GUARANTY FEDERAL BANCSHARES INC
Form 10-K
March 30, 2018

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, 2017

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.)

2144 E Republic Rd, Suite F200, Springfield, Missouri	65804
(Address of Principal Executive Offices)	(Zip Code)

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

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_X__

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_X__

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No __

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes _X__ No ____

Indicate by check mark 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. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated file _____ Accelerated filer ____ Non-accelerated filer ____
Smaller reporting company _X_ Emerging growth company ____

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ____ No _X_

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, 2017 (the last business day of the registrant’s most recently completed second quarter) was $63.9 million. As of March 23, 2018 there were 4,439,757 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 23, 2018 (Part III).

GUARANTY FEDERAL BANCSHARES, INC.

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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, 2017, the Company’s consolidated assets were $794.5 million, net loans were $631.5 million, deposits were $607.4 million and total stockholders’ equity was $74.9 million. See Item 6 “Selected 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, Christian and Jasper Counties, which are in the southwestern corner of Missouri and includes the cities of Springfield, Nixa, Ozark and Joplin, Missouri (our "Market Area"). The major components of the Market Area's economy are service industries, education, retail, light manufacturing and health care. There is a significant regional health care presence with three large regional hospitals. There also are four accredited colleges and two major universities. 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 one 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 81% of our loan portfolio by value as of December 31, 2017. Set forth below is selected data relating to the composition of the Bank's loan portfolio at the dates indicated:

	As of December 31,									
	2017		2016		2015		2014		2013	
	$	%	$	%	$	%	$	%	$	%
	(Dollars in Thousands)									
Mortgage loans (includes loans held for sale):										
One to four family	$108,223	17%	$108,594	20%	$100,160	20%	$99,116	20%	$94,422	20%
Multi-family	85,225	13%	48,483	9%	41,604	8%	33,786	7%	46,188	10%
Construction	64,744	10%	40,912	7%	45,463	9%	36,785	7%	43,266	9%
Commercial real estate	261,866	41%	249,581	46%	208,824	42%	215,605	44%	179,079	38%
Total mortgage loans	520,058	81%	447,570	82%	396,051	79%	385,292	78%	362,955	77%
Commercial business loans	94,523	15%	75,405	14%	81,007	16%	92,114	19%	92,722	20%
Consumer loans	24,716	4%	23,606	4%	21,992	4%	17,246	3%	17,303	4%
Total consumer and other loans	119,239	19%	99,011	18%	102,999	21%	109,360	22%	110,025	23%
Total loans	639,297	100%	546,581	100%	499,050	100%	494,652	100%	472,980	100%
Less:										
Deferred loan fees/costs, net	663		382		333		262		175	

Allowance for loan losses	7,107	5,742	5,812	6,589	7,802
Total Loans, net	$631,527	$540,457	$492,905	$487,801	$465,003

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The following table sets forth the maturity of the Bank's loan portfolio as of December 31, 2017. 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 One Year or Less	Due After One Through Five Years	Due After Five Years	Total
	(Dollars in thousands)			
One to four family	$16,943	$43,879	$47,401	$108,223
Multi-family	8,110	45,243	31,872	85,225
Construction	32,108	22,968	9,668	64,744
Commercial real estate	26,674	161,579	73,613	261,866
Commercial loans	38,963	40,305	15,255	94,523
Consumer loans	9,345	6,057	9,314	24,716
Total loans (1)	$132,143	$320,031	$187,123	$639,297
Less:				
Deferred loan fees/costs				663
Allowance for loan losses				7,107
Loans receivable net				$631,527

(1) Includes mortgage loans held for sale of $1,922

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, 2017 of all loans due after December 2018, which have pre-determined interest rates and which have adjustable interest rates.

	Fixed Rates	Adjustable Rates	Total	% Adjustable	
	(Dollars in Thousands)				
One to four family	$54,764	$36,516	$91,280	40	%
Multi-family	58,125	18,990	77,115	25	%
Construction	14,099	18,537	32,636	57	%
Commercial real estate	144,776	90,416	235,192	38	%
Commercial loans	31,880	23,680	55,560	43	%
Consumer loans	4,251	11,120	15,371	72	%
Total loans (1)	$307,895	$199,259	$507,154	39	%

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

Commercial Real Estate Loans. As of December 31, 2017, the Bank had commercial real estate loans totaling $261.9 million or 41% 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 $24.2 million as of December 31, 2017, as its maximum commercial real estate loan amount.

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, 2017, the Bank’s commercial real estate loan portfolio included approximately $7.8 million, or 1.2% 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, 2017, the Bank had commercial business loans totaling $94.5 million or 15% 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, 2017, $108.2 million or 17% 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, 2017, $85.2 million or 13% 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, $24.2 million as of December 31, 2017, 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, 2017, construction loans totaled $64.7 million or 10% 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, 2017, the Bank has such loans totaling $24.7 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, 2017, the Bank has eleven loans 90 days or more past due with a principal balance of $3,083,305 and 19 loans between 30 and 89 days past due with an aggregate principal balance of $2,685,988. 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,				
	2017	2016	2015	2014	2013
	(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	$4,423	$2,060	$2,272	$911	$816
Multi-family	-	-	-	-	-
Construction	4,452	5,447	8,080	2,893	4,530
Commercial real estate	162	162	1,241	460	3,663
	9,037	7,669	11,593	4,264	9,009
Non-mortgage loans:					
Commercial loans	803	925	2,149	1,027	6,776
Consumer and other loans	122	38	13	-	63
	925	963	2,162	1,027	6,839
Total non-accrual loans	9,962	8,632	13,755	5,291	15,848
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	$9,962	$8,632	$13,755	$5,291	$15,848
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	1.58 %	1.60 %	2.79 %	1.08 %	3.41 %
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	1.24 %	1.25 %	2.11 %	0.84 %	2.56 %

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,				
	2017	2016	2015	2014	2013
	(Dollars in Thousands)				
Non-accrual loans:					
Mortgage loans:					
One to four family	$4,423	$2,060	$2,272	$911	$816
Multi-family	-	-	-	-	-
Construction	4,452	5,447	8,080	2,893	4,530
Commercial real estate	162	162	1,241	460	3,663
	9,037	7,669	11,593	4,264	9,009
Non-mortgage loans:					
Commercial loans	803	925	2,149	1,027	6,776
Consumer and other loans	122	38	13	-	63
	925	963	2,162	1,027	6,839
Total non-accrual loans	9,962	8,632	13,755	5,291	15,848
Real estate and other assets acquired in settlement of loans	283	2,682	2,392	3,165	3,822
Total non-performing assets	$10,245	$11,314	$16,147	$8,456	$19,670
Total non-accrual loans as a percentage of net loans	1.58 %	1.60 %	2.79 %	1.08 %	3.41 %
Total non-performing assets as a percentage of total assets	1.28 %	1.64 %	2.47 %	1.35 %	3.17 %
Impact on interest income for the period:					
Interest income that would have been recorded on non-accruing loans	$95	$90	$573	$337	$572

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, 2017.

	Special Mention		Substandard		Doubtful		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(Dollars in Thousands)							
Loans:								
One to four family	6	$ 3,799	41	$ 5,779	-	$ -	47	$ 9,578
Multi-family	-	-	1	775	-	-	1	775
Construction	-	-	5	4,453	-	-	5	4,453
Commercial real estate	2	5,578	9	1,630	-	-	11	7,208
Commercial	1	200	12	708	2	513	15	1,421
Consumer and Other	-	-	3	276	-	-	3	276
Total loans	9	9,577	71	13,621	2	513	82	23,711
Foreclosed assets held-for-sale:								
One to four family	-	-	-	-	-	-	-	-
Land and other assets	-	-	2	283	-	-	2	283
Total foreclosed assets	-	-	2	283	-	-	2	283
Total	9	$ 9,577	73	$ 13,904	2	$ 513	84	$ 23,994

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, 2017, the Bank's total allowance for loan losses was $7.1 million or 1.12% of gross loans outstanding (excluding mortgage loans held for sale), an increase of $1,364,969 from December 31, 2016. 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 2017, 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,				
	2017	2016	2015	2014	2013
	(Dollars in Thousands)				
Beginning balance	$5,742	$5,812	$6,589	$7,802	$8,740
Gross loan charge offs					
Mortgage Loans:					
One to four family	(11)	(47)	(99)	(127)	(139)
Multi-family	-	-	-	-	-
Construction	-	(1,222)	(1,233)	(411)	(879)
Commercial real estate	(72)	(69)	-	(9)	(277)
	(83)	(1,338)	(1,332)	(547)	(1,295)
Non-mortgage loans:					
Commercial loans	(240)	(171)	-	(2,018)	(1,268)
Consumer and other loans	(213)	(190)	(119)	(150)	(164)
	(453)	(361)	(119)	(2,168)	(1,432)
Total charge offs	(536)	(1,699)	(1,451)	(2,715)	(2,727)
Recoveries					
Mortgage Loans:					
One to four family	19	34	20	9	23
Multi-family	-	-	-	-	-
Construction	74	91	10	5	50
Commercial real estate	-	32	-	99	-
	93	157	30	113	73
Non-mortgage loans:					
Commercial loans	12	8	4	65	110
Consumer and other loans	46	89	40	49	56
	58	97	44	114	166
Total recoveries	151	254	74	227	239
Net loan charge-offs	(385)	(1,445)	(1,377)	(2,488)	(2,488)
Provision charged to expense	1,750	1,375	600	1,275	1,550
Ending balance	$7,107	$5,742	$5,812	$6,589	$7,802
Net charge-offs as a percentage of average loans, net	0.06 %	0.28 %	0.27 %	0.53 %	0.53 %
Allowance for loan losses as a percentage of average loans, net	1.17 %	1.12 %	1.16 %	1.41 %	1.67 %
Allowance for loan losses as a percentage of total non-performing loans	71 %	67 %	42 %	125 %	49 %

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, 2017		2016		2015		2014		2013	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Mortgage Loans	$4,577	64 %	$4,126	72 %	$3,770	65 %	$4,349	66 %	$5,652	72 %
Non-Mortgage Loans	2,530	36 %	1,616	28 %	2,042	35 %	2,240	34 %	2,150	28 %
Total	$7,107	100%	$5,742	100%	$5,812	100%	$6,589	100%	$7,802	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, 2017, the Company has investment securities with an amortized cost of $82.3 million and an estimated fair value of $81.5 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, $81.5 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 2017, the Company sold $20.9 million in securities and recognized $46,329 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, 2017				
AVAILABLE-FOR-SALE SECURITIES:				
Debt Securities:				
Corporates	$3,000,000	$65,000	$-	$3,065,000
Municipals	$33,908,207	$253,872	$(263,621)	$33,898,458
Government sponsored mortgage-backed securities and SBA loan pools	45,414,845	9,283	(908,913)	44,515,215
HELD-TO-MATURITY SECURITIES:				
Government sponsored mortgage-backed securities	16,457	327	(55)	16,729
	$82,339,509	$328,482	$(1,172,589)	$81,495,402

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2016				
AVAILABLE-FOR-SALE SECURITIES:				
Debt Securities:				
Corporates	$7,003,986	$54,050	$(4,514)	$7,053,522
Municipals	39,357,506	65,673	(1,085,654)	38,337,525
Government sponsored mortgage-backed securities and SBA loan pools	48,115,793	19,432	(1,127,037)	47,008,188
HELD-TO-MATURITY SECURITIES:				
Government sponsored mortgage-backed securities	27,528	625	-	28,153
	$94,504,813	$139,780	$(2,217,205)	$92,427,388

	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

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, 2017.

Investment Portfolio Maturities and Average Weighted Yields	Amortized Cost	Weighted Average Yield	Approximate Fair Value
Due in one to five years	563,318	1.43 %	571,615
Due in five to ten years	9,238,773	2.50 %	9,278,788
Due after ten years	27,106,116	3.66 %	27,113,055
Government sponsored mortgage-backed securities and SBA loan pools not due on a single maturity date	45,431,302	2.74 %	44,531,944
	$82,339,509	2.98 %	$81,495,402

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

As of December 31, 2017					
Debt Securities:					
Corporates	$-	$3,065,000	$-	$-	$3,065,000
Municipals	571,615	6,213,788	27,113,055	-	33,898,458
Government sponsored mortgage-backed securities and SBA loan pools	-	-	-	44,531,944	44,531,944
	$571,615	$9,278,788	$27,113,055	$44,531,944	$81,495,402

Sources of Funds

General. The Company's primary sources of funds are retail and commercial deposits, FHLB 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 prevailing interest rates, local competition and competition from non-bank financial service providers. The Company closely monitors its deposit position and mix to manage interest rate risk and net interest margin. The Bank's deposits are typically obtained from the areas in which its offices are located. The Bank relies primarily on experienced customer service, long-term relationships with customers and convenient banking center locations to attract and retain a high level of core deposits.

Deposit Account Types

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

	2017 Average Interest Rate	Amount	Percent of Total Deposits	2016 Average Interest Rate	Amount	Percent of Total Deposits	2015 Average Interest Rate	Amount	Percent of Total Deposits
NOW	0.35%	$139,458	23 %	0.30%	$129,138	26 %	0.31%	$137,473	27 %
Savings	0.19%	30,848	5 %	0.20%	28,095	6 %	0.20%	25,865	5 %
Money Market	0.73%	187,064	31 %	0.45%	155,530	31 %	0.42%	170,603	33 %
Non-interest bearing demand	0.00%	94,728	16 %	0.00%	80,911	15 %	0.00%	67,897	13 %
Total		452,098	74 %		393,674	78 %		401,838	78 %
Certificates of Deposit: (fixed-rate, fixed-term)									

1-11 months	0.71%	92,349	15	%	0.75%	65,802	13	%	0.54%	45,517	9	%
12-23 months	0.99%	39,930	7	%	0.89%	22,328	4	%	0.82%	43,523	8	%
24-35 months	1.42%	12,472	2	%	1.24%	12,882	3	%	1.02%	12,654	3	%
36-47 months	1.49%	6,420	1	%	1.40%	5,106	1	%	1.35%	6,895	1	%
48-59 months	1.46%	3,753	1	%	1.47%	3,655	1	%	1.44%	4,671	1	%
60-71 months	1.34%	339	0	%	1.37%	1,874	0	%	1.47%	2,274	0	%
72-95 months	1.34%	3	0	%	1.34%	42	0	%	1.34%	14	0	%
Total		155,266	26	%		111,689	22	%		115,548	22	%
Total Deposits		$607,364	100	%		$505,363	100	%		$517,386	100	%

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

In 2017, 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, 2017.

	(Dollars in thousands) As of December 31, 2017
Three months or less	$ 19,728
Over three through six months	24,429
Over six through twelve months	35,542
Over twelve months	23,299
Total	$ 102,998

Borrowings

The Company’s borrowings at December 31, 2017 consist of FHLB advances and issuances of junior subordinated debentures. Other borrowings available to the Company include borrowings from the Federal Reserve Bank 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,		
	2017	2016	2015
	(Dollars in Thousands)		

Remaining maturity:			
Less than one year	$92,200	$43,600	$-
One to two years	2,100	50,000	-
Two to three years	-	2,100	-
Three to four years	-	-	50,000
Four to five years	-	-	2,100
Over five years	-	-	-
Total	$94,300	$95,700	$52,100
Weighted average rate at end of period	1.97 %	1.72 %	2.25 %
For the period:			
Average outstanding balance	$93,942	$71,200	$52,592
Weighted average interest rate	1.78 %	1.79 %	2.24 %
Maximum outstanding as of any month end	$116,700	$95,700	$56,500

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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,		
	2017	2016	2015

	(Dollars in Thousands)		
Subordinated debentures	$15,465	$15,465	$15,465
Weighted average interest rate of subordinated debentures	4.08 %	3.75 %	3.48 %

Federal Reserve Bank Borrowings

During 2008, the Bank established a borrowing line with Federal Reserve Bank. The Bank had the ability to borrow $36.4 million as of December 31, 2017. 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, 2017 and 2016.

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	Year ended	Year ended

	December 31, 2017		December 31, 2016		December 31, 2015	
Common Dividend Payout Ratio	36	%	27	%	18	%
Return on Average Assets	0.69	%	0.83	%	0.88	%
Return on Average Equity	6.97	%	8.00	%	8.81	%
Stockholders' Equity to Assets	9.43	%	10.17	%	10.17	%
EPS Diluted	$ 1.16		$ 1.27		$ 1.30	
Dividends on Common Shares	$ 0.42		$ 0.34		$ 0.23	

Employees

As of December 31, 2017, the Bank had 155 full-time employees and 18 part-time employees. As of December 31, 2017, 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 competition consist 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 capital requirements apply to all banks and savings associations, bank holding companies with more than $1 billion 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:

- a new minimum ratio of CET1 to risk-weighted assets of at least 4.5% (plus a capital conservation buffer);
- a minimum amount of Tier 1 capital (the sum of CET1 and Additional Tier 1 capital) to risk-weighted assets of at least 6%, which is an increase from 4% (plus a capital conservation buffer);
- 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
- 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, until such entity exceeds $15 billion in assets. 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, 2017. 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 FHLBs. 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 FHLBs 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, 2017, 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, 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, non-personal time deposits, and Eurocurrency liabilities. For 2017, the first $15.5 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 $115.1 million; and the reserve requirement is 10% for net transaction accounts in excess of $115.1 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.

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: (i) they are responsible for establishing, maintaining and regularly evaluating the effectiveness of internal controls over financial reporting; (ii) they have made certain disclosures to auditors and the audit committee of the board of directors; and (iii) 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.

Tax Reform. In the fourth quarter of 2017 the Company re-measured its deferred tax assets and liabilities as a result of the enactment of the new tax law "H.R.1," originally known as the "Tax Cuts and Jobs Act" (the "Tax Reform Legislation"). The enactment occurred on December 22, 2017. The Tax Reform Legislation became effective January 1, 2018 and modifies the tax law in many ways. The centerpiece of the Tax Reform Legislation is the reduction of the federal corporate income tax rate from 35% to 21%. All deferred tax items as of December 22, 2017 needed to be re-valued using the new federal corporate income tax rate of 21%. As a result, income tax expense recorded in 2017 included a $1.0 million reduction to deferred tax assets. The impact of the Tax Reform Legislation on the Company's 2017 financial results are not necessarily indicative of the results to be achieved in any future periods.

The SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Legislation. The Company has recognized the provisional tax impact related to the revaluation of deferred tax assets and liabilities and included these amounts in its consolidated financial statements for the year ended December 31, 2017. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of the Tax Reform Legislation. The accounting is expected to be complete when the Company's 2017 U.S. corporate income tax return is filed in 2018.

Pending Acquisition of Hometown Bancshares, Inc. As previously reported, on November 30, 2017, Guaranty Federal Bancshares, Inc. entered into an Agreement and Plan of Merger with Hometown Bancshares, Inc., a Missouri corporation ("Hometown") (the "Agreement"). Pursuant to the terms of the Agreement, Hometown will merge into the Company with the Company being the surviving corporation (the "Merger"). Under the terms of the Agreement, each share of Hometown common stock will be exchanged for $20.00 in cash and the transaction is valued at approximately $4.6 million. The Agreement provides that at a time yet to be determined but after the Merger, Hometown Bank, National Association, a national bank headquartered in Carthage, Missouri ("Hometown Bank") which is Hometown's only bank subsidiary, will merge with and into and under the charter of the Bank which is the Company's only bank subsidiary, with the Bank as the survivor of that merger (the "Bank Merger").

In its December 31, 2017, unaudited Consolidated Report of Condition, Hometown Bank, N.A., the subsidiary bank of Hometown, reported total assets of $179.6 million, total liabilities of $163.2 million and total equity of $16.4 million. The Bank reported $210,000 in net income for the twelve months ended December 31, 2017. The Company anticipates there will be goodwill and a core deposit intangible recorded with this acquisition. Upon the completion of the Merger, the Company will have acquired Hometown Bank's seven branches in the Joplin, Missouri area.

The acquisition has been approved by the board of directors of each of Guaranty and Hometown and necessary regulatory approvals have been obtained, as well as the approval and adoption of the Agreement by Hometown's shareholders. Guaranty Federal Bancshares, Inc. and Hometown have made customary representations and warranties about their business and covenants pending the closing of the acquisition, including covenants by Hometown to cause

Hometown Bank, National Association, its wholly-owned bank subsidiary, to conduct its business in the ordinary course. The Company expects the Merger to be effective in the second quarter of 2018.

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 31years 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 and previously served as Chairman of the Legislative Affairs Committee and Chairman of the Audit Committee. From 2014 to 2017, he served 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 25 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. Charles Puls is Executive Vice President and Chief Lending Officer of the Bank. He joined the Bank and the Company in June 2016. Mr. Puls has over 26 years of experience in the banking industry. Prior to joining the Company Mr. Puls served as Senior Vice President, Market President in Southeast Missouri for Regions Bank. Before that, he was Senior Vice President, Relationship Manager for Regions Bank, Union Planters Bank, and Capital Bank & Trust in the St. Louis market. He is a board member and active volunteer for the American Red Cross and is a graduate of the University of Missouri – St. Louis.

Sheri Biser is Executive Vice President and Chief Credit Officer of the Bank. She joined the Bank in February 2009. Ms. Biser has over 30 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 25 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 currently serves on the Springfield Area Chamber of Commerce Board of Directors and is a member of the Executive Advisory Council for the Missouri State University College of Business. She previously served as board Vice Chairman for City Utilities of Springfield, as 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, 2017, the age of these individuals was 54 for Mr. Burke, 48 for Mr. Peters, 58 for Mr. Puls, 54 for Ms. Biser and 51 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.

Failure to consummate our announced Merger with Hometown, or a delay in consummating the Merger, could negatively impact the market price of the Company's common stock and could have a material adverse effect on the Company's business, financial condition and results of operations.

On November 30, 2017, the Company entered into that certain Agreement and Plan of Merger with Hometown providing for the merger of Hometown with and into the Company with the Company as the surviving corporation. The Agreement provides that at a time yet to be determined but after the Merger, Hometown Bank, Hometown's only bank subsidiary, will merge with and into and under the charter of the Bank which is the Company's only bank subsidiary, with the Bank as the survivor of that merger. The Merger is expected to be completed in the second quarter of 2018 pending shareholder and regulatory approvals and the satisfaction of other customary closing conditions. We have incurred substantial expenses in connection with the negotiation and preparations for completion of the transactions contemplated by the Merger. If the Merger is not completed, we will have incurred these expenses without realizing the expected benefits of the Merger. If the Merger is not consummated for any reason, our ongoing business, financial condition and results of operations may be materially adversely affected and the market price of our common stock may decline significantly, particularly to the extent that the current market price reflects a market assumption that the Merger will be consummated. If the consummation of the Merger is delayed, including by the receipt of a competing acquisition proposal or by reason of litigation, our business, financial condition and results of operations may also be materially adversely affected. In addition, our business may have been impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the Merger without realizing any of the anticipated benefits of completing the Merger.

We may fail to realize the anticipated benefits of the Merger.

The success of the Merger will depend on, among other things, our ability to combine the business of Hometown Bank with our business. If we are not able to successfully achieve this objective, the anticipated benefits of the Merger may not be realized fully, or at all, or may take longer to realize than expected. Hometown and Hometown Bank have each operated and, until the consummation of the Merger, will continue to operate independently. It is possible that the integration process or other factors could result in the loss or departure of key employees, the disruption of our ongoing business or inconsistencies in standards, controls, procedures and policies. It is also possible that clients, customers, depositors and counterparties of Hometown Bank could choose to discontinue their relationships with the combined company post-merger, which would adversely affect the future performance of the combined company. These transition matters could have an adverse effect on us, Hometown and Hometown Bank during the pre-merger period and for an undetermined time after the consummation of the Merger.

Guaranty Federal Bancshares, Inc., the Bank, Hometown and Hometown Bank will be subject to business uncertainties and contractual restrictions while the Merger is pending that could adversely affect their respective businesses.

The parties' efforts to complete the Merger could cause substantial disruptions in the Company, the Bank, Hometown and Hometown Bank's respective businesses, which could have an adverse effect on their respective financial results. Among other things, uncertainty as to whether the Merger will be completed may affect the ability of each of the parties to recruit prospective employees or to retain and motivate existing employees. Employee retention may be particularly challenging while the Merger is pending because employees may experience uncertainty about their future roles with the combined company and combined banks. Uncertainty as to the future could adversely affect the Company, the Bank, Hometown and Hometown Bank's, respective businesses, reputation and relationships with potential depositors, borrowers and vendors. For example, vendors, customers and others who deal with the Company, the Bank, and Hometown Bank could defer decisions concerning working with that bank, or seek to change existing business relationships with such banks.

Further, a substantial amount of the attention of management and employees of each company and bank is being directed toward the completion of the Merger and thus is being diverted from such company's day-to-day operations because matters related to the Merger (including integration planning) require substantial commitments of time and resources.

In addition, the Merger Agreement restricts Hometown and Hometown Bank from taking certain actions without the Company's consent while the Merger is pending. These restrictions may, among other matters, prevent Hometown and Hometown Bank from pursuing otherwise attractive business opportunities, selling assets, entering into other transactions or making other changes to its respective business prior to consummation of the Merger or termination of the Merger Agreement. These restrictions could have a material adverse effect on Hometown Bank's business, financial condition and results of operations pre-Merger reducing Hometown Bank's value at the time of the Merger.

The Merger Agreement may be terminated in accordance with its terms and the Merger may not be completed.

The Merger Agreement is subject to a number of conditions which must be fulfilled in order to complete it. Those conditions include: approval of the Merger Agreement by the shareholders of Hometown, receipt of requisite regulatory approvals subject to certain limitations set forth in the Merger Agreement, absence of orders prohibiting completion of the mergers, the continued accuracy of the representations and warranties by the parties, and the performance by the parties of their covenants and obligations. These conditions to the closing of the Mergers may not be fulfilled and, accordingly, the Mergers may not be completed. Under the Merger Agreement, if the Merger is not completed at or before June 30, 2018, either party to the Merger Agreement may choose not to proceed with the Merger, and the parties can mutually decide to terminate the Merger Agreement at any time, before or after shareholder approval. In addition, under the Merger Agreement Guaranty Federal or Hometown, as applicable, may elect to terminate the Merger Agreement in certain other circumstances. If the Merger Agreement is terminated by one party due to breaches of its representations, warranties, covenants or agreements in any material respect by the other party that would result in the failure of a closing condition that has not or cannot be cured, the breaching party may be required to pay the terminating party $200,000.

If the Company terminates the Merger Agreement for fiduciary duty reasons in connection with an acquisition proposal from another potential acquirer, Hometown may be required to pay the Company $220,000.

Failure to complete the Mergers could negatively impact our businesses, financial condition, results of operations and/or stock prices.

If the Merger Agreement is terminated and the Merger is not completed, our ongoing business may be adversely affected. The market price of our common stock may decline to the extent that the current market price reflects a market assumption that the Merger will be completed. In addition, we may experience negative reactions to the termination of the Merger from customers, depositors, investors, vendors and others with whom they deal, and we would not realize any of the anticipated benefits of having completed the Merger. The expenses we have incurred in connection with the Merger, such as legal and accounting fees, must be paid even if the Merger is not completed and may not be recovered from the other party.

We expect to incur significant expenses related to the Merger.

We have and expect to incur significant expenses in connection with consummation of the Merger and combining the business, operations, networks, systems, technologies, policies and procedures of Hometown and Hometown Bank. Although we have assumed that a certain level of transaction and combination expenses would be incurred, there are a number of factors beyond our control that could affect the total amount or the timing of our expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. Due to these factors, the transaction and combination expenses associated with the Merger could, particularly in the near term, exceed the savings that we expect to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings related to the combination of the businesses following the consummation of the Merger. As a result of these expenses, we have taken and expect to take charges against our earnings before and after the completion of the Merger. The charges taken in connection with the Merger is expected to be significant, although the aggregate amount and timing of such charges are uncertain at present.

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 the Greene, Christian and Jasper Counties, which are in the southwestern corner of Missouri, including the cities of Springfield, Nixa, Ozark and Joplin, 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 $520.1 million, or approximately 81% of our total loan/lease portfolio, as of December 31, 2017. 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 some 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 data breaches could adversely impact our financial condition as well as cause legal or reputational harm.

Our operations are heavily dependent on the secure processing, transmission, and storage of confidential and other information in our computer systems and networks. Cybersecurity risks for banking organizations have significantly increased in recent years due to the proliferation of new technologies, the increased use of the internet to conduct financial transactions, and the increased sophistication of attackers, such as hackers. In addition, customers may use personal mobile or computing devices to access our products or services that are outside of our network environment and are subject to their own cybersecurity risks

A cyberattack, security breach, or a technology failure could adversely affect our ability to conduct our business, result in the disclosure or misuse of confidential information, cause us to spend significant resources to investigate and remediate exposures, and adversely impact our operations and liquidity. We may also be subject to litigation and financial losses and we could suffer reputational harm and a loss of confidence in our systems and products.

Although we have established policies and procedures to prevent or limit the impact of data incidents, the security of our computer systems, software, and networks may be vulnerable to breaches, unauthorized access, misuse, or other cyberattacks. Security compromises could include computer viruses, malicious or destructive code, phishing attacks, denial of service or information or other security breaches that could result in the unauthorized collection, monitoring, release, use, loss or destruction of confidential, proprietary and other information of ours, our customers or third parties, damages to systems.

We rely on our employees and third parties in our day-to-day and ongoing operations, who may, as a result of human error, misconduct, malfeasance or failure, or breach of systems or infrastructure, expose us to risk. We have taken measures to implement safeguards to support our operations, but our ability to conduct business may be adversely affected by any significant disruptions to us or to third parties with whom we interact or upon whom we rely.

As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities or incidents. Cyber threats are rapidly evolving and we may not be able to anticipate or prevent all such attacks. There can be no reassurance that we will not be subject to a data breach and our security measures may not detect all cyberattacks. A cyberattack or other information or security breach could result in a material loss or have material consequences on our business."

We depend upon third-party vendors for a significant portion of our operations.

We rely on third-party service providers for a substantial portion of our operations, including communication, record retention, and financial control systems technology. While we endeavor to select reliable and competent vendors, we cannot control our vendors or their actions. The potential for operational risk exposure exists because of our interactions with, and reliance on, third parties in our daily and ongoing operations. Any problems caused by or suffered by a third-party vendor, including a vendor's failure to provide contracted services, poor performance by a vendor, disruption of a vendor's business operations, or otherwise, could materially and adversely affect our ability to serve our customers or to conduct our business efficiently and effectively. Replacing a vendor could entail significant delay and expense.

Our third-party vendors are also subject to the cybersecurity risks discussed above. A cyberattack, information or security breach, or a technology failure of a third-party vendor could have a material adverse effect on our business. Although we review the security practices of third-parties before contracting with them, we cannot control their systems or security. If our data or the data of our customers is improperly accessed, used, transmitted, or otherwise obtained because of, or due in part to, actions or inactions caused by our third-party vendors, we could face significant operational harm, legal and financial exposure, and reputational damage."

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 customer deposits and loan repayments. 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. 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. 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 FHLB 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.

An uncertain regulatory environment could impact our business, financial performance, and results of operations.

Many aspects of the Dodd-Frank Act are subject to continued rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us. The U.S. Congress continues to propose new legislation that could increase or change regulation of the financial services industry and impact the operations of the Bank or Company.

On February 3, 2017, President Trump signed Executive Order 13772 announcing new “Core Principles” for regulating the U.S. financial system. Among other things, the President directed the Secretary of the Treasury, in consultation with federal regulatory agencies, to review existing laws and regulations and report on the extent to which they were consistent with the Core Principles. The Trump administration has also indicated in public statements that the Dodd-Frank Act will be under scrutiny and that some of its provisions and the rules promulgated thereunder may be revised, repealed or amended. It is not clear when, or if, changes to existing statutory or regulatory requirements may be implemented.

The implementation, amendment, or repeal of federal financial services laws or regulations may impact our profitability, limit our business opportunities, impose additional costs, or otherwise adversely affect our business. Any changes may also require us to invest management attention and resources to achieve compliance. In addition, any proposed legislative or regulatory changes that could benefit our business may not occur in the timeframe proposed, may appear different in final form than proposed, or may not occur at all.”

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 CET1 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 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, 2017 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, 2017**,** we had $15.5 million of junior subordinated debentures held by two Trusts. Interest payments on the Company's existing debentures, which totaled $631,000 for 2017, 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.

Changes in the federal or state tax laws may negatively impact our financial performance.

We are subject to tax law changes that could increase the effective tax rate payable to the state or federal government. These changes may be retroactive to previous periods and as a result, could negatively affect our current and future financial performance. On December 22, 2017, President Trump signed into law The Tax Cuts and Jobs Act ("Tax Act"), which among other actions reduces the federal corporate tax rate to 21% from 35% effective January 1, 2018, which will have a favorable impact on the Company's net income going forward. As a result, income tax expense recorded in 2017 included a $1.0 million reduction to deferred tax assets. The Company's customers are likely to experience varying effects from both the individual and business tax provisions of the Tax Act, which could adversely impact demand for the Company's products and services. The Company continues to examine the impact this tax reform legislation may have on its financial condition and results of operations."

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, 2017. 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)
Main Office				
2144 E Republic Rd, Ste F200	Springfield, Missouri 65804	2017	Leased	2047
Operations Center				
1414 W Elfindale	Springfield, Missouri 65807	2009	Owned	N/A
Banking Center Offices				
1341 W Battlefield Road	Springfield, Missouri 65807	1995	Leased	2048
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
2639 E 32nd St, Suite R	Joplin, Missouri 64804	2016	Leased	2018
<u>Loan Production Offices</u>				
1100 Spur Dr.	Marshfield, Missouri 65706	2007	Leased	2018

* Building owned with land leased.

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 12, 2018, there were approximately 1,395 holders of shares of the Company's common stock. At that date the Company had 6,880,386 shares of common stock issued and 4,432,176 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, 2017 and 2016.

	Year ended December 31, 2017			Year ended December 31, 2016		
	Declared	Paid	Dividend Per Share	Declared	Paid	Dividend Per Share
Quarter ended:						
March 31	3/24/2017	4/14/2017	$ 0.10	3/24/2016	4/14/2016	$ 0.08
June 30	6/23/2017	7/13/2017	$ 0.10	6/23/2016	7/5/2016	$ 0.08
September 30	9/22/2017	10/13/2017	$ 0.10	9/29/2016	10/20/2016	$ 0.08
December 31	12/22/2017	1/13/2018	$ 0.12	12/22/2016	1/13/2017	$ 0.10

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, 2017 and 2016.

	Year ended December 31, 2017		Year ended December 31, 2016	
	High	Low	High	Low
Quarter ended:				
March 31	$21.80	$19.06	$15.57	$14.80
June 30	20.97	18.50	16.18	14.98
September 30	22.65	20.23	16.90	16.00
December 31	22.47	21.16	21.20	16.30

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 (b) the cumulative total stockholder return on stocks included in The NASDAQ Bank Index and (c) the cumulative total stockholder return on stocks included in the SNL U.S. Bank NASDAQ. All three investment comparisons assume the investment of $100 as of the close of business on December 31, 2012 and the hypothetical value of that investment as of the Company's fiscal years ended December 31, 2013, 2014, 2015, 2016, and 2017, 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.

	Period Ending					
Index	**12/31/12**	**12/31/13**	**12/31/14**	**12/31/15**	**12/31/16**	**12/31/17**
Guaranty Federal Bancshares, Inc.	100.00	159.64	193.42	227.47	322.27	346.66
NASDAQ Composite Index	100.00	140.12	160.78	171.97	187.22	242.71
SNL U.S. Bank NASDAQ Index	100.00	143.73	148.86	160.70	222.81	234.58

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, 2012 through December 31, 2017, the last day this data was available by our third-party provider.

Securities Authorized for Issuance under Equity Compensation Plans

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, 2017.

<u>Item 6. Selected Financial Data</u>

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,**				
	2017	**2016**	**2015**	**2014**	**2013**
ASSETS					
Cash and cash equivalents	$37,407	$9,088	$18,774	$12,494	$12,303
Investments and interest-bearing deposits	81,495	92,427	97,336	86,529	97,772
Loans receivable, net	631,527	540,457	492,905	487,801	465,003
Accrued interest receivable	2,450	1,947	1,987	2,030	1,853
Prepaids and other assets	10,950	11,234	10,121	11,421	14,204
Foreclosed assets	283	2,682	2,392	3,165	3,822
Premises and equipment, net	10,607	10,871	10,540	10,603	10,887
Bank owned life insurance	19,741	19,273	18,780	14,417	14,044
	$794,460	$687,979	$652,835	$628,460	$619,888
LIABILITIES					
Deposits	$607,364	$505,363	$517,386	$479,818	$487,319
Federal Home Loan Bank and Federal Reserve Bank advances	94,300	95,700	52,100	60,350	55,350
Securities sold under agreements to repurchase	-	-	-	10,000	10,000
Subordinated debentures	15,465	15,465	15,465	15,465	15,465
Other liabilities	2,439	1,477	1,462	1,350	1,399
	719,568	618,005	586,413	566,983	569,533
STOCKHOLDERS' EQUITY	74,892	69,974	66,422	61,477	50,355
	$794,460	$687,979	$652,835	$628,460	$619,888

Supplemental Data	**As of December 31,**				
	2017	**2016**	**2015**	**2014**	**2013**

Number of full-service offices	11	9	9	9	9
Cash dividends per common share	$0.42	$0.34	$0.23	$0.15	$ -

Summary Statements of Income	Years ended December 31,				
	2017	2016	2015	2014	2013
Interest income	$29,441	$25,389	$25,190	$25,014	$25,855
Interest expense	6,087	4,177	4,280	4,329	5,097
Net interest income	23,354	21,212	20,910	20,685	20,758
Provision for loan losses	1,750	1,375	600	1,275	1,550
Net interest income after provision for loan losses	21,604	19,837	20,310	19,410	19,208
Noninterest income	5,727	4,870	4,478	3,350	5,319
Noninterest expense	19,603	17,100	16,610	14,865	16,771
Income before income taxes	7,728	7,607	8,178	7,895	7,756
Provision for income taxes	2,570	2,013	2,461	2,113	2,516
Net income	$5,158	$5,594	$5,717	$5,782	$5,240
Preferred stock dividends and discount accretion	-	-	-	357	795
Net income available to common shareholders	$5,158	$5,594	$5,717	$5,425	$4,445
Basic income per common share	$1.18	$1.28	$1.32	$1.35	$1.63
Diluted income per common share	$1.16	$1.27	$1.30	$1.33	$1.58

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 MDF and the 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; risks associated with the completion of the proposed acquisition of Hometown and its wholly-owned subsidiary Hometown Bank and the integration of Hometown Bank with the Bank, including the possibility that we may not realize the anticipated benefits of the acquisition the impact of recent and potential future changes in the laws, rules, regulations, interpretations and policies relating to financial institutions, accounting, tax, monetary and fiscal matters and their application by our regulators; 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. “Risk Factors” 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, 2016 to December 31, 2017, the Company's total assets increased $106,479,701 (15%) to $794,459,520, liabilities increased $101,562,588 (16%) to $719,568,027, and stockholders' equity increased $4,917,113 (7%) to $74,891,493. The ratio of stockholders' equity to total assets was 9.4% and 10.2% at December 31, 2017 and 2016, respectively.

From December 31, 2016 to December 31, 2017, available-for-sale securities decreased $10,920,562 (12%), primarily due to purchases of $15,975,995 offset by sales, maturities and principal payments received of $27,627,667. The Company had net unrealized losses of $844,379 at December 31, 2017 compared to $2,078,050 at December 31, 2016.

From December 31, 2016 to December 31, 2017, net loans receivable increased by $91,331,369 (17%) to $629,605,009. New production included a mix of multi-family, agriculture, hospitality and Small Business Administration ("SBA") lending. During the year, permanent multi-family loans increased $36,741,551 (76%), construction loans increased $23,831,275 (58%), commercial loans increased $19,118,108 (25%), commercial real estate loans increased $12,285,412 (5%) and consumer and other loans increased $1,110,141 (5%). The Company continues to focus its lending efforts in the commercial, owner occupied real estate and small business lending categories.

As of December 31, 2017, management identified loans totaling $10,827,000 as impaired with a related allowance for loan losses of $1,249,000. Impaired loans increased by $2,128,000 during 2017, compared to the balance of $8,699,000 at December 31, 2016.

From December 31, 2016 to December 31, 2017, the allowance for loan losses increased $1,364,969 to $7,107,418. In addition to the provision for loan losses of $1,750,000 recorded by the Company during the year ended December 31, 2017, loan charge-offs of specific loans (previously classified as nonperforming) exceeded recoveries by $385,031 for the year ended December 31, 2017. The increase in the allowance is primarily due to the increased loan balances during 2017 and reserves on a few specific problem credits. The allowance for loan losses, as a percentage of gross loans outstanding (excluding mortgage loans held for sale), as of December 31, 2017 and December 31, 2016 was 1.12% and 1.06%, respectively. The allowance for loan losses, as a percentage of nonperforming loans outstanding, as of December 31, 2017 and December 31, 2016 was 71.3% and 66.5%, 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.

From December 31, 2016 to December 31, 2017, deposits increased $102,001,600 (20%) to $607,364,350. During this period, checking and savings transaction balances increased by $58,424,702 and certificates of deposit increased $43,576,898. The increase in checking and savings accounts was due to the Company's continued efforts to increase core transaction deposits, including commercial, retail and public funds. Other increases include $25,546,000 of brokered certificate of deposits during 2017. The Company utilizes brokered certificate of deposits as a tool to manage cost of funds and to efficiently match changes in liquidity needs based on loan growth.

Federal Home Loan Bank advances decreased $1,400,000 (1%) from $95,700,000 as of December 31, 2016 to $94,300,000 as of December 31, 2017 due to principal reductions.

From December 31, 2016 to December 31, 2017, stockholders' equity (including unrealized depreciation on available-for-sale securities, net of tax) increased $4,917,113 (7%) to $74,891,493. Net income for the year ended December 31, 2017 exceeded dividends paid or declared by $3,300,208. The equity portion of the Company's unrealized losses on available-for-sale securities and effects of interest rate swaps improved by $1,103,048 during 2017. On a per common share basis, stockholders' equity increased from $16.09 as of December 31, 2016 to $17.10 as of December 31, 2017.

AVERAGE BALANCES, INTEREST AND AVERAGE YIELDS

The following table shows the balances as of December 31, 2017 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, 2017		Year Ended December 31, 2017			Year Ended December 31, 2016			Year Ended December 31, 201	
	Balance	Yield / Cost	Average Balance	Interest	Yield / Cost	Average Balance	Interest	Yield / Cost	Average Balance	Intere
ASSETS										
Interest-earning:										
Loans	$638,634	4.82%	$608,439	$27,454	4.51%	$513,995	$23,315	4.54%	$501,194	$23,5
Investment securities	81,495	2.08%	87,389	1,792	2.05%	101,081	1,895	1.87%	90,248	1,48
Other assets	37,971	0.43%	15,328	195	1.27%	17,905	179	1.00%	23,552	141
Total interest-earning	758,100	4.31%	711,156	29,441	4.14%	632,981	25,389	4.01%	614,994	25,1
Noninterest-earning	36,360		39,800			40,632			36,103	
	$794,460		$750,956			$673,613			$651,097	
LIABILITIES AND STOCKHOLDERS' EQUITY										
Interest-bearing:										
Savings accounts	$30,848	0.20%	$29,685	$58	0.20%	$27,489	$55	0.20%	$24,841	$49
Transaction accounts	326,523	0.67%	340,899	2,395	0.70%	320,352	1,235	0.39%	305,849	1,27
Certificates of deposit	155,266	1.12%	126,625	1,299	1.03%	111,220	994	0.89%	119,793	1,09
FHLB advances	94,300	1.97%	96,774	1,704	1.76%	73,833	1,314	1.78%	53,970	1,19
Subordinated debentures	15,465	3.53%	15,465	631	4.08%	15,465	579	3.74%	15,465	539
Repurchase agreements	-	0.00%	-	-	0.00%	-	-	0.00%	4,575	121
Total interest-bearing	622,402	1.02%	609,448	6,087	1.00%	548,359	4,177	0.76%	524,493	4,28
Noninterest-bearing	103,284		67,720			55,344			61,686	
Total liabilities	725,686		677,168			603,703			586,179	
Stockholders' equity	68,774		73,788			69,910			64,918	
	$794,460		$750,956			$673,613			$651,097	
Net earning balance	$135,698		$101,708			$84,622			$90,501	

Earning yield less costing rate			3.29%				3.14%				3.25%		
Net interest income, and net yield spread on interest-earning assets						$23,354	3.29%			$21,212	3.35%		$20,9
Ratio of interest-earning assets to interest-bearing liabilities	122	%		117	%			115	%			117	%

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The following table sets forth information regarding changes in interest income and interest expense for the periods indicated resulting from changes in average balances and average rates shown in the previous table. For each category of interest-earning assets and interest-bearing liabilities information is provided with respect to changes attributable to: (i) changes in balance (change in balance multiplied by the old rate), (ii) changes in interest rates (change in rate multiplied by the old balance); and (iii) the combined effect of changes in balance and interest rates (change in balance multiplied by change in rate). Dollar amounts are expressed in thousands.

	Year ended December 31, 2017 versus December 31, 2016				Year ended December 31, 2016 versus December 31, 2015			
	Average Balance	Interest Rate	Rate & Balance	Total	Average Balance	Interest Rate	Rate & Balance	Total
Interest income:								
Loans	$4,284	$(122)	$ (23)	$4,139	$602	$ (830)	$ (21)	$(249)
Investment securities	(256)	177	(24)	(103)	178	208	25	411
Other assets	(26)	49	(7)	16	(34)	94	(23)	37
Net change in interest income	4,002	104	(54)	4,052	746	(528)	(19)	199
Interest expense:								
Savings accounts	4	(1)	-	3	5	1	-	6
Transaction accounts	79	1,016	65	1,160	61	(98)	(4)	(41)
Certificates of deposit	138	147	20	305	(79)	(27)	2	(104)
FHLB advances	408	(14)	(4)	390	440	(236)	(87)	117
Subordinated debentures	-	52	-	52	-	40	-	40
Repurchase agreements	-	-	-	-	(121)	(121)	121	(121)
Net change in interest expense	629	1,200	81	1,910	306	(441)	32	(103)
Change in net interest income	$3,373	$(1,096)	$ (135)	$2,142	$440	$ (87)	$ (51)	$302

RESULTS OF OPERATIONS - COMPARISON OF YEAR ENDED DECEMBER 31, 2017 AND DECEMBER 31, 2016

Interest Rates

Average for the Year Shown		
Prime	Ten-Year Treasury	One-Year Treasury

December 31, 2017	4.10%	2.33 %	1.20 %
December 31, 2016	3.51%	1.84 %	0.61 %
Change in rates	0.59%	0.49 %	0.59 %

The Bank charges borrowers and pays depositors interest rates that are largely a function of the general level of interest rates. The above table sets forth the weekly average interest rates for the 52 weeks ending December 31, 2017 and December 31, 2016 as reported by the Federal Reserve. The Bank typically indexes its adjustable rate commercial loans to prime and its adjustable rate mortgage loans to the one-year Treasury Rate. The ten-year Treasury Rate is a proxy for 30-year fixed rate home mortgage loans.

Rates trended upward during 2017 as the Federal Reserve Open Market Committee ("FOMC") increased the discount rate by 25 basis points in March, June and December 2017. As of December 31, 2017, the prime rate was 4.5% which is a 75 basis point increase from December 31, 2016.

Interest Income. Total interest income increased $4,051,407 (16%). The average balance of interest-earning assets increased $78,175,000 (12%), while the yield on average interest earning assets increased 13 basis points to 4.14%.

Interest income on loans increased $4,139,313 (18%). The average loan receivable balance increased $94,444,000 (18%) while the average yield decreased 3 basis points to 4.51%. The Company experienced strong loan activity during 2017. However, pricing on loans is challenging due to significant competition on new and renewing credits. The pricing pressure has impacted the ability to maintain loan yield compared to 2016.

Interest income on investment securities decreased $103,474 (5%). The average balance of investment securities decreased $13,692,000 (14%) while the average yield improved 18 basis points to 2.05%.

Interest Expense. Total interest expense increased $1,909,542 (46%) as the average balance of interest-bearing liabilities increased $61,089,000 (11%), while the average cost of interest-bearing liabilities increased 24 basis points to 1.00%.

Interest expense on deposits increased $1,467,583 (64%) during 2017 as the average balance of interest bearing deposits increased $38,148,000 (8%), while the average interest rate paid to depositors increased 25 basis points to 0.75%. The increase in asset growth opportunities among institutions in our market have created significant competitive pressures on deposit rates. To fund its asset growth going forward, the Company will continue to utilize a cost-effective mix of retail and commercial core deposits along with non-core, wholesale funding.

Net Interest Income. The Company's net interest income increased $2,141,865 (10%) primarily due to the increase in overall average balances of interest-earning assets and interest-bearing liabilities. Refer to the tables in the "Average Balances, Interest and Average Yields" section (pages 47 and 48) for additional information on components of net interest income.

Provision for Loan Losses. Provisions for loan losses are charged or credited to earnings to bring the total allowance for loan losses to a level considered adequate by the Company to provide for potential loan losses in the existing loan portfolio. When making its assessment, the Company considers prior loss experience, volume and type of lending, local banking trends and impaired and past due loans in the Company's loan portfolio. In addition, the Company considers general economic conditions and other factors related to collectability of the Company's loan portfolio.

Based on its internal analysis and methodology, management recorded a provision for loan losses of $1,750,000 and $1,375,000 for the years ended December 31, 2017 and 2016, respectively. The Company's increase in the provision was primarily due to the increased loan balances and maintaining general portfolio reserves at a level deemed appropriate in accordance with its methodology. The Bank will continue to monitor its allowance for loan losses and make future additions based on economic and regulatory conditions. Management may need to increase the allowance for loan losses through charges to the provision for loan losses if anticipated growth in the Bank's loan portfolio increases or other circumstances warrant. See further discussions of the allowance for loan losses under "Financial Condition" above.

Although the Bank maintains its allowance for loan losses at a level which it considers to be sufficient to provide for potential loan losses in its existing loan portfolio, there can be no assurance that future loan losses will not exceed internal estimates. In addition, the amount of the allowance for loan losses is subject to review by regulatory agencies which can order the establishment of additional loan loss provisions.

Non-Interest Income. Non-interest income increased $857,113 (18%). This was primarily due to the Company’s emphasis on Small Business Administration (SBA) lending and its continued efforts in fixed-rate mortgage lending. The Company’s gains on sale of SBA loans increased $449,177, gains on fixed-rate mortgage loans sales increased $312,730 and net gain on foreclosed assets increased $180,734 when compared to 2016. These gains were partially offset by a decrease in gain on sale of investment securities of $146,208 when compared to 2016.

Non-Interest Expense. Non-interest expense increased $2,502,340 (15%). Salaries and employee benefits increased $1,353,964 (13%) which was primarily due to the recent expansion in the Joplin, Missouri market and increases in other key areas of commercial banking, operations and technology. Included in the salaries and benefits increase, the Company had $780,363 of increases in health/retirement benefits and performance incentives due to strong Company results.

The Company incurred $587,428 (100%) of impairment charges on solar tax credit investments in 2017. The Company purchased an interest in a utility scale solar energy project. The project is expected to generate an estimated $557,000 of 2017 investment tax credits plus additional tax credits in future years assuming certain compliance criteria are met. The cost of the investment will be accounted for under the equity and hypothetical liquidation at book value methods. Under these methods, an impairment charge is recorded on the investment equal to the discounted future cash flows compared to the carrying value of the investment.

The Company’s occupancy expense increased $377,199 (21%) primarily due to the Company’s continued enhancements in facilities (including signage) and significant investments in new technologies. The ongoing expansion in the Joplin, Missouri market has also played a factor in the increase in expense.

Income Taxes. The provision for income taxes increased $557,985 (28%) over 2016 is primarily a result of the Company’s $1.0 million charge for the deferred tax asset write-down which was partially offset by the utilization of tax credits which is discussed above. As a result of the Tax Cuts and Jobs Act signed into law on December 22, 2017, the Company was required to revalue its deferred tax assets and deferred tax liabilities to account for the future impact of lower corporate tax rates. As of December 31, 2017, the Company revalued its net deferred tax asset and it resulted in a one-time charge to income tax expense of approximately $1.0 million.

Cash Dividends Paid. The Company paid dividends of $0.10 per share on April 14, 2017 to stockholders of record as of April 4, 2017, and $0.10 per share on July 13, 2017, to stockholders of record as of July 3, 2017, and $.10 per share on October 13, 2017, to stockholders of record as of October 3, 2017 and also declared a cash dividend of $0.12 per share on December 22, 2017, which was paid on January 13, 2018, to stockholders of record on January 3, 2018. During 2017, 2016 and 2015, the Company paid $1,767,486, $1,415,180 and $873,499 in dividends on common stock.

RESULTS OF OPERATIONS - COMPARISON OF YEAR ENDED DECEMBER 31, 2016 AND DECEMBER 31, 2015

Interest Rates

	Average for the Year Shown					
	Prime		Ten-Year Treasury		One-Year Treasury	
December 31, 2016	3.51	%	1.84	%	0.61	%
December 31, 2015	3.26	%	2.14	%	0.32	%
Change in rates	0.25	%	-0.30	%	0.29	%

The Bank charges borrowers and pays depositors interest rates that are largely a function of the general level of interest rates. The above table sets forth the weekly average interest rates for the 52 weeks ending December 31, 2016 and December 31, 2015 as reported by the Federal Reserve. The Bank typically indexes its adjustable rate commercial loans to prime and its adjustable rate mortgage loans to the one-year Treasury Rate. The ten-year Treasury Rate is a proxy for 30-year fixed rate home mortgage loans.

Rates trended upward by the end of 2016 as the Federal Reserve Open Market Committee (“FOMC”) increased the discount rate by 25 basis points in December 2016. As of December 31, 2016, the prime rate was 3.75% which is a 25 basis point increase from December 31, 2015.

Interest Income. Total interest income increased $199,692 (1%). The average balance of interest-earning assets increased $17,987,000 (3%), while the yield on average interest earning assets decreased 9 basis points to 4.01%.

Interest income on investment securities increased $411,623 (28%). The average balance of investment securities increased $10,833,000 (12%) while the average yield improved 23 basis points to 1.87%.

Offsetting the increase in interest income on investments was the decline in interest income on loans which decreased $249,990 (1%). The average loan receivable balance increased $12,801,000 (3%) while the average yield decreased 16 basis points to 4.54%. The Company experienced strong loan activity during 2016. However, pricing on loans was and is challenging due to significant competition on new and renewing credits. The pricing pressure impacted the ability to maintain loan yield compared to 2015.

Interest Expense. Total interest expense decreased $102,870 (2%) as the average balance of interest-bearing liabilities increased $23,866,000 (5%), while the average cost of interest-bearing liabilities decreased 6 basis points to 0.76%.

Interest expense on deposits decreased $139,889 (6%) during 2016 as the average balance of interest bearing deposits increased $8,578,000 (2%), however, the average interest rate paid to depositors decreased 4 basis points to 0.50%. The expansion of lower-cost, core deposit relationships and reductions in higher priced retail products and utilization of cost effective wholesale funding continue to improve the Company’s overall cost of funds. Also improving cost of funds over the prior year was the prepayment of the Company’s $10 million repurchase agreement during the second quarter of 2015, which had a rate of 2.61%.

Net Interest Income. The Company’s net interest income increased $302,562 (1%) primarily due to the increase in overall average balances of interest-earning assets and interest-bearing liabilities. Refer to the tables in the “Average

Balances, Interest and Average Yields” section (pages 47 and 48) for additional information on components of net interest income.

Provision for Loan Losses. Provisions for loan losses are charged or credited to earnings to bring the total allowance for loan losses to a level considered adequate by the Company to provide for potential loan losses in the existing loan portfolio. When making its assessment, the Company considers prior loss experience, volume and type of lending, local banking trends and impaired and past due loans in the Company’s loan portfolio. In addition, the Company considers general economic conditions and other factors related to collectability of the Company’s loan portfolio.

Based on its internal analysis and methodology, management recorded a provision for loan losses of $1,375,000 and $600,000 for the years ended December 31, 2016 and 2015, respectively. The Company's increase in the provision was primarily due to the increased loan balances and maintaining general portfolio reserves at a level deemed appropriate in accordance with its methodology. The Bank will continue to monitor its allowance for loan losses and make future additions based on economic and regulatory conditions. Management may need to increase the allowance for loan losses through charges to the provision for loan losses if anticipated growth in the Bank's loan portfolio increases or other circumstances warrant. See further discussions of the allowance for loan losses under "Financial Condition" above.

Although the Bank maintains its allowance for loan losses at a level which it considers to be sufficient to provide for potential loan losses in its existing loan portfolio, there can be no assurance that future loan losses will not exceed internal estimates. In addition, the amount of the allowance for loan losses is subject to review by regulatory agencies which can order the establishment of additional loan loss provisions.

Non-Interest Income. Non-interest income increased $392,135 (9%). This was primarily due to increased gains on sale of mortgage loans held for sale of $312,120 (22%). A stronger real estate market and the Company's increased activity in Federal Housing Administration lending increased mortgage volume compared to 2015. Originations of mortgage loans held for sale were $63,974,589 during 2016 compared to $56,515,986 in 2015.

Non-Interest Expense. Non-interest expense increased $491,018 (3%). Salaries and employee benefits increased $881,227 (7%) which was partially offset by the prepayment penalty of $463,992 (100%) paid during 2015 as part of a structured transaction to prepay a $10,000,000 repurchase agreement. The increase in salaries and employee benefits was due to the addition of commercial and mortgage staff for what was then the new loan production office in Joplin and the addition of other key positions in technology, commercial and retail production. The Company was continuing to position itself for future growth and expansion. Also impacting compensation were mortgage commissions which increased due to the mortgage volume noted above under "Non-Interest Income" above.

Income Taxes. The provision for income taxes decreased $448,565 (18%) over 2015 as a direct result of the Company's decrease in taxable income primarily through the increased utilization of tax-exempt revenue sources.

Cash Dividends Paid. The Company paid dividends of $0.08 per share on April 14, 2016 to stockholders of record as of April 4, 2016, and $0.08 per share on July 15, 2016, to stockholders of record as of July 5, 2016, and $.08 per share on October 20, 2016, to stockholders of record as of October 10, 2016 and also declared a cash dividend of $0.10 per share on December 22, 2016, which was paid on January 13, 2017, to stockholders of record on January 3, 2017. During 2015, the Company paid $1,008,332 in dividends on common stock. During 2014, the Company also paid $648,280 in dividends on common stock and $413,000 dividends on its preferred stock.

LIQUIDITY

Liquidity refers to the ability to manage future cash flows to meet the needs of depositors and borrowers and fund operations. Maintaining appropriate levels of liquidity allows the Company to have sufficient funds available for customer demand for loans, withdrawal of deposit balances and maturities of deposits and other liabilities. The Company's primary sources of liquidity include cash and cash equivalents, available-for-sale securities, customer deposits and FHLB borrowings. The Company also has established a borrowing line with the Federal Reserve Bank which is considered a secondary source of funds.

The Company’s most liquid assets are cash and cash equivalents, which are cash on hand, amounts due from financial institutions, and certificates of deposit with other financial institutions that have an original maturity of three months or less. The levels of such assets are dependent on the Bank’s operating, financing, and investment activities at any given time. The Company’s cash and cash equivalents totaled $37,406,930 as of December 31, 2017 and $9,088,441 as of December 31, 2016, representing an increase of $28,318,489. The variations in levels of cash and cash equivalents are influenced by deposit flows and anticipated future deposit flows, which are subject to, and influenced by, many factors. The Bank has $105,487,706 in certificates of deposit that are scheduled to mature in one year or less. Management anticipates that the majority of these certificates will renew in the normal course of operations. Based on existing collateral as well as the FHLB’s limitation of advances to 35% of assets, the Bank has the ability to borrow an additional $107,306,000 from the FHLB, as of December 31, 2017. Based on existing collateral, the Bank has the ability to borrow $36,375,000 from the Federal Reserve Bank as of December 31, 2017. The Bank plans to maintain its FHLB and Federal Reserve Bank borrowings to a level that will provide a borrowing capacity sufficient to provide for contingencies. Management has many policies and controls in place to attempt to manage the appropriate level of liquidity.

CAPITAL REQUIREMENTS

The Company meets the eligibility criteria of a small bank holding company in accordance with the Federal Reserve's Small Bank Holding Company Policy Statement issued in February 2015, and is no longer obligated to report consolidated regulatory capital. The Bank continues to be subject to various capital requirements administered by banking agencies. Failure to meet minimum capital requirements can trigger certain mandatory and discretionary actions by regulators that could have a direct material effect on the Company's financial statements. The Bank's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors.

In July 2013, the Federal Reserve issued a final rule that revised its risk-based and leverage capital requirements for banking organizations to align them with the Basel III regulatory capital framework and meet certain requirements of the Dodd-Frank Act (“Basel III Rule”). The Basel III Rule implemented a revised definition of regulatory capital, a new common equity tier 1 (“CET1”) minimum capital requirement, and a higher minimum tier1 capital requirement. The final rules also made changes to the prompt corrective action framework for depository institutions by incorporating the new minimum capital ratios into the framework, introducing the CET1 capital measure, and aligning the definition of tangible equity for purposes of the critically undercapitalized prompt corrective action category with the definition of tier 1 capital. Under the Basel III Rule, the following three components comprise a banking organization’s “regulatory capital”: (i) “CET1 capital,” which is predominantly comprised of retained earnings and common stock instruments that meet certain criteria and related surplus (net of any treasury stock), AOCI (for organizations that do not make opt-out elections), and CET1 minority interest, which are subject to certain restrictions; (ii) “Additional Tier 1 Capital,” which consists of non-cumulative perpetual preferred stock and similar instruments meeting specified eligibility criteria and related surplus, Tier 1 minority interests not included in CET1 capital, and “TARP” preferred stock and other instruments issued under the Emergency Economic Stabilization Act of 2008; and (iii) “Tier 2 Capital,” which includes instruments such as subordinated debt that has a minimum original maturity of at least five years and is subordinated to the claims of depositors and general creditors, total capital minority interest not included in Tier 1 capital and limited amounts of a banking organization’s allowance for loan and lease losses (ALLL), less applicable regulatory adjustments and deductions.

Effective January 1, 2015, the final rule requires the Bank to comply with the following minimum capital ratios: (i) a new common equity Tier 1 capital ratio of 4.5% of risk-weighted assets; (ii) a Tier 1 capital ratio of 6.0% of risk-weighted assets (increased from the prior requirement of 4.0%); (iii) a total capital ratio of 8.0% of risk-weighted assets (unchanged from the prior requirement); and (iv) a leverage ratio of 4.0% of total assets (unchanged from the prior requirement). When fully phased in on January 1, 2019, the Basel III Rule will require the Bank to maintain (i) a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" effectively resulting in a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 7.0% upon full implementation); (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation); (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average assets.

Beginning January 1, 2016, the capital conservation buffer requirement was phased in at 0.625% of risk-weighted assets, increasing by the same amount each year until fully implemented at 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of common equity Tier 1 to risk-weighted assets above the minimum but below the conservation buffer will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall.

The Bank is classified as “well capitalized” under current regulatory guidelines. See also additional information provided under the caption “Regulatory Matters” in Note 1 of the Notes to Consolidated Financial Statements.

OFF-BALANCE SHEET ARRANGEMENTS

Various commitments and contingent liabilities arise in the normal course of business, which are not required to be recorded on the balance sheet. The most significant of these are loan commitments, lines of credit and standby letters of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. As of December 31, 2017 and 2016, the Bank had outstanding commitments to originate loans of approximately $7,261,000 and $6,152,000, respectively. Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. As of December 31, 2017 and 2016, unused lines of credit to borrowers aggregated approximately $117,068,000 and $89,103,000, respectively, for commercial lines and $15,929,000 and $15,960,000, respectively, for open-end consumer lines. Since a portion of the loan commitment and line of credit may expire without being drawn upon, the total unused commitments and lines do not necessarily represent future cash requirements.

Standby letters of credit are irrevocable conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. The Bank had total outstanding standby letters of credit amounting to

$12,733,000 and $11,596,000 as of December 31, 2017 and 2016, respectively. The commitments extend over varying periods of time.

In connection with the Company’s issuance of the Trust Preferred Securities and 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.

AGGREGATE CONTRACTUAL OBLIGATIONS

The following table summarizes the Company's fixed and determinable contractual obligations by payment date as of December 31, 2017. Dollar amounts are expressed in thousands.

Payments Due By Period

Contractual Obligations	Total	One Year or less	One to Three Years	Three to Five Years	More than Five Years
Deposits without stated maturity	$452,098	$452,098	$-	$-	$-
Time and brokered certificates of deposit	155,266	105,488	39,591	9,890	297
Other borrowings	-	-	-	-	-
FHLB and Federal Reserve advances	94,300	92,200	2,100	-	-
Subordinated debentures	15,465	-	-	-	15,465
Operating leases	2,416	291	537	460	1,129
Purchase obligations	2,073	2,073	-	-	-
Other long term obligations	565	565	-	-	-
Total	$722,183	$652,715	$42,228	$10,350	$16,891

IMPACT OF INFLATION AND CHANGING PRICES

The Company prepared the consolidated financial statements and related data presented herein in accordance with accounting principles generally accepted in the United States of America which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most companies, the assets and liabilities of a financial institution are primarily monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the price of goods and services, since such prices are affected by inflation. In the current interest rate environment, liquidity and the maturity structure of the Bank's assets and liabilities are critical to the maintenance of acceptable performance levels.

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the Company's consolidated financial statements and the notes thereto, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. On an on-going basis, management evaluates its estimates and judgments.

Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. There can be no assurance that actual results will not differ from those estimates. If actual results are different than management's judgments and estimates, the Company's financial results could change, and such change could be material to the Company.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans and fair values. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets held for sale, management obtains independent appraisals for significant properties.

The Company has identified the accounting policies for the allowance for loan losses and related significant estimates and judgments as critical to its business operations and the understanding of its results of operations. For a detailed discussion on the application of these significant estimates and judgments and our accounting policies, also see Note 1 of the “Notes to Consolidated Financial Statements” in this report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

ASSET / LIABILITY MANAGEMENT

The responsibility of managing and executing the Bank’s Asset Liability Policy falls to the Bank’s Asset/ Liability Committee (ALCO). ALCO seeks to manage interest rate risk through changing interest rate environments. Management attempts to position the Bank’s instrument repricing characteristics in line with probable rate movements in order to minimize the impact of changing interest rates on the Bank’s net interest income. Since the relative spread between financial assets and liabilities is constantly changing, the Bank’s current net interest income may not be an indication of future net interest income.

The Bank has continued to emphasize the origination of commercial business and real estate, home equity, consumer and adjustable-rate, one- to four-family residential loans while originating fixed-rate, one- to four-family residential loans primarily for immediate resale in the secondary market. Management continually monitors the loan portfolio for the purpose of product diversification and over concentration.

The Bank constantly monitors its deposits in an effort to prohibit them from adversely impacting the Bank’s interest rate sensitivity. Rates of interest paid on deposits at the Bank are priced competitively in order to meet the Bank’s asset/liability management objectives and spread requirements. As of December 31, 2017 and 2016, the Bank’s savings accounts, checking accounts, and money market deposit accounts totaled $452,098,463 or 74% of its total deposits and $393,673,761 or 78% of total deposits, respectively. The weighted average rate paid on these accounts increased 13 basis points from 0.29% on December 31, 2016 to 0.42% on December 31, 2017 primarily due significant competitive pressures on deposit rates.

INTEREST RATE SENSITIVITY ANALYSIS

The following tables set forth as of December 31, 2017 and 2016, management's estimates of the projected changes in Economic Value of Equity ("EVE") in the event of instantaneous and permanent increases and decreases in market interest rates. Dollar amounts are expressed in thousands.

12/31/2017

BP Change	Estimated Net Portfolio Value			NPV as % of PV of Assets	
in Rates	$ Amount	$ Change	% Change	NPV Ratio	Change
+200	$116,010	$4,350	4 %	14.84%	0.86 %
+100	115,268	3,608	3 %	14.57%	0.59 %
NC	111,660	-	0 %	13.98%	0.00 %
-100	105,747	(5,913)	-5 %	13.15%	-0.83 %
-200	87,071	(24,589)	-22 %	10.78%	-3.20 %

12/31/2016

BP Change	Estimated Net Portfolio Value			NPV as % of PV of Assets	
in Rates	$ Amount	$ Change	% Change	NPV Ratio	Change
+200	$92,319	$(8,391)	-8%	13.95%	-0.69%
+100	96,547	(4,163)	-4%	14.31%	-0.32%
NC	100,710	-	0%	14.63%	0.00%
-100	95,335	(5,375)	-5%	13.70%	-0.93%
-200	86,491	(14,219)	-14%	12.25%	-2.38%

Computations of prospective effects of hypothetical interest rate changes are based on an internally generated model using actual maturity and repricing schedules for the Bank’s loans and deposits, and are based on numerous assumptions, including relative levels of market interest rates, loan repayments and deposit run-offs, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the Bank may undertake in response to changes in interest rates. All EVE and earnings projections are based on a point in time static balance sheet.

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

The Bank’s Board of Directors is responsible for reviewing the Bank’s asset and liability policies. The Bank’s management is responsible for administering the policies and determinations of the Board of Directors with respect to the Bank’s asset and liability goals and strategies. Management expects that the Bank’s asset and liability policies and strategies will continue as described above so long as competitive and regulatory conditions in the financial institution industry and market interest rates continue as they have in recent years.

Item 8. Financial Statements and Supplementary Data

Guaranty Federal Bancshares, Inc.
Consolidated Balance Sheets
December 31, 2017 and 2016

	December 31, 2017	December 31, 2016
ASSETS		
Cash and due from banks	$4,094,694	$3,769,478
Interest-bearing deposits in other financial institutions	33,312,236	5,318,963
Cash and cash equivalents	37,406,930	9,088,441
Available-for-sale securities	81,478,673	92,399,235
Held-to-maturity securities	16,457	27,528
Stock in Federal Home Loan Bank, at cost	4,597,500	4,611,000
Mortgage loans held for sale	1,921,819	2,183,633
Loans receivable, net of allowance for loan losses at December 31, 2017 and 2016 - $7,107,418 and $5,742,449, respectively	629,605,009	538,273,640
Accrued interest receivable	2,449,847	1,947,063
Prepaid expenses and other assets	3,846,686	2,961,336
Foreclosed assets held for sale	282,785	2,682,353
Premises and equipment, net	10,607,094	10,871,039
Bank owned life insurance	19,740,623	19,272,893
Deferred and receivable income taxes	2,506,097	3,661,658
	$794,459,520	$687,979,819
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	$607,364,350	$505,362,750
Federal Home Loan Bank advances	94,300,000	95,700,000
Subordinated debentures	15,465,000	15,465,000
Advances from borrowers for taxes and insurance	180,269	192,460
Accrued expenses and other liabilities	1,962,865	1,077,396
Accrued interest payable	295,543	207,833

	719,568,027	618,005,439
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY		
Capital Stock:		
Common stock, $0.10 par value; authorized 10,000,000 shares; issued December 31, 2017 and 2016 - 6,878,503 and 6,875,503 shares, respectively	687,850	687,550
Additional paid-in capital	50,856,069	50,552,077
Retained earnings, substantially restricted	60,679,308	57,347,282
Accumulated other comprehensive loss	(206,193)	(1,309,241)
	112,017,034	107,277,668
Treasury stock, at cost; December 31, 2017 and 2016 - 2,453,728 and 2,465,476 shares, respectively	(37,125,541)	(37,303,288)
	74,891,493	69,974,380
	$794,459,520	$687,979,819

See Notes to Consolidated Financial Statements

Guaranty Federal Bancshares, Inc.
Consolidated Statements of Income
Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
Interest Income			
Loans	$*27,454,089*	$*23,314,776*	$*23,564,766*
Investment securities	*1,791,921*	*1,895,395*	*1,483,772*
Other	*194,723*	*179,155*	*141,096*
	29,440,733	*25,389,326*	*25,189,634*
Interest Expense			
Deposits	*3,751,565*	*2,283,982*	*2,423,871*
Federal Home Loan Bank advances	*1,703,787*	*1,313,620*	*1,196,393*
Subordinated debentures	*631,202*	*579,410*	*538,785*
Securities sold under agreements to repurchase	-	-	*120,833*
	6,086,554	*4,177,012*	*4,279,882*
Net Interest Income	*23,354,179*	*21,212,314*	*20,909,752*
Provision for Loan Losses	*1,750,000*	*1,375,000*	*600,000*
Net Interest Income After Provision for Loan Losses	*21,604,179*	*19,837,314*	*20,309,752*
Noninterest Income			
Service charges	*1,189,575*	*1,134,664*	*1,214,880*
Gain on sale of investment securities	*46,329*	*192,537*	*187,090*
Gain on sale of mortgage loans held for sale	*2,021,208*	*1,708,478*	*1,396,358*
Gain on sale of Small Business Administration loans	*746,639*	*297,462*	*344,818*
Net gain (loss) on foreclosed assets	*182,004*	*1,270*	*(164,663*)
Other income	*1,541,565*	*1,535,796*	*1,499,589*
	5,727,320	*4,870,207*	*4,478,072*
Noninterest Expense			
Salaries and employee benefits	*12,040,528*	*10,686,564*	*9,805,337*
Occupancy	*2,204,408*	*1,827,209*	*1,904,886*
FDIC deposit insurance premiums	*245,115*	*350,475*	*447,044*
Prepayment penalty on repurchase agreements	-	-	*463,992*
Data processing	*987,193*	*889,575*	*790,928*
Advertising	*525,000*	*525,000*	*525,000*
Impairment on investment tax credits	*587,428*	-	-
Merger costs	*151,270*	-	-
Other expense	*2,862,144*	*2,821,923*	*2,672,541*

	19,603,086	*17,100,746*	*16,609,728*
Income Before Income Taxes	*7,728,413*	*7,606,775*	*8,178,096*
Provision for Income Taxes	*2,570,749*	*2,012,764*	*2,461,329*
Net Income Available to Common Shareholders	$*5,157,664*	$*5,594,011*	$*5,716,767*
Basic Income Per Common Share	$*1.18*	$*1.28*	$*1.32*
Diluted Income Per Common Share	$*1.16*	$*1.27*	$*1.30*

See Notes to Consolidated Financial Statements

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Guaranty Federal Bancshares, Inc.
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
NET INCOME	$*5,157,664*	$*5,594,011*	$*5,716,767*
OTHER ITEMS OF COMPREHENSIVE INCOME (LOSS):			
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes	*1,182,895*	*(799,869*)	*(186,775*)
Change in unrealized gain (loss) on interest rate swaps, before income taxes	*632,990*	-	-
Less: Reclassification adjustment for realized gains on investment securities included in net income, before income taxes	*(46,329*)	*(192,537*)	*(187,090*)
Total other items of comprehensive income (loss)	*1,769,556*	*(992,406*)	*(373,865*)
Income tax expense (benefit) related to other items of comprehensive income	*666,508*	*(367,121*)	*(138,330*)
Other comprehensive income (loss)	*1,103,048*	*(625,285*)	*(235,535*)
TOTAL COMPREHENSIVE INCOME	$*6,260,712*	$*4,968,726*	$*5,481,232*

See Notes to Consolidated Financial Statements

Guaranty Federal Bancshares, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$5,157,664	$5,594,011	$5,716,767
Items not requiring (providing) cash:			
Deferred income taxes	1,080,452	123,091	320,738
Depreciation	1,155,642	845,221	918,441
Provision for loan losses	1,750,000	1,375,000	600,000
Gain on sale of Small Business Administration loans	(746,639)	(297,462)	(344,818)
Gain on sale of mortgage loans held for sale and investment securities	(2,067,537)	(1,901,015)	(1,758,087)
Loss on sale of equipment and other assets	95,863	-	-
Loss (gain) on sale of foreclosed assets	(249,349)	(112,576)	104,670
Amortization of deferred income, premiums and discounts, net	840,340	665,361	704,985
Stock award plans	466,469	373,782	285,589
Origination of loans held for sale	(70,835,359)	(63,974,589)	(56,515,986)
Proceeds from sale of loans held for sale	73,118,381	65,402,367	57,398,682
Increase in cash surrender value of bank owned life insurance	(467,730)	(492,978)	(362,695)
Changes in:			
Accrued interest receivable	(502,784)	39,629	43,366
Prepaid expenses and other assets	1,097,510	563,696	1,005,159
Accrued expenses and other liabilities	883,209	(75,505)	(69,305)
Income taxes receivable/payable	(494,295)	341,305	(208,412)
Net cash provided by operating activities	10,281,837	8,469,338	7,839,094
CASH FLOWS FROM INVESTING ACTIVITIES			
Net change in loans	(119,195,775)	(51,498,165)	(4,870,934)
Proceeds from sale of loans receivable	26,781,419	-	-
Principal payments on held-to-maturity securities	11,071	15,571	17,894
Principal payments on available-for-sale securities	6,649,871	8,884,281	10,445,669
Purchase of available-for-sale securities	(15,975,995)	(82,423,495)	(55,150,017)
Proceeds from sales of available-for-sale securities	20,869,621	76,480,961	33,059,741
Proceeds from maturities of available-for-sale securities	-	535,000	-

Purchase of premises and equipment	*(3,684,707)*	*(1,175,832)*	*(856,106)*
Purchase of tax credit investments	*(1,415,156)*	-	-
Proceeds from sale of premises and equipment	*2,697,147*	-	-
Purchase of bank owned life insurance	-	-	*(4,000,000)*
(Purchase) redemption of Federal Home Loan Bank stock	*13,500*	*(1,773,500)*	*319,400*
Proceeds from sale of foreclosed assets held for sale	*2,448,163*	*2,922,119*	*797,876*
Net cash used in investing activities	*(80,800,841)*	*(48,033,060)*	*(20,236,477)*

See Notes to Consolidated Financial Statements

Guaranty Federal Bancshares, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in demand deposits, NOW accounts and savings accounts	$58,424,702	$(8,163,633)	$43,000,898
Net increase (decrease) in certificates of deposit	43,576,898	(3,859,312)	(5,433,485)
Repayment of securities sold under agreements to repurchase	-	-	(10,000,000)
Proceeds from FHLB and Federal Reserve advances	761,600,000	223,099,999	-
Repayments of FHLB and Federal Reserve advances	(763,000,000)	(179,499,999)	(8,250,000)
Advances from (repayments to) borrowers for taxes and insurance	(12,191)	1,607	46,869
Proceeds from Stock options exercised	15,570	85,800	187,129
Common and preferred cash dividends paid	(1,767,486)	(1,415,180)	(873,499)
Treasury stock purchased	-	(371,538)	-
Net cash provided by financing activities	98,837,493	29,877,744	18,677,912
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,318,489	(9,685,978)	6,280,529
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,088,441	18,774,419	12,493,890
CASH AND CASH EQUIVALENTS, END OF YEAR	$37,406,930	$9,088,441	$18,774,419
Supplemental Cash Flows Information			
Real estate acquired in settlement of loans	$1,209,279	$3,228,589	$190,026
Interest paid	$5,998,844	$4,165,281	$4,325,925
Income taxes paid, net of (refunds)	$1,138,000	$724,000	$1,445,000
Sale and financing of foreclosed assets held for sale	$1,588,921	$149,920	$61,200

See Notes to Consolidated Financial Statements

Guaranty Federal Bancshares, Inc.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2017, 2016 and 2015

	Common Stock	Additional Paid-In Capital	Treasury Stock
Balance, January 1, 2015	*682,320*	*50,366,546*	*(37,673,289)*
Net income	-	-	-
Change in unrealized gain (loss) on available-for-sale securities, net of income taxes of $138,330	-	-	-
Dividends on common stock ($0.23 per share)	-	-	-
Stock award plans	-	*(108,631)*	*394,220*
Stock options exercised	*3,580*	*183,549*	-
Balance, December 31, 2015	*685,900*	*50,441,464*	*(37,279,069)*
Net income	-	-	-
Change in unrealized gain (loss) on available-for-sale securities, net of income taxes of $367,121	-	-	-
Dividends on common stock ($0.34 per share)	-	-	-
Treasury stock purchased	-	-	*(371,538)*
Stock award plans	-	*26,463*	*347,319*
Stock options exercised	*1,650*	*84,150*	-
Balance, December 31, 2016	*687,550*	*50,552,077*	*(37,303,288)*
Net income	-	-	-
Change in unrealized gain on available-for-sale securities and effect of interest rate swaps, net of income taxes of $666,508	-	-	-
Reclassification of amounts within AOCI to retained earnings due to tax reform	-	-	-
Dividends on common stock ($0.42 per share)	-	-	-
Stock award plans	-	*288,722*	*177,747*
Stock options exercised	*300*	*15,270*	-
Balance, December 31, 2017	$*687,850*	$*50,856,069*	$*(37,125,541)*

See Notes to Consolidated Financial

Statements

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Guaranty Federal Bancshares, Inc. Consolidated Statements of Stockholders' Equity Years Ended December 31, 2017, 2016 and 2015

Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
48,549,691	*(448,421)*	*61,476,847*
5,716,767	-	*5,716,767*
-	*(235,535)*	*(235,535)*
(1,008,332)	-	*(1,008,332)*
-	-	*285,589*
-	-	*187,129*
53,258,126	*(683,956)*	*66,422,465*
5,594,011	-	*5,594,011*
-	*(625,285)*	*(625,285)*
(1,504,855)	-	*(1,504,855)*
-	-	*(371,538)*
-	-	*373,782*
-	-	*85,800*
57,347,282	*(1,309,241)*	*69,974,380*
5,157,664	-	*5,157,664*
-	*1,103,048*	*1,103,048*
31,818	-	*31,818*
(1,857,456)	-	*(1,857,456)*
-	-	*466,469*
-	-	*15,570*

$60,679,308	$ *(206,193*)	$*74,891,493*

See Notes to Consolidated Financial Statements

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GUARANTY FEDERAL BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *1:* NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Company operates as a *one*-bank holding company. The Bank is primarily engaged in providing a full range of banking and mortgage services to individual and corporate customers in southwest Missouri. The Bank is subject to competition from other financial institutions. The Company and the Bank are also subject to the regulation of certain federal and state agencies and receive periodic examinations by those regulatory authorities.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, the Bank. All significant intercompany profits, transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans and fair values. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets held for sale, management obtains independent appraisals for significant properties.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities *not* classified as held to maturity are classified as “available-for-sale” and are carried at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below carrying value, when the Company does *not* intend to sell a debt security, and it is more likely than *not,* the Company will *not* have to sell the security before a recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

The Company's consolidated statements of income reflect the full impairment (that is, the difference between the security's amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than *not* be required to sell before the expected recovery of the amortized cost basis. For available-for-sale and held-to-maturity debt securities that management has *no* intent to sell and believes that it more likely than *not* will *not* be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the noncredit loss is recognized in accumulated other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows *not* expected to be received over the remaining term of the security as projected based on cash flow projections.

Mortgage Loans Held for Sale

Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Write-downs to fair value are recognized as a charge to earnings at the time a decline in value occurs. Forward commitments to sell mortgage loans are sometimes acquired to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amounts of the loans sold, and are recorded in noninterest income. Direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

Loans

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

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

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

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that *may* affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Bank's internal risk rating process. Other adjustments *may* be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are *not* fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are *not* classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements (years)	*35-40*
Furniture and fixtures and vehicles (years)	*3 -10*

Bank Owned Life Insurance

Bank owned life insurance policies are carried at their cash surrender value. The Company recognizes tax-free income from the periodic increases in cash surrender value of these policies and from death benefits.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC *740, Income Taxes*). The income tax accounting guidance results in *two* components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than *not,* based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than *not* means a likelihood of more than *50* percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-*not* recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than *50* percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or *not* a tax position has met the more-likely-than-*not* recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management’s judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than *not* that some portion or all of a deferred tax asset will *not* be realized.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiary. With a few exceptions, the Company is *no* longer subject to U.S. federal or state income tax examinations by tax authorities for years before *2014.*

Cash Equivalents

The Company considers all liquid investments with original maturities of *three* months or less to be cash equivalents. At *December 31, 2017* and *2016* cash equivalents consisted of interest-bearing deposits and money market accounts.

Restriction on Cash and Due From Banks

The Company is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The Company’s required reserve on *December 31, 2017* was *$1,424,000.*

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized gain (loss) on available-for-sale securities, unrealized gain (loss) on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income, unrealized gain (loss) on held-to-maturity securities for which a portion of an other-than-temporary impairment has been recognized in income and unrealized gain (loss) on interest rate swap agreements designated as cash flow hedges.

Interest Rate Swap Agreements Designated as Cash Flow Hedges

Cash flow hedge relationships mitigate exposure to the variability of future cash flows or other forecasted transactions. The Company uses interest rate swaps to manage overall cash flow changes related to interest rate risk exposure on benchmark interest rate loans. The effective portion of the gain or loss related to the derivative instrument is recognized as a component of other comprehensive income and subsequently reclassified into interest income when the forecasted transaction affects income. The ineffective portion of the gain or loss is recognized immediately as noninterest income. The Company assesses the effectiveness of the hedging derivative by comparing the change in fair value of the respective derivative instrument and the change in fair value of an effective hypothetical derivative instrument.

Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct and material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Company’s regulators could require adjustments to regulatory capital *not* reflected in these financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below). Management believes, as of *December 31, 2017* and *2016,* that the Bank met all capital adequacy requirements to which it is subject.

As of *December 31, 2017,* the most recent notification from the Missouri Division of Finance and the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, Tier I leverage and Common Equity Tier *1* risk-based ratios as set forth in the following table. There are *no* conditions or events since that notification that management believes have changed the Bank’s category.

The Bank's actual capital amounts and ratios are also presented in the table. *No* amount was deducted from capital for interest-rate risk. Dollar amounts are expressed in thousands.

As of December 31, 2017	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio
Tier 1 (core) capital, and ratio to adjusted total assets Bank	$*89,526*	*11.5*%	$*31,227*	*4.0* %	$*39,034*	*5.0* %
Tier 1 (core) capital, and ratio to risk-weighted assets Bank	$*89,526*	*12.5*%	$*42,939*	*6.0* %	$*57,252*	*8.0* %
Total risk-based capital, and ratio to risk-weighted assets Bank	$*96,633*	*13.5*%	$*57,252*	*8.0* %	$*71,565*	*10.0*%
Common equity tier 1 capital ratio to risk-weighted assets Bank	$*89,526*	*12.5*%	$*32,204*	*4.5* %	$*46,517*	*6.5* %

As of December 31, 2016	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio
Tier 1 (core) capital, and ratio to adjusted total assets Bank	$*85,255*	*12.5*%	$*27,283*	*4.0* %	$*34,103*	*5.0* %
Tier 1 (core) capital, and ratio to risk-weighted assets Bank	$*85,255*	*14.0*%	$*36,434*	*6.0* %	$*48,578*	*8.0* %
Total risk-based capital, and ratio to risk-weighted assets Bank	$*90,997*	*15.0*%	$*48,578*	*8.0* %	$*60,723*	*10.0*%
Common equity tier 1 capital ratio to risk-weighted assets Bank	$*85,255*	*14.0*%	$*27,325*	*4.5* %	$*39,470*	*6.5* %

The above minimum capital requirements exclude the capital conversion buffer required to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer is being phased in from *0.0%* for *2015* to *2.50%* by *2019.* The capital conversion buffer was *1.25%* at *December 31, 2017.* The net unrealized gain or loss on available-for-sale securities is *not* included in computing regulatory capital.

The amount of dividends that the Bank *may* pay is subject to various regulatory limitations. As of *December 31, 2017* and *2016* the Bank exceeded the minimum capital requirements. The Bank *may not* pay dividends which would reduce capital below the minimum requirements shown above.

Segment Information

The principal business of the Company is overseeing the business of the Bank. The Company has *no* significant assets other than its investment in the Bank. The banking operation is the Company's only reportable segment. The banking segment is principally engaged in the business of originating mortgage loans secured by *one*-to-*four* family residences, multi-family, construction, commercial and consumer loans. These loans are funded primarily through the attraction of deposits from the general public, borrowings from the Federal Home Loan Bank and brokered deposits. Selected information is *not* presented separately for the Company's reportable segment, as there is *no* material difference between that information and the corresponding information in the consolidated financial statements.

General Litigation

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. After reviewing pending and threatened litigation with legal counsel, management believes that as of *December 31, 2017,* the outcome of any such litigation will *not* have a material adverse effect on the Company's financial position or results of operations.

Earnings Per Common Share

The computation for earnings per common share for the years ended *December 31, 2017, 2016* and *2015* is as follows:

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015

Net income available to common shareholders	$*5,157,664*	$*5,594,011*	$*5,716,767*
Weighted average common shares outstanding	*4,372,262*	*4,363,949*	*4,333,418*
Effect of dilutive securities	*68,685*	*56,299*	*55,931*
Weighted average diluted shares outstanding	*4,440,947*	*4,420,248*	*4,389,349*
Basic income per common share	$*1.18*	$*1.28*	$*1.32*
Diluted income per common share	$*1.16*	$*1.27*	$*1.30*

Stock options to purchase *30,000, 68,500* and *88,500* shares of common stock were outstanding during the years ended *December 31, 2017, 2016* and *2015,* respectively, but were *not* included in the computation of diluted income per common share because their exercise price was greater than the average market price of the common shares.

NOTE *2:* SECURITIES

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities classified as available-for-sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2017				
Debt Securities:				
Municipals	$*33,908,207*	$*253,872*	$*(263,621*)	$*33,898,458*
Corporates	*3,000,000*	*65,000*	-	*3,065,000*
Government sponsored mortgage-backed securities and SBA loan pools	*45,414,845*	*9,283*	*(908,913*)	*44,515,215*
	$*82,323,052*	$*328,155*	$*(1,172,534*)	$*81,478,673*

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2016				
Debt Securities:				
Municipals	$*39,357,506*	$*65,673*	$*(1,085,654*)	$*38,337,525*
Corporates	*7,003,986*	*54,050*	*(4,514*)	*7,053,522*
Government sponsored mortgage-backed securities and SBA loan pools	*48,115,793*	*19,432*	*(1,127,037*)	*47,008,188*
	$*94,477,285*	$*139,155*	$*(2,217,205*)	$*92,399,235*

Maturities of available-for-sale debt securities as of *December 31, 2017:*

Amortized	Approximate

	Cost	Fair Value
1-5 years	$*563,318*	$*571,615*
5-10 years	*9,238,773*	*9,278,788*
After ten years	*27,106,116*	*27,113,055*
Government sponsored mortgage-backed securities and SBA loan pools not due on a single maturity date	*45,414,845*	*44,515,215*
	$*82,323,052*	$*81,478,673*

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities classified as held to maturity are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2017				
Debt Securities:				
Government sponsored mortgage-backed securities	$ *16,457*	$ *327*	$ *(55*)	$ *16,729*

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2016				
Debt Securities:				
Government sponsored mortgage-backed securities	$ *27,528*	$ *625*	$ -	$ *28,153*

Maturities of held-to-maturity securities as of *December 31, 2017:*

	Amortized Cost	Approximate Fair Value
Government sponsored mortgage-backed securities not due on a single maturity date	$ *16,457*	$ *16,729*

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to *$35,355,969* and *$47,617,900* as of *December 31, 2017* and *2016,* respectively.

Gross gains of *$165,237, $261,875* and *$205,909* and gross losses of *$118,908, $69,338* and *$18,819* resulting from sale of available-for-sale securities were realized for the years ended *December 31, 2017, 2016* and *2015,* respectively. The tax effect of these net gains was *$17,142, $71,239* and *$69,223* in *2017, 2016* and *2015,* respectively.

The Company evaluates all securities quarterly to determine if any unrealized losses are deemed to be other than temporary. Certain investment securities are valued less than their historical cost. These declines are primarily the result of the rate for these investments yielding less than current market rates, or declines in stock prices of equity securities. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. It is management's intent to hold the debt securities to maturity or until recovery of the unrealized loss. Should the impairment of any of these debt securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified, to the extent the loss is related to credit issues, and to other comprehensive income to the extent the decline on debt securities is related to other factors and the Company does *not* intend to sell the security prior to recovery of the unrealized loss.

No securities were written down for other-than-temporary impairment during the years ended *December 31, 2017, 2016* and *2015.*

Certain other investments in debt and equity securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at *December 31, 2017* and *2016,* was *$62,107,660* and *$79,361,229,* respectively, which is approximately *76%* and *86%* of the Company’s investment portfolio. These declines primarily resulted from changes in market interest rates and failure of certain investments to meet projected earnings targets.

The following table shows gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at *December 31, 2017* and *2016.*

	December 31, 2017					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipals	$*11,024,593*	$*(103,747*)	$*8,802,796*	$*(159,874*)	$*19,827,389*	$*(263,621*)
Government sponsored mortgage-backed securities and SBA loan pools	*20,088,694*	*(253,907*)	*22,191,577*	*(655,006*)	*42,280,271*	*(908,913*)
	$*31,113,287*	$*(357,654*)	$*30,994,373*	$*(814,880*)	$*62,107,660*	$*(1,172,534*)

	December 31, 2016					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipals	$*33,084,816*	$*(1,082,021*)	$*179,402*	$*(3,633*)	$*33,264,218*	$*(1,085,654*)
Corporates	*1,996,172*	*(3,828*)	*881,100*	*(686*)	*2,877,272*	*(4,514*)
Government sponsored mortgage-backed securities and SBA loan pools	*39,570,463*	*(1,022,511*)	*3,649,276*	*(104,526*)	*43,219,739*	*(1,127,037*)
	$*74,651,451*	$*(2,108,360*)	$*4,709,778*	$*(108,845*)	$*79,361,229*	$*(2,217,205*)

NOTE *3:* LOANS AND ALLOWANCE FOR LOAN LOSSES

Categories of loans at *December 31, 2017* and *2016* include:

	December 31,	
	2017	2016
Real estate - residential mortgage:		

One to four family units	$ *106,300,790*	$ *106,410,559*
Multi-family	*85,225,074*	*48,483,523*
Real estate - construction	*64,743,582*	*40,912,307*
Real estate - commercial	*261,866,285*	*249,580,873*
Commercial loans	*94,522,840*	*75,404,732*
Consumer and other loans	*24,716,447*	*23,606,306*
Total loans	*637,375,018*	*544,398,300*
Less:		
Allowance for loan losses	*(7,107,418*)	*(5,742,449*)
Deferred loan fees/costs, net	*(662,591*)	*(382,211*)
Net loans	$ *629,605,009*	$ *538,273,640*

Classes of loans by aging at *December 31, 2017* and *2016* were as follows:

As of *December 31, 2017*

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
	(In Thousands)						
Real estate - residential mortgage:							
One to four family units	$*510*	$*731*	$*2,495*	$*3,736*	$*102,565*	$ *106,301*	$ -
Multi-family	*775*	-	-	*775*	*84,450*	*85,225*	-
Real estate - construction	-	-	-	-	*64,744*	*64,744*	-
Real estate - commercial	*243*	*135*	-	*378*	*261,488*	*261,866*	-
Commercial loans	*276*	-	*588*	*864*	*93,659*	*94,523*	-
Consumer and other loans	*8*	*8*	-	*16*	*24,700*	*24,716*	-
Total	$*1,812*	$*874*	$*3,083*	$*5,769*	$*631,606*	$ *637,375*	$ -

As of *December 31, 2016*

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
	(In Thousands)						
Real estate - residential mortgage:							
One to four family units	$*367*	$*495*	$ *103*	$*965*	$*105,446*	$ *106,411*	$ -
Multi-family	-	-	-	-	*48,483*	*48,483*	-
Real estate - construction	-	-	-	-	*40,912*	*40,912*	-
Real estate - commercial	-	-	-	-	*249,581*	*249,581*	-
Commercial loans	-	-	*593*	*593*	*74,812*	*75,405*	-
Consumer and other loans	-	-	*38*	*38*	*23,568*	*23,606*	-
Total	$*367*	$*495*	$ *734*	$*1,596*	$*542,802*	$ *544,398*	$ -

Nonaccruing loans are summarized as follows:

	December 31, 2017	2016
Real estate - residential mortgage:		

One to four family units	$*4,423,074*	$*2,060,180*
Multi-family	-	-
Real estate - construction	*4,452,409*	*5,446,896*
Real estate - commercial	*161,491*	*161,491*
Commercial loans	*802,628*	*925,281*
Consumer and other loans	*121,915*	*37,791*
Total	$*9,961,517*	$*8,631,639*

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The following tables present the activity in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of and for the years ended *December 31, 2017, 2016* and *2015:*

As of December 31, 2017

	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	(In Thousands)							
Allowance for loan losses:								
Balance, beginning of year	$ *1,377*	$ *1,687*	$ *856*	$ *206*	$ *1,168*	$ *337*	$ *111*	$ *5,742*
Provision charged to expense	*793*	*174*	*82*	*258*	*91*	*284*	*68*	$ *1,750*
Losses charged off	-	*(72*)	*(11*)	-	*(240*)	*(213*)	-	$ *(536*)
Recoveries	*74*	-	*19*	-	*12*	*46*	-	$ *151*
Balance, end of year	$ *2,244*	$ *1,789*	$ *946*	$ *464*	$ *1,031*	$ *454*	$ *179*	$ *7,107*
Ending balance: individually evaluated for impairment	$ *738*	$ -	$ *127*	$ -	$ *246*	$ *138*	$ -	$ *1,249*
Ending balance: collectively evaluated for impairment	$ *1,506*	$ *1,789*	$ *819*	$ *464*	$ *785*	$ *316*	$ *179*	$ *5,858*
Loans:								
Ending balance: individually evaluated for impairment	$ *4,452*	$ *161*	$ *4,424*	$ *775*	$ *739*	$ *276*	$ -	$ *10,827*
Ending balance: collectively evaluated for impairment	$ *60,292*	$ *261,705*	$ *101,877*	$ *84,450*	$ *93,784*	$ *24,440*	$ -	$ *626,548*

As of December 31, 2016

	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	(In Thousands)							
Allowance for loan losses:								
Balance, beginning of year	$ *1,246*	$ *1,526*	$ *821*	$ *177*	$ *1,382*	$ *223*	$ *437*	$ *5,812*
Provision charged to expense	*1,262*	*198*	*48*	*29*	*(51*)	*215*	*(326*)	$ *1,375*
Losses charged off	*(1,222*)	*(69*)	*(47*)	-	*(171*)	*(190*)	-	$ *(1,699*)

Recoveries	*91*	*32*	*34*	*-*	*8*	*89*	*-*	$*254*
Balance, end of year	$*1,377*	$*1,687*	$*856*	$ *206*	$ *1,168*	$*337*	$ *111*	$*5,742*
Ending balance: individually evaluated for impairment	$*302*	$ -	$*14*	$ -	$ *241*	$*45*	$ -	$*602*
Ending balance: collectively evaluated for impairment	$*1,075*	$ *1,687*	$*842*	$ *206*	$ *927*	$*292*	$ *111*	$*5,140*
Loans:								
Ending balance: individually evaluated for impairment	$*5,447*	$ *161*	$*2,060*	$ -	$ *925*	$*106*	$ -	$*8,699*
Ending balance: collectively evaluated for impairment	$*35,465*	$ *249,420*	$*104,351*	$ *48,483*	$ *74,480*	$*23,500*	$ -	$*535,699*

As of December 31, 2015

	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	(In Thousands)							
Allowance for loan losses:								
Balance, beginning of year	$*1,330*	$ *1,992*	$*900*	$ *127*	$ *1,954*	$*185*	$ *101*	$*6,589*
Provision charged to expense	*1,139*	*(466*)	*-*	*50*	*(576*)	*117*	*336*	$*600*
Losses charged off	*(1,233*)	*-*	*(99*)	*-*	*-*	*(119*)	*-*	$*(1,451*)
Recoveries	*10*	*-*	*20*	*-*	*4*	*40*	*-*	$*74*
Balance, end of year	$*1,246*	$ *1,526*	$*821*	$ *177*	$ *1,382*	$*223*	$ *437*	$*5,812*
Ending balance: individually evaluated for impairment	$*540*	$ -	$ -	$ -	$ *312*	$*13*	$ -	$*865*
Ending balance: collectively evaluated for impairment	$*706*	$ *1,526*	$*821*	$ *177*	$ *1,070*	$*210*	$ *437*	$*4,947*
Loans:								
Ending balance: individually evaluated for impairment	$*8,080*	$ *1,241*	$*2,272*	$ -	$ *2,149*	$*988*	$ -	$*14,730*
Ending balance: collectively evaluated for impairment	$*37,383*	$ *207,583*	$*95,985*	$ *41,604*	$ *78,858*	$*21,004*	$ -	$*482,417*

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC-*310-10-35-16*), when based on current information and events, it is probable the Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

The following summarizes impaired loans as of and for the years ended *December 31, 2017* and *2016:*

As of December 31, 2017

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
	(In Thousands)				
Loans without a specific valuation allowance					
Real estate - residential mortgage:					
One to four family units	$*3,180*	$*3,180*	$ -	$ *2,170*	$ -
Multi-family	*775*	*775*	-	*130*	*5*
Real estate - construction	*2,840*	*2,840*	-	*2,940*	-
Real estate - commercial	*161*	*161*	-	*311*	-
Commercial loans	*465*	*465*	-	*536*	-
Consumer and other loans	*3*	*3*	-	*7*	*1*
Loans with a specific valuation allowance					
Real estate - residential mortgage:					
One to four family units	$*1,244*	$*1,244*	$ *127*	$ *247*	$ -
Multi-family	-	-	-	-	-
Real estate - construction	*1,612*	*2,845*	*738*	*2,326*	-
Real estate - commercial	-	-	-	-	-
Commercial loans	*274*	*274*	*246*	*456*	-
Consumer and other loans	*273*	*273*	*138*	*208*	-
Total					
Real estate - residential mortgage:					
One to four family units	$*4,424*	$*4,424*	$ *127*	$ *2,417*	$ -
Multi-family	*775*	*775*	-	*130*	*5*
Real estate - construction	*4,452*	*5,685*	*738*	*5,266*	-
Real estate - commercial	*161*	*161*	-	*311*	-
Commercial loans	*739*	*739*	*246*	*992*	-
Consumer and other loans	*276*	*276*	*138*	*215*	*1*
Total	$*10,827*	$*12,060*	$ *1,249*	$ *9,331*	$ *6*

As of December 31, 2016

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
	(In Thousands)				
Loans without a specific valuation allowance					
Real estate - residential mortgage:					
One to four family units	$ *2,006*	$ *2,006*	$ -	$ *2,165*	$ -
Multi-family	-	-	-	-	-
Real estate - construction	*3,017*	*3,017*	-	*5,427*	-
Real estate - commercial	*161*	*161*	-	*540*	-
Commercial loans	*622*	*622*	-	*868*	-
Consumer and other loans	*3*	*3*	-	*90*	*2*
Loans with a specific valuation allowance					
Real estate - residential mortgage:					
One to four family units	$ *54*	$ *54*	$ *14*	$ *27*	$ -
Multi-family	-	-	-	-	-
Real estate - construction	*2,430*	*3,663*	*302*	*2,195*	-
Real estate - commercial	-	-	-	*139*	-
Commercial loans	*303*	*755*	*241*	*447*	-
Consumer and other loans	*103*	*103*	*45*	*112*	-
Total					
Real estate - residential mortgage:					
One to four family units	$ *2,060*	$ *2,060*	$ *14*	$ *2,192*	$ -
Multi-family	-	-	-	-	-
Real estate - construction	*5,447*	*6,680*	*302*	*7,622*	-
Real estate - commercial	*161*	*161*	-	*679*	-
Commercial loans	*925*	*1,377*	*241*	*1,315*	-
Consumer and other loans	*106*	*106*	*45*	*202*	*2*
Total	$ *8,699*	$ *10,384*	$ *602*	$ *12,010*	$ *2*

Interest of approximately *$4,000* was recognized on average impaired loans of *$8,110,000* for the year ended *December 31, 2015.*

At *December 31, 2017,* the Bank’s impaired loans shown in the table above included loans that were classified as troubled debt restructurings (TDR). The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

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

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

The following summarizes information regarding new troubled debt restructurings by class:

	2017		
	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Real estate - residential mortgage:			
One to four family units	-	$ -	$ -
Multi-family	-	-	-
Real estate - construction	-	-	-
Real estate - commercial	-	-	-
Commercial loans	-	-	-
Consumer and other loans	*1*	*119,459*	*119,459*
Total	*1*	$ *119,459*	$ *119,459*

	2016		
	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Real estate - residential mortgage:			
One to four family units	-	$ -	$ -
Multi-family	-	-	-
Real estate - construction			