability of the borrowers to repay their loans can be adversely affected by a number of factors, including changes in the economic conditions, adverse trends or events affecting the business environment, natural disasters and various other factors. Customer deposit levels may also be affected by a number of factors, including the competitive interest rate environment in both the national market and our Market Area, local and national economic conditions, natural disasters and other various events. The inability of borrowers to repay their loans or a decline in customer deposits would, depending on the extent of the loan defaults or decline in customer deposits, materially and adversely affect our liquidity and financial condition.

Liquidity needs could adversely affect our results of operations and financial condition.

Adequate liquidity is critical in our ability to meet the needs of our customers. An inability to access funding through customer deposits, available borrowings, sales of loans or investments could have an adverse effect on our liquidity. Furthermore, regional and community banks, including the Bank, generally have less access to the capital markets, than do the national and super-regional banks because of their smaller size and limited analyst coverage. Any significant decline in available funding could adversely impact our ability in the future to originate loans, invest in securities, meet our expenses, pay dividends to our stockholders, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, results of operations and financial condition.

A decrease in cash flows from our investment portfolio may adversely affect our liquidity.

Another primary source of liquidity for the Bank is cash flows from investment securities. Cash flows from the investment portfolio may be affected by changes in interest rates, resulting in excessive levels of cash flow during periods of declining interest rates and lower levels of cash flow during periods of rising interest rates. These changes may be beyond our control and could significantly influence our available cash.

If we are required to rely on secondary sources of liquidity, those sources may not be immediately available.

We may be required from time to time to rely on secondary sources of liquidity to meet withdrawal demands or otherwise fund operations. Such sources include the Federal Home Loan Bank advances, brokered deposits and federal funds lines of credit from correspondent banks. Our ability to borrow could be impaired by factors that are not specific to us, such as severe disruption of the financial markets or negative publicity about the financial services industry as a whole. We may also be required to pledge investments as collateral to borrow money from third parties. In certain cases, we may be required to sell investment instruments for sizable losses to meet liquidity needs, thereby reducing interest income and resultantly net income. While we believe that we are currently sufficiently liquid, there can be no assurance we will not in the future be required to turn to these secondary sources of liquidity which may not be available or only at costs that could materially and adversely affect our financial condition and results of operation.

Inability to hire or retain certain key professionals, management and staff could adversely affect our revenues, net income and growth plans.

Our performance is largely dependent on the talents and efforts of highly skilled individuals and their ability to attract and retain customer relationships in a community bank environment. We rely on key personnel to manage and operate our business, including major revenue generating functions such as our loan and deposit portfolios. None of our employees, including those who comprise our key management team, are subject to employment contracts with us. Such employees are at-will and thus are not restricted from terminating their employment. The lack of employment contracts with key employees could have a material adverse impact on our ability to retain such employees. The loss of key management or our key loan officers with their contacts in the business communities within our Market Area may adversely affect our ability to maintain and manage these portfolios effectively, which could negatively affect our revenues.

If we do struggle with employee retention, our success may also be impacted if we are unable to recruit replacement management and key employees in a reasonable amount of time. There is intense competition in the financial services industry for qualified employees. In addition, loss of key personnel could result in increased recruiting, hiring, and training expenses, resulting in lower net income.

We are subject to certain operational risks, including, but not limited to, customer or employee fraud.

Employee errors and employee and customer misconduct could subject us to financial losses, regulatory sanctions, lawsuits and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers, or improper use of confidential information. We maintain a system of internal controls and insurance coverage to mitigate against operational risks. However, if our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, such failures could have a material adverse effect on our business, financial condition and results of operations.

We are subject to extensive regulation that may significantly affect our operations or earnings.

We are subject to significant federal and state regulation and supervision, as discussed in more detail below, which is primarily for the benefit and protection of the Bank's customers and not for the benefit of investors. As a result, various statutory provisions restrict the amount of dividends our Bank subsidiary can pay to us without regulatory approval. Our regulatory compliance is costly. We are subject to examination, supervision, and comprehensive regulation by various agencies, including the FRB, the MDF and FDIC. These regulators have broad discretion in their supervisory and enforcement activities. We are also subject to capitalization guidelines established by our regulators, as discussed below, which require that we and the Bank maintain adequate capital to support our growth and the Bank's growth. To the extent our activities and/or the Bank's activities are restricted or limited by regulation or regulators' supervisory authority, our future profitability may be adversely affected.

Changes in federal or state regulation may increase our costs.

The laws, regulations, policies, and interpretations that govern our industry are constantly evolving and may change significantly over time. The Dodd-Frank Act reshaped regulation of banking institutions and the numerous requirements stemming from the Dodd-Frank Act have resulted in increased compliance costs for institutions both large and small, including us and the Bank. As these regulations continue to be implemented, interpreted, and enforced, our compliance must evolve as well. The CFPB has shown that it is a proactive agency and we anticipate that the CFPB will continue to expand its supervisory and enforcement authority into new areas and to issue new rules and guidance.

We cannot predict the nature or effect of current or proposed legislative or regulatory changes on us or the Bank with any certainty. Changes in laws or regulations could impact our business practices and profitability. We also cannot predict the cost of new compliance that may be required to keep pace with industry regulatory changes.

Decreases in capital and changes to the formulas for calculating adequate capital may negatively impact us or result in increased regulatory supervision.

Federal rules require banking institutions to maintain an adequate level of regulatory capital (net assets available to absorb losses). Due to the risks associated with the industry, banking institutions are generally required to hold more capital than other businesses. Revised minimum capital adequacy requirements under the Basel III Rule became effective for us and the Bank on January 1, 2015, with additional requirements, such as the capital conservation buffer (discussed below), to be phased in over the next few years. The new requirements change the definition of capital, increase minimum required risk-based capital ratios, and increase the risk-weights for certain assets. Cumulatively, the Basel III Rule is more stringent than prior requirements and requires financial institutions to hold more and better capital against their assets, decreasing the size of their balance sheets. Although the impact on us has been minimal to date, we cannot guarantee that will continue.

Financial institutions must maintain a 2.5% capital conservation buffer comprised of Common Equity Tier 1 Capital above the minimum risk-based capital requirements. The buffer must be maintained in order to avoid limitations on capital distributions and discretionary bonus payments to executive officers. If we or the Bank dip below the capital conservation buffer, we or the Bank could be subject to increasingly strict limitations on capital distributions and bonus payments.

Federal law provides regulators with broad powers to take "prompt corrective action" to resolve capital deficiencies at insured depository institutions that do not meet minimum capital requirements. There are five capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically

undercapitalized." As an institution's capital levels deteriorates and it falls below the "well capitalized" threshold, such institution faces increasing penalties. Regulator's corrective powers include, but are not limited to:

- requiring a waiver to accept brokered deposits;
- requiring submission of a capital plan;
- limiting growth or restricting activities;
- requiring the issuance of additional capital stock;
- restricting transactions with affiliates;
- prohibiting executive bonuses or raises;
- prohibiting the payment of subordinated debt; and
- appointing a receiver.

Accordingly, we and the Bank could be subject to regulatory penalties and restrictions if capital falls below a certain minimum thresholds.

Management's analysis of the necessary funding for the allowance for loan loss account may be incorrect or may suddenly change resulting in lower earnings.

The funding of the allowance for loan loss account is the most significant estimate made by management in its financial reporting to stockholders and regulators. The determination of the appropriate level of the allowance for loan losses involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which are subject to material changes.

Although management believes that the allowance for loan/lease losses as of December 31, 2015 was adequate to absorb losses on any existing loans/leases that may become uncollectible, we cannot predict loan losses with certainty, and we cannot assure you that our allowance for loan losses will prove sufficient to cover actual loan losses in the future, particularly if economic conditions are more difficult than management currently expects. If negative changes to the performance of our loan portfolio were to occur, management may find it necessary to or be required to fund the allowance for loan loss account through additional charges to our provision for loan loss expense. These changes may occur suddenly and be dramatic in nature. Additional provisions to the allowance for loan losses and loan losses in excess of said allowance may adversely affect our business, financial condition and results of operations.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, including economic conditions specifically in our Market Area, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U.S. government securities, adjustments of the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The effects of the monetary policies and regulations of the Federal Reserve upon our business, financial condition and results of operations in the future cannot be predicted, but have had a significant effect on the operating results of commercial banks, including our Bank, in the past.

Anti-takeover provisions could negatively impact our stockholders.

Provisions in our governing documents, the General Corporation Law of the State of Delaware (the “DGCL”) and federal regulations could delay or prevent a third party from acquiring us, despite the possible benefit to our stockholders. These provisions include, but are not limited to:

a prohibition on voting shares of common stock beneficially owned in excess of 10% of total shares outstanding without prior Board approval;

supermajority voting requirements for certain business combinations with any person who beneficially owns 10% or more of our outstanding common stock;

the election of directors to staggered terms of three years;

advance notice requirements for director nominations and for proposing matters that stockholders may act on at stockholder meetings;

a requirement that only directors may fill a vacancy in our Board of Directors; and

supermajority voting requirements to remove any of our directors.

In addition, because we are a bank holding company, purchasers of 10% or more of our common stock may be required to obtain approvals under the Change in Bank Control Act of 1978, as amended, or the Bank Holding Company Act of 1956, as amended (the “BHCA”), and in certain cases such approvals may be required at a lesser percentage of ownership.

These provisions may discourage potential takeover attempts, discourage bids for our common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of, our common stock. These provisions could also discourage proxy contests and make it more difficult for holders of our common stock to elect directors other than the candidates nominated by our Board of Directors.

There are restrictions on our ability to pay dividends on and repurchase our common stock.

Holders of our common stock are entitled to receive dividends only when, as and if declared by our Board of Directors. Our ability to pay dividends is limited by Delaware law, as well as regulatory restrictions and the need to maintain sufficient consolidated capital. The ability of the Bank to pay dividends to us is limited by its obligation to maintain sufficient capital and liquidity and by other general restrictions on dividends that are applicable to the Bank. If current or any future regulatory requirements are not met, the Bank will not be able to pay dividends to us, and we may be unable to pay dividends on our common stock.

The DGCL provides that dividends by a Delaware corporation may be paid only from: (1) “surplus” determined in the manner described in the DGCL, or (2) in case there is no “surplus,” net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Dividends paid from the second source may not be paid unless the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets at current market value is intact.

Moreover, as a bank holding company, our ability to declare and pay dividends is subject to the guidelines of the Federal Reserve regarding capital adequacy and dividends. The Federal Reserve guidelines generally require us to review the effects of the cash payment of dividends on common stock and other Tier 1 capital instruments (i.e., perpetual preferred stock and trust preferred debt) in light of our earnings, capital adequacy and financial condition. As a general matter, the Federal Reserve indicates that the Board of Directors of a bank holding company should eliminate, defer or significantly reduce the dividends if:

the company’s net income available to stockholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends;

the prospective rate of earnings retention is inconsistent with the company’s capital needs and overall current and prospective financial condition; or

the company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

In the future, if we default on certain of our outstanding debts, we will be prohibited from making dividend payments on our common stock until such payments have been brought current.

Failure to pay interest on our debt may adversely impact our ability to pay common stock dividends.

As of December 31, 2015, we had \$15.5 million of junior subordinated debentures held by two business trusts. Interest payments on the Company's existing debentures, which totaled \$539,000 for 2015, must be paid before the Company can pay dividends on its capital stock, including its common stock. The Company has the right to defer interest payments on the debentures for up to 20 consecutive quarters. However, if it elects to defer interest payments, all deferred interest must be paid before the Company can pay dividends on its capital stock.

Although the Company expects to be able to pay all required interest on the junior subordinated debentures, there is no guarantee that it will be able to do so.

There is a limited trading market for our common stock, and you may not be able to resell your shares at or above the price you paid for them.

Although our common stock is listed for trading on the NASDAQ Global Market, it has a low average daily trading volume relative to many other stocks whose shares are also quoted on the NASDAQ Global Market. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the market of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. We cannot assure you that the volume of trading in our common stock will increase in the future.

Additionally, general market forces may have a negative effect on our stock price, independent of factors affecting our stock specifically. Factors beyond our control, including price and trading fluctuation, can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These conditions may result in (i) volatility in the level of, and fluctuations in, the market prices of stocks generally and, in turn, our common stock and (ii) sales of substantial amounts of our common stock in the market, in each case that could be unrelated or disproportionate to changes in our operating performance. These broad market fluctuations may adversely affect the market value of our common stock.

The soundness of other financial institutions could negatively affect our business.

Our ability to engage in routine funding and other transactions could be negatively affected by the actions and commercial soundness of other financial institutions. Financial services institutions, including the Bank, are interrelated as a result of trading, clearing, counterparty or other relationships. Defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and losses of depositor, creditor and counterparty confidence and could lead to losses or defaults by us or by other institutions. We could experience increases in deposits and assets as a result of the difficulties or failures of other banks, which would increase the capital we need to support our growth. There can be no assurance that we could raise the necessary capital to support our growth or on terms satisfactory to us.

We face legal risks, both from regulatory investigations and proceedings and from private actions brought against us.

We could in the future become subject to lawsuits or regulatory proceedings challenging the legality of our lending or business practices. Future actions against us may result in judgments, settlements, fines, penalties or other results adverse to us, which could materially adversely affect our business, financial condition or results of operations, or cause serious reputational harm to us. As a participant in the financial services industry, we are exposed to a high level of potential litigation related to our businesses and operations. Although we maintain insurance, the scope of this coverage may not provide us with full, or even partial, coverage in any particular case.

Our businesses and operations are also subject to increasing regulatory oversight and scrutiny, which may lead to additional regulatory investigations or enforcement actions. These and other initiatives from federal and state officials may subject us to further judgments, settlements, fines or penalties, or cause us to be required to restructure our operations and activities, all of which could lead to reputational issues, or higher operational costs, thereby reducing our revenue.

Our reputation could be damaged by negative publicity.

Reputational risk, or the risk to us from negative publicity, is inherent in our business. Negative publicity can result from actual or alleged conduct in a number of areas, including legal and regulatory compliance, lending practices, corporate governance, litigation, inadequate protection of customer data, ethical behavior of our employees, and from actions taken by regulators, ratings agencies and others as a result of that conduct. Damage to our reputation could impact our ability to attract new or maintain existing loan and deposit customers, employees and business relationships.

The preparation of our consolidated financial statements requires us to make estimates and judgments, which are subject to an inherent degree of uncertainty and which may differ from actual results.

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles and general reporting practices within the U.S. financial services industry, which require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Some accounting policies, such as those pertaining to our allowance for loan losses, require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty and actual results may differ from these estimates and judgments under different assumptions or conditions. If actual results vary significantly, there may be a material adverse effect on our financial condition or results of operations in subsequent periods.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The following table sets forth certain information concerning the Bank's facilities as of December 31, 2015. All buildings owned are free of encumbrances or mortgages. The Bank's facilities are well maintained and considered adequate for the foreseeable future.

| Location | Year Opened | Owned or Leased | Lease Expiration (Including any renewal options) | |
|--------------------------------------|-----------------------------|----------------------------|---|------|
| <u>Main Office</u> | | | | |
| 1341 W Battlefield Road | Springfield, Missouri 65807 | 1995 | Owned | N/A |
| <u>Operations Center</u> | | | | |
| 1414 W Elfindale | Springfield, Missouri 65807 | 2009 | Owned | N/A |
| <u>Banking Center Offices</u> | | | | |
| 1510 E Sunshine | Springfield, Missouri 65804 | 1979 | Owned | N/A |
| 2109 N Glenstone | Springfield, Missouri 65803 | 1987 | Owned | N/A |
| 4343 S National | Springfield, Missouri 65810 | 2000 | Owned | N/A |
| 1905 W Kearney | Springfield, Missouri 65803 | 2004 | Leased* | 2044 |
| 2155 W Republic Road | Springfield, Missouri 65807 | 2006 | Leased* | 2046 |
| 709 W Mt. Vernon | Nixa, Missouri 65714 | 2005 | Leased* | 2044 |
| 291 East Hwy CC | Nixa, Missouri 65714 | 2008 | Leased* | 2038 |
| 1701 W State Hwy J | Ozark, Missouri 65721 | 2008 | Owned | N/A |

Loan Production Offices

1100 Spur Dr. Marshfield, Missouri 65706 2007 Leased 2016

* Building owned with land
leased.

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Item 3. Legal Proceedings

(a) Material Legal Proceedings

The Company and the Bank, from time to time, may be parties to ordinary routine litigation, which arises in the normal course of business, such as claims to enforce liens, and condemnation proceedings, on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans, and other issues incident to the business of the Company and the Bank. While the ultimate outcome of such legal proceedings cannot be predicted with certainty, after reviewing pending and threatened litigation with legal counsel, management believes at this time that the outcome of any such litigation will not have a material adverse effect on the Company's business, financial condition or results of operations.

(b) Proceedings Terminated During the Last Quarter of the Fiscal Year Covered by This Report

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information**

The common stock of Guaranty Federal Bancshares, Inc. (the "Company") is listed for trading on the NASDAQ Global Market under the symbol "GFED".

Shareholders

As of March 14, 2016, there were approximately 1,389 holders of shares of the Company's common stock. At that date the Company had 6,874,003 shares of common stock issued and 4,431,470 shares of common stock outstanding.

Dividends and Common Stock Prices

The table below sets forth the cash dividends per share on the Company's common stock for the years ended December 31, 2015 and 2014.

| | Year ended December 31, 2015 | Dividend Per Share | Year ended December 31, 2014 | Dividend Per Share |
|----------------|---------------------------------|--------------------------|---------------------------------|--------------------------|
| Quarter ended: | Declared | Paid | Declared | Paid |
| March 31 | 3/24/2015 | \$ 0.05 | - | - |
| June 30 | 6/25/2015 | \$ 0.05 | 6/26/2014 | \$ 0.05 |
| September 30 | 9/24/2015 | \$ 0.05 | 9/25/2014 | \$ 0.05 |
| December 31 | 12/31/2015 | \$ 0.08 | 12/18/2014 | \$ 0.05 |

Any future dividends will be at the discretion of the Company's Board of Directors and will depend on, among other things, the Company's results of operations, cash requirements and surplus, financial condition, regulatory limitations and other factors that the Company's Board of Directors may consider relevant.

The table below reflects the range of common stock high and low sale prices per the NASDAQ Global Market by quarter for the years ended December 31, 2015 and 2014.

| | Year ended December 31, 2015 | | Year ended December 31, 2014 | |
|----------------|------------------------------------|---------|------------------------------------|---------|
| | High | Low | High | Low |
| Quarter ended: | | | | |
| March 31 | \$15.25 | \$13.02 | \$13.12 | \$10.70 |
| June 30 | 15.20 | 14.30 | 12.99 | 12.17 |
| September 30 | 15.20 | 14.15 | 12.76 | 12.20 |
| December 31 | 15.25 | 14.30 | 13.40 | 12.14 |

Financial Performance

Set forth below is a stock performance graph comparing the cumulative total shareholder return on the Common Stock with (a) the cumulative total stockholder return on stocks included in The Nasdaq – Total U.S. Index and (b) the cumulative total stockholder return on stocks included in The Nasdaq Bank Index. All three investment comparisons assume the investment of \$100 as of the close of business on December 31, 2010 and the hypothetical value of that investment as of the Company’s fiscal years ended December 31, 2010, 2011, 2012, 2013, 2014, and 2015, assuming that all dividends were reinvested. The graph reflects the historical performance of the Common Stock, and, as a result, may not be indicative of possible future performance of the Common Stock. The data used to compile this graph was obtained from NASDAQ.

| <i>Index</i> | <i>Period Ending</i> | | | | | |
|-----------------------------------|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 12/31/10 | 12/31/11 | 12/31/12 | 12/31/13 | 12/31/14 | 12/31/15 |
| Guaranty Federal Bancshares, Inc. | 100.00 | 119.75 | 144.75 | 231.07 | 279.98 | 329.26 |
| NASDAQ - Total US | 100.00 | 99.21 | 116.82 | 163.75 | 188.03 | 201.40 |
| NASDAQ Bank Index | 100.00 | 89.50 | 106.23 | 150.55 | 157.95 | 171.92 |

As a result of a change in the total return data made available to us through our vendor provider, our performance graphs going forward will be using an index provided by NASDAQ OMX Global Indexes which is comparable to the NASDAQ Bank Stock Index. Please note, information for the NASDAQ Bank Stock Index is provided only from December 31, 2010 through December 31, 2015, the last day this data was available by our third-party provider.

With respect to the equity compensation plan information required by this item, see “Item 12. Security Ownership of Certain Owners and Management and Related Stockholder Matters” in this report.

Issuer Purchases of Equity Securities

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. The Company had no repurchase activity of the Company’s common stock during the fourth quarter ended December 31, 2015.

Item 6. Selected Financial Data

The following tables include certain information concerning the financial position and results of operations of Guaranty Federal Bancshares, Inc. (including consolidated data from operations of Guaranty Bank) as of the dates indicated. Dollar amounts are expressed in thousands except per share.

| Summary Balance Sheets | As of December 31, | | | | |
|--|---------------------------|-------------|-------------|-------------|-------------|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| ASSETS | | | | | |
| Cash and cash equivalents | \$18,774 | \$12,494 | \$12,303 | \$41,663 | \$26,574 |
| Investments and interest-bearing deposits | 97,336 | 86,529 | 97,772 | 102,162 | 86,871 |
| Loans receivable, net | 492,905 | 487,801 | 465,003 | 468,376 | 482,664 |
| Accrued interest receivable | 1,987 | 2,030 | 1,853 | 2,055 | 2,139 |
| Prepays and other assets | 10,121 | 11,421 | 14,204 | 16,703 | 18,051 |
| Foreclosed assets | 2,392 | 3,165 | 3,822 | 4,530 | 10,012 |
| Premises and equipment, net | 10,540 | 10,603 | 10,887 | 11,286 | 11,424 |
| Bank owned life insurance | 18,780 | 14,417 | 14,044 | 13,657 | 10,771 |
| | \$652,835 | \$628,460 | \$619,888 | \$660,432 | \$648,506 |
| LIABILITIES | | | | | |
| Deposits | \$517,386 | \$479,818 | \$487,319 | \$500,015 | \$484,584 |
| Federal Home Loan Bank and Federal Reserve Bank advances | 52,100 | 60,350 | 55,350 | 68,050 | 68,050 |
| Securities sold under agreements to repurchase | - | 10,000 | 10,000 | 25,000 | 25,000 |
| Subordinated debentures | 15,465 | 15,465 | 15,465 | 15,465 | 15,465 |
| Other liabilities | 1,462 | 1,350 | 1,399 | 1,034 | 1,172 |
| | 586,413 | 566,983 | 569,533 | 609,564 | 594,271 |
| STOCKHOLDERS' EQUITY | | | | | |
| | 66,422 | 61,477 | 50,355 | 50,868 | 54,235 |
| | \$652,835 | \$628,460 | \$619,888 | \$660,432 | \$648,506 |

| Supplemental Data | As of December 31, | | | | |
|---------------------------------|---------------------------|-------------|-------------|-------------|-------------|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| Number of full-service offices | 9 | 9 | 9 | 9 | 9 |
| Cash dividends per common share | \$0.23 | \$0.15 | \$ - | \$ - | \$ - |

| Summary Statements of Income | Years ended December 31, | | | | |
|-------------------------------------|---------------------------------|-------------|-------------|-------------|-------------|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| Interest income | \$25,190 | \$25,014 | \$25,855 | \$27,606 | \$30,376 |
| Interest expense | 4,280 | 4,329 | 5,097 | 6,858 | 9,611 |
| Net interest income | 20,910 | 20,685 | 20,758 | 20,748 | 20,765 |
| Provision for loan losses | 600 | 1,275 | 1,550 | 5,950 | 3,350 |

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| | | | | | |
|---|---------|---------|---------|---------|---------|
| Net interest income after provision for loan losses | 20,310 | 19,410 | 19,208 | 14,798 | 17,415 |
| Noninterest income | 4,653 | 3,418 | 5,319 | 3,256 | 4,485 |
| Noninterest expense | 16,785 | 14,933 | 16,773 | 15,355 | 16,475 |
| Income before income taxes | 8,178 | 7,895 | 7,756 | 2,699 | 5,425 |
| Provision for income taxes | 2,461 | 2,113 | 2,516 | 755 | 1,589 |
| Net income | \$5,717 | \$5,782 | \$5,240 | \$1,944 | \$3,836 |
| Preferred stock dividends and discount accretion | - | 357 | 795 | 1,077 | 1,126 |
| Net income available to common shareholders | \$5,717 | \$5,425 | \$4,445 | \$867 | \$2,710 |
| Basic income per common share | \$1.32 | \$1.35 | \$1.63 | \$0.32 | \$1.01 |
| Diluted income per common share | \$1.30 | \$1.33 | \$1.58 | \$0.30 | \$1.01 |

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

Guaranty Federal Bancshares, Inc. (the "Company") is a Delaware corporation organized on December 30, 1997 that operates as a one-bank holding company. Guaranty Bank (the "Bank") is a wholly-owned subsidiary of the Company.

The primary activity of the Company is to 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. For this reason, unless otherwise specified, references to the Company include the operations of the Bank. The Company's principal business consists of attracting deposits from the general public and using such deposits to originate multi-family, construction and commercial real estate loans, mortgage loans secured by one- to four-family residences, and consumer and business loans. The Company also uses these funds to purchase government sponsored mortgage-backed securities, US government and agency obligations, and other permissible securities. When cash outflows exceed inflows, the Company uses borrowings and brokered deposits as additional financing sources.

The Company derives revenues principally from interest earned on loans and investments and, to a lesser extent, from fees charged for services. General economic conditions and policies of the financial institution regulatory agencies, including the Missouri Division of Finance and the Federal Deposit Insurance Corporation ("FDIC") significantly influence the Company's operations. Interest rates on competing investments and general market interest rates influence the Company's cost of funds. Lending activities are affected by the interest rates at which such financing may be offered. The Company intends to focus on commercial, one- to four-family residential and consumer lending throughout southwestern Missouri.

The Company has two active wholly-owned subsidiaries other than the Bank, its principal subsidiary: (i) Guaranty Statutory Trust I, a Delaware statutory trust; and (ii) Guaranty Statutory Trust II, a Delaware statutory trust and a third inactive subsidiary. These Trusts were formed in December 2005 for the exclusive purpose of issuing trust preferred securities to acquire junior subordinated debentures issued by the Company. The Company's banking operation conducted through the Bank is the Company's only reportable segment. See also the discussion contained in the section captioned "Segment Information" in Note 1 of the Notes to Consolidated Financial Statements in this report. The third subsidiary is a service corporation which has been inactive since February 1, 2003.

FORWARD-LOOKING STATEMENTS

The Company may from time to time make written or oral "forward-looking statements", including statements contained in the company's filings with the Securities and Exchange Commission (including this Annual Report on Form 10-K and the exhibits thereto), in its reports to stockholders and in other communications by the Company, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. When used in this Annual Report on Form 10-K, words such as "anticipates," "estimates," "believes," "expects," and similar expressions are intended to identify such forward-looking statements but are not the exclusive means of identifying such statements.

These forward-looking statements involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations, estimates and intentions that are subject to change based on various important factors (some of which are beyond the Company's control). The following factors, among others, could cause the Company's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the real estate values and the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, changes in interest rates; the timely development of and acceptance of new products and services of the company and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services; the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance); asset quality deterioration; environmental liability associated with real estate collateral; technological changes and cybersecurity risks; acquisitions; employee retention; the success of the Company at managing the risks resulting from these factors; and other factors set forth in reports and other documents filed by the Company with the Securities and Exchange Commission from time to time. For further information about these and other risks, uncertainties and factors, please review the disclosure included in item 1A. of this Form 10-K.

The Company cautions that the listed factors are not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

FINANCIAL CONDITION

From December 31, 2014 to December 31, 2015, the Company's total assets increased \$24,375,428 (4%) to \$652,835,072, liabilities increased \$19,429,810 (3%) to \$586,412,607, and stockholders' equity increased \$4,945,618 (8%) to \$66,422,465. The ratio of stockholders' equity to total assets increased to 10.2% during this period, compared to 9.8% as of December 31, 2014.

From December 31, 2014 to December 31, 2015, cash and cash equivalents increased \$6,280,529 (50%) to \$18,774,419. This was primarily due to the increase of \$37,567,413 in deposits balances, offset by the increase in net loans receivable of \$4,415,271, a net increase of \$10,824,502 in available-for-sale securities and paydowns of FHLB and Federal Reserve advances and the prepayment of a repurchase agreement in the total of \$18,250,000.

From December 31, 2014 to December 31, 2015, available-for-sale securities increased \$10,824,502 (13%), primarily due to purchases of \$55,150,017 offset by sales, maturities and principal payments received of \$43,505,410. The Company had unrealized losses of \$1,085,644 at December 31, 2015 compared to \$711,779 at December 31, 2014.

Stock of FHLB decreased by \$319,400 (10%) to \$2,837,500 due to lower stock requirements necessary from the reduction in FHLB advances.

From December 31, 2014 to December 31, 2015, net loans receivable increased by \$4,415,271 (1%) to \$491,001,907. Permanent loans secured by commercial real estate, primarily secured by owner occupied retail and low-income housing project, decreased \$6,780,481 (3%) which was due to various expected payoffs and principal reductions. Construction loans increased \$8,678,311 (24%) due to increase in new construction loan demand combined with draws on existing loans. Permanent multi-family loans increased \$7,817,710 (23%) due to primarily two larger new credits and one larger credit increasing existing loan balance. Commercial loans decreased \$11,469,164 (12%) and installment loans increased \$5,107,289 (30%) which was primarily due to the anticipated payoff of one larger relationship and one large credit previously classified as commercial being transferred to installment due to collateral changing. Loans secured by both owner and non-owner occupied one-to-four unit residential real estate increased \$356,604 (less than 1%). Despite gross loan balances at December 31, 2015 being above year-end 2014, they declined \$13.6 million for the second half of 2015. The decline was primarily due to loan payoffs combined with a highly competitive environment for new loans that has made it difficult to maintain loan balances. The Company continues to focus its lending efforts in the commercial and owner occupied real estate mortgage loan categories, and to reduce its concentrations in non-owner occupied commercial real estate.

As of December 31, 2015, management identified loans totaling \$14,730,000 as impaired with a related allowance for loan losses of \$865,000. Impaired loans increased by \$9,349,000 during 2015, compared to the balance of \$5,381,000

at December 31, 2014.

From December 31, 2014 to December 31, 2015, the allowance for loan losses decreased \$776,657 to \$5,811,940. In addition to the provision for loan losses of \$600,000 recorded by the Company during the year ended December 31, 2015, loan charge-offs of specific loans (previously classified as nonperforming) exceeded recoveries by \$1,376,657 for the year ended December 31, 2015. The Company's increase in overall loan balances during 2015 has increased the general component of the allowance for loan loss reserve requirements. However, the overall reserve decreased as a result of charge-offs of specific reserves established on nonperforming loans. The allowance for loan losses, as a percentage of gross loans outstanding (excluding mortgage loans held for sale), as of December 31, 2015 and December 31, 2014 was 1.17% and 1.34%, respectively. The allowance for loan losses, as a percentage of nonperforming loans outstanding, as of December 31, 2015 and December 31, 2014 was 109.9% and 124.5%, 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.

As of December 31, 2015, foreclosed assets held for sale consisted primarily of one commercial development in northwest Arkansas of \$1.3 million and one commercial property located in Springfield, Missouri of \$441,000.

From December 31, 2014 to December 31, 2015, bank owned life insurance increased \$4,362,695 (30%) to \$18,779,915 primarily due to an additional purchase of \$4,000,000 of single premium life insurance on key members of management with the purpose of partially offsetting the Company's employee benefit costs as a whole. This purchase was completed in December 2015.

From December 31, 2014 to December 31, 2015, deposits increased \$37,567,413 (8%) to \$517,385,695. During this period, checking and savings transaction balances increased by \$43,000,898 and certificates of deposit declined \$5,433,485. The increase in transactional balances is primarily due to the Company's strong efforts to grow core transaction deposits, including retail, commercial and public funds.

Federal Home Loan Bank and Federal Reserve Bank advances decreased \$8,250,000 (14%) from \$60,350,000 as of December 31, 2014 to \$52,100,000 as of December 31, 2015 due to principal reductions.

Securities sold under agreements to repurchase decreased \$10,000,000 (100%) as of September 30, 2015. The Company executed a structured transaction during the second quarter selling approximately \$4,000,000 of Small Business Administration ("SBA") guaranteed loans and approximately \$5,800,000 of investment securities for a combined gain of \$488,000. With those proceeds, the Company prepaid a \$10,000,000 repurchase agreement (bearing annual interest of 2.61%) incurring a prepayment penalty of \$463,992. This prepayment has allowed the Company to significantly reduce higher cost, non-core funding liabilities on its balance sheet and eliminate future annual interest expense of \$261,000. This transaction has improved the Company's cost of funds as well as enhanced other liquidity and capital performance measurements.

From December 31, 2014 to December 31, 2015, stockholders' equity (including unrealized depreciation on available-for-sale securities, net of tax) increased \$4,945,618 (8%) to \$66,422,465. Net income for the year ended December 31, 2015 exceeded dividends paid or declared by \$4,708,435. The equity portion of the Company's unrealized losses on available-for-sale securities declined by \$235,535 during 2015. On a per common share basis, stockholders' equity increased from \$14.30 as of December 31, 2014 to \$15.27 as of December 31, 2015.

AVERAGE BALANCES, INTEREST AND AVERAGE YIELDS

The following table shows the balances as of December 31, 2015 of various categories of interest-earning assets and interest-bearing liabilities and the corresponding yields and costs, and, for the periods indicated: (1) the average balances of various categories of interest-earning assets and interest-bearing liabilities, (2) the total interest earned or paid thereon, and (3) the resulting weighted average yields and costs. In addition, the table shows the Company's rate spreads and net yields. Average balances are based on daily balances. Tax-free income is not material; accordingly, interest income and related average yields have not been calculated on a tax equivalent basis. Average loan balances include non-accrual loans. Dollar amounts are expressed in thousands.

| | As of December 31, 2015 | | Year Ended December 31, 2015 | | Year Ended December 31, 2014 | | Year Ended December 31, 2013 | | | |
|---|-------------------------------|--------------------|---------------------------------|----------|---------------------------------|--------------------|---------------------------------|--------------------|--------------------|----------|
| | Balance | Yield / Cost | Average Balance | Interest | Yield / Cost | Average Balance | Interest | Yield / Cost | Average Balance | Interest |
| ASSETS | | | | | | | | | | |
| Interest-earning: | | | | | | | | | | |
| Loans | \$498,717 | 4.87% | \$501,194 | \$23,565 | 4.70% | \$465,874 | \$23,255 | 4.99% | \$465,796 | \$23,885 |
| Investment securities | 97,335 | 1.85% | 90,248 | 1,484 | 1.64% | 99,887 | 1,627 | 1.63% | 107,706 | 1,795 |
| Other assets | 18,108 | 0.27% | 23,552 | 141 | 0.60% | 23,487 | 132 | 0.56% | 30,556 | 175 |
| Total interest-earning | 614,160 | 4.26% | 614,994 | 25,190 | 4.10% | 589,248 | 25,014 | 4.25% | 604,058 | 25,855 |
| Noninterest-earning | 38,675 | | 36,103 | | | 36,036 | | | 37,730 | |
| | \$652,835 | | \$651,097 | | | \$625,284 | | | \$641,788 | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | | | | | |
| Interest-bearing: | | | | | | | | | | |
| Savings accounts | \$25,865 | 0.20% | \$24,841 | \$49 | 0.20% | \$24,366 | \$49 | 0.20% | \$24,022 | \$54 |
| Transaction accounts | 308,075 | 0.37% | 305,849 | 1,277 | 0.42% | 289,175 | 1,242 | 0.43% | 296,019 | 1,521 |
| Certificates of deposit | 115,548 | 0.93% | 119,793 | 1,098 | 0.92% | 121,344 | 1,038 | 0.86% | 135,871 | 1,284 |
| FHLB and Federal Reserve advances | 52,100 | 2.25% | 53,970 | 1,196 | 2.22% | 53,865 | 1,202 | 2.23% | 56,168 | 1,295 |
| Subordinated debentures | 15,465 | 3.53% | 15,465 | 539 | 3.49% | 15,465 | 533 | 3.45% | 15,465 | 537 |
| Repurchase agreements | - | 0.00% | 4,575 | 121 | 2.64% | 10,000 | 265 | 2.65% | 15,301 | 406 |
| Total interest-bearing | 517,053 | 0.77% | 524,493 | 4,280 | 0.82% | 514,215 | 4,329 | 0.84% | 542,846 | 5,097 |
| Noninterest-bearing | 69,360 | | 61,686 | | | 51,277 | | | 48,280 | |
| Total liabilities | 586,413 | | 586,179 | | | 565,492 | | | 591,126 | |
| Stockholders' equity | 66,422 | | 64,918 | | | 59,792 | | | 50,662 | |
| | \$652,835 | | \$651,097 | | | \$625,284 | | | \$641,788 | |

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| | | | | | | | | |
|--|----------|---|----------|----------|----------|----------|----------|----------|
| Net earning balance | \$97,107 | | \$90,501 | | \$75,033 | | \$61,212 | |
| Earning yield less costing rate | | | 3.49% | | 3.28% | | 3.40% | |
| Net interest income, and net yield spread on interest-earning assets | | | | \$20,910 | 3.40% | \$20,685 | 3.51% | \$20,758 |
| Ratio of interest-earning assets to interest-bearing liabilities | 119 | % | 117 | | | | | |