

GUARANTY FEDERAL BANCSHARES INC
Form 10-Q
November 08, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from _____ to _____

Commission file number 0-23325

Guaranty Federal Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Delaware **43-1792717**
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

1341 West Battlefield
Springfield, Missouri **65807**
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

| <u>Class</u> | <u>Outstanding as of November 1, 2016</u> |
|--|---|
| Common Stock, Par Value \$0.10 per share | 4,432,027 Shares |

GUARANTY FEDERAL BANCSHARES, INC.

TABLE OF CONTENTS

| | Page |
|---|-------------|
| PART I. FINANCIAL INFORMATION | |
| Item 1. Financial Statements | |
| Condensed Consolidated Financial Statements (Unaudited): | |
| Condensed Consolidated Balance Sheets | 3 |
| Condensed Consolidated Statements of Income | 4 |
| Condensed Consolidated Statements of Comprehensive Income | 5 |
| Condensed Consolidated Statements of Stockholders' Equity | 6 |
| Condensed Consolidated Statements of Cash Flows | 7 |
| Notes to Condensed Consolidated Financial Statements | 8 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 29 |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk | 36 |
| Item 4. Controls and Procedures | 37 |
| PART II. OTHER INFORMATION | |
| Item 1. Legal Proceedings | 38 |
| Item 1A. Risk factors | 38 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 38 |
| Item 3. Defaults Upon Senior Securities | 38 |
| Item 4. Mine Safety Disclosures | 38 |
| Item 5. Other Information | 38 |
| Item 6. Exhibits | 38 |
| Signatures | |

PART I FINANCIAL INFORMATION**Item 1. Financial Statements****GUARANTY FEDERAL BANCSHARES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****SEPTEMBER 30, 2016 (UNAUDITED) AND DECEMBER 31, 2015**

| | 9/30/16 | 12/31/15 |
|---|----------------------|----------------------|
| ASSETS | | |
| Cash and due from banks | \$3,494,693 | \$3,561,272 |
| Interest-bearing deposits in other financial institutions | 7,454,012 | 15,213,147 |
| Cash and cash equivalents | 10,948,705 | 18,774,419 |
| Available-for-sale securities | 96,573,046 | 97,292,487 |
| Held-to-maturity securities | 30,363 | 43,099 |
| Stock in Federal Home Loan Bank, at cost | 3,767,000 | 2,837,500 |
| Mortgage loans held for sale | 2,564,342 | 1,902,933 |
| Loans receivable, net of allowance for loan losses of September 30, 2016 - \$6,396,580 - December 31, 2015 - \$5,811,940 | 525,862,944 | 491,001,907 |
| Accrued interest receivable | 1,808,980 | 1,986,692 |
| Prepaid expenses and other assets | 3,217,504 | 3,525,032 |
| Foreclosed assets held for sale | 2,246,839 | 2,391,727 |
| Premises and equipment, net | 10,864,395 | 10,540,428 |
| Bank owned life insurance | 19,149,610 | 18,779,915 |
| Deferred and receivable income taxes | 2,571,531 | 3,758,933 |
| | \$679,605,259 | \$652,835,072 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Deposits | \$515,764,148 | \$517,385,695 |
| Federal Home Loan Bank advances | 74,600,000 | 52,100,000 |
| Subordinated debentures | 15,465,000 | 15,465,000 |
| Advances from borrowers for taxes and insurance | 534,471 | 190,853 |
| Accrued expenses and other liabilities | 1,953,098 | 1,074,957 |
| Accrued interest payable | 203,417 | 196,102 |
| | 608,520,134 | 586,412,607 |
| COMMITMENTS AND CONTINGENCIES | - | - |

STOCKHOLDERS' EQUITY

Capital Stock:

| | | |
|--|---------------|---------------|
| Common stock, \$0.10 par value; authorized 10,000,000 shares; issued September 30, 2016 and December 31, 2015 - 6,875,503 and 6,859,003 shares, respectively | 687,550 | 685,900 |
| Additional paid-in capital | 50,472,294 | 50,441,464 |
| Retained earnings, substantially restricted | 56,268,937 | 53,258,126 |
| Accumulated other comprehensive income (loss) | | |
| Unrealized gain (loss) on available-for-sale securities, net of income taxes | 588,095 | (683,956) |
| | 108,016,876 | 103,701,534 |
| Treasury stock, at cost; September 30, 2016 and December 31, 2015 - 2,443,476 and 2,466,462 shares, respectively | (36,931,751) | (37,279,069) |
| | 71,085,125 | 66,422,465 |
| | \$679,605,259 | \$652,835,072 |

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.**CONDENSED CONSOLIDATED STATEMENTS OF INCOME****THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015 (UNAUDITED)**

| | Three months ended | | Nine months ended | |
|--|--------------------|-------------|-------------------|--------------|
| | 9/30/2016 | 9/30/2015 | 9/30/2016 | 9/30/2015 |
| Interest Income | | | | |
| Loans | \$5,854,069 | \$5,846,935 | \$17,184,094 | \$17,740,376 |
| Investment securities | 461,587 | 350,679 | 1,445,151 | 1,055,210 |
| Other | 38,647 | 31,477 | 134,417 | 107,652 |
| | 6,354,303 | 6,229,091 | 18,763,662 | 18,903,238 |
| Interest Expense | | | | |
| Deposits | 560,168 | 612,091 | 1,715,179 | 1,832,281 |
| FHLB and Federal Reserve advances | 349,575 | 298,952 | 963,847 | 895,137 |
| Subordinated debentures | 146,438 | 135,329 | 429,348 | 402,187 |
| Other | - | 289 | - | 121,122 |
| | 1,056,181 | 1,046,661 | 3,108,374 | 3,250,727 |
| Net Interest Income | 5,298,122 | 5,182,430 | 15,655,288 | 15,652,511 |
| Provision for Loan Losses | 200,000 | 200,000 | 950,000 | 350,000 |
| Net Interest Income After Provision for Loan Losses | 5,098,122 | 4,982,430 | 14,705,288 | 15,302,511 |
| Noninterest Income | | | | |
| Service charges | 303,958 | 317,385 | 849,026 | 914,019 |
| Gain (loss) on sale of investment securities | 44,060 | (4,152) | 155,465 | 151,161 |
| Gain on sale of mortgage loans held for sale | 528,521 | 419,952 | 1,260,978 | 1,075,937 |
| Gain on sale of Small Business Administration loans | 85,624 | 378 | 237,862 | 344,817 |
| Net loss on foreclosed assets | (33,808) | (21,151) | (53,313) | (38,913) |
| Other income | 387,146 | 397,548 | 1,153,718 | 1,088,611 |
| | 1,315,501 | 1,109,960 | 3,603,736 | 3,535,632 |
| Noninterest Expense | | | | |
| Salaries and employee benefits | 2,694,069 | 2,483,512 | 7,950,867 | 7,424,824 |
| Occupancy | 465,237 | 474,885 | 1,343,062 | 1,411,472 |
| FDIC deposit insurance premiums | 117,311 | 105,878 | 362,025 | 326,216 |
| Prepayment penalty on securities sold under agreements to repurchase | - | - | - | 463,992 |
| Data processing | 223,618 | 198,291 | 650,283 | 592,114 |
| Advertising | 131,250 | 131,250 | 393,750 | 393,750 |
| Other expense | 686,222 | 658,187 | 2,036,590 | 2,033,301 |
| | 4,317,707 | 4,052,003 | 12,736,577 | 12,645,669 |
| Income Before Income Taxes | 2,095,916 | 2,040,387 | 5,572,447 | 6,192,474 |
| Provision for Income Taxes | 554,009 | 621,751 | 1,497,783 | 1,906,346 |
| Net Income Available to Common Shareholders | \$1,541,907 | \$1,418,636 | \$4,074,664 | \$4,286,128 |
| Basic Income Per Common Share | \$0.35 | \$0.33 | \$0.93 | \$0.99 |

| | | | | |
|--|--------|--------|--------|--------|
| Diluted Income Per Common Share | \$0.35 | \$0.32 | \$0.92 | \$0.98 |
|--|--------|--------|--------|--------|

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015 (UNAUDITED)**

| | Three months ended | | Nine months ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | 9/30/2016 | 9/30/2015 | 9/30/2016 | 9/30/2015 |
| NET INCOME | \$1,541,907 | \$1,418,635 | \$4,074,664 | \$4,286,128 |
| OTHER ITEMS OF COMPREHENSIVE INCOME (LOSS): | | | | |
| Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes | (272,470) | 828,626 | 2,174,594 | 585,013 |
| Less: Reclassification adjustment for realized (gains) losses on investment securities included in net income, before income taxes | (44,060) | 4,152 | (155,465) | (151,161) |
| Total other items of comprehensive income (loss) | (316,530) | 832,778 | 2,019,129 | 433,852 |
| Income tax expense (benefit) related to other items of comprehensive income | (117,115) | 308,128 | 747,078 | 160,524 |
| Other comprehensive income (loss) | (199,415) | 524,650 | 1,272,051 | 273,328 |
| TOTAL COMPREHENSIVE INCOME | \$1,342,492 | \$1,943,285 | \$5,346,715 | \$4,559,456 |

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY****NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED)**

| | Common Stock | Additional Paid- In Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|-----------------|-----------------------------------|-------------------|----------------------|--|---------------|
| Balance, January 1, 2016 | \$ 685,900 | \$ 50,441,464 | \$ (37,279,069) | \$ 53,258,126 | \$ (683,956) | \$ 66,422,465 |
| Net income | - | - | - | 4,074,664 | - | 4,074,664 |
| Change in unrealized gain on available-for-sale securities, net of income taxes | - | - | - | - | 1,272,051 | 1,272,051 |
| Dividends on common stock (\$0.24 per share) | - | - | - | (1,063,853) | - | (1,063,853) |
| Stock award plans | - | (53,320) | 347,318 | - | - | 293,998 |
| Stock options exercised | 1,650 | 84,150 | - | - | - | 85,800 |
| Balance, September 30, 2016 | \$ 687,550 | \$ 50,472,294 | \$ (36,931,751) | \$ 56,268,937 | \$ 588,095 | \$ 71,085,125 |

See Notes to Condensed Consolidated Financial Statements

GUARANTY FEDERAL BANCSHARES, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015 (UNAUDITED)**

| | 9/30/2016 | 9/30/2015 |
|--|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$4,074,664 | \$4,286,128 |
| Items not requiring (providing) cash: | | |
| Deferred income taxes | (88,504) | (17,622) |
| Depreciation | 615,224 | 678,648 |
| Provision for loan losses | 950,000 | 350,000 |
| Gain on sale of mortgage loans held for sale and investment securities | (1,416,443) | (1,368,477) |
| Loss (gain) on sale of foreclosed assets | 2,798 | (8,905) |
| Gain on sale of Small Business Administration Loans | (237,862) | (344,817) |
| Amortization of deferred income, premiums and discounts | 469,088 | 558,319 |
| Stock award plan expense | 293,998 | 239,548 |
| Origination of loans held for sale | (47,274,120) | (41,881,391) |
| Proceeds from sale of loans held for sale | 47,873,689 | 43,989,808 |
| Increase in cash surrender value of bank owned life insurance | (369,695) | (271,963) |
| Changes in: | | |
| Accrued interest receivable | 177,712 | 359,635 |
| Prepaid expenses and other assets | 307,528 | 704,580 |
| Accounts payable and accrued expenses | 707,875 | 158,457 |
| Income taxes receivable | 703,175 | (3,664) |
| Net cash provided by operating activities | 6,789,127 | 7,428,284 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of loans receivable | (11,132,508) | - |
| Net change in loans | (24,782,137) | (16,136,499) |
| Principal payments on available-for-sale securities | 6,385,019 | 8,185,628 |
| Principal payments on held-to-maturity securities | 12,736 | 13,882 |
| Proceeds from calls/maturities of available-for-sale securities | 535,000 | - |
| Purchase of premises and equipment | (939,191) | (717,854) |
| Purchase of available-for-sale securities | (71,652,913) | (38,568,960) |
| Proceeds from sale of available-for-sale securities | 67,177,538 | 24,636,698 |
| Redemption (purchase) of Federal Home Loan Bank stock | (929,500) | 143,400 |
| Proceeds from sale of foreclosed assets held for sale | 463,863 | 608,920 |
| Net cash used in investing activities | (34,862,093) | (21,834,785) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Cash dividends paid on common stock | (1,060,619) | (654,253) |
| Net increase in demand deposits, NOW accounts and savings accounts | 5,344,326 | 29,545,375 |
| Net decrease in certificates of deposit | (6,965,873) | (4,201,038) |
| Proceeds from Federal Home Loan Bank advances | 173,400,000 | - |
| Repayments of Federal Home Loan Bank and Federal Reserve advances | (150,900,000) | (3,850,000) |
| Net decrease of securities sold under agreements to repurchase | - | (10,000,000) |

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| | | |
|---|---------------------|---------------------|
| Advances from borrowers for taxes and insurance | 343,618 | 346,117 |
| Stock options exercised | 85,800 | 144,874 |
| Net cash provided by financing activities | 20,247,252 | 11,331,075 |
| DECREASE IN CASH AND CASH EQUIVALENTS | (7,825,714) | (3,075,426) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 18,774,419 | 12,493,890 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$10,948,705 | \$9,418,464 |

See Notes to Condensed Consolidated Financial Statements

7

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Guaranty Federal Bancshares, Inc.'s (the "Company") Annual Report on Form 10-K for the year ended December 31, 2015 ("2015 Annual Report") filed with the Securities and Exchange Commission (the "SEC"). The results of operations for the periods are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet of the Company as of December 31, 2015, has been derived from the audited consolidated balance sheet of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted.

Note 2: Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Guaranty Bank (the "Bank"). All significant intercompany transactions and balances have been eliminated in consolidation.

Note 3: Securities

The amortized cost and approximate fair values of securities classified as available-for-sale were as follows:

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| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Approximate Fair Value |
|---|-------------------|------------------------------|---------------------------------|---------------------------|
| As of September 30, 2016 | | | | |
| Equity Securities | \$102,212 | \$8,883 | \$(17,176) | \$93,919 |
| Debt Securities: | | | | |
| Municipals | 39,461,752 | 818,344 | (42,386) | 40,237,710 |
| Corporates | 5,994,436 | 60,880 | (88,091) | 5,967,225 |
| Government sponsored mortgage-backed securities and SBA loan pools | 50,081,162 | 318,725 | (125,695) | 50,274,192 |
| | \$95,639,562 | \$1,206,832 | \$(273,348) | \$96,573,046 |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Approximate Fair Value |
|---|-------------------|------------------------------|---------------------------------|---------------------------|
| As of December 31, 2015 | | | | |
| Equity Securities | \$ 102,212 | \$ 10,081 | \$ (12,776) | \$ 99,517 |
| Debt Securities: | | | | |
| U. S. government agencies | 8,533,885 | - | (137,101) | 8,396,784 |
| Municipals | 31,132,635 | 302,335 | (85,808) | 31,349,162 |
| Corporates | 3,965,719 | - | (152,019) | 3,813,700 |
| Government sponsored mortgage-backed securities and SBA loan pools | 54,643,681 | 13,764 | (1,024,121) | 53,633,324 |
| | \$ 98,378,132 | \$ 326,180 | \$ (1,411,825) | \$ 97,292,487 |

Maturities of available-for-sale debt securities as of September 30, 2016:

| | Amortized Cost | Approximate Fair Value |
|---|-------------------|---------------------------|
| 1 - 5 years | \$ 1,298,090 | \$ 1,307,722 |
| 6 - 10 years | 10,344,524 | 10,556,820 |
| After 10 years | 33,813,574 | 34,340,393 |
| Government sponsored mortgage-backed securities and SBA loan pools not due on a single maturity date | 50,081,162 | 50,274,192 |
| | \$ 95,537,350 | \$ 96,479,127 |

The amortized cost and approximate fair values of securities classified as held to maturity are as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Approximate Fair Value |
|---|-------------------|------------------------------|---------------------------------|---------------------------|
| As of September 30, 2016 | | | | |
| Debt Securities: | | | | |
| Government sponsored mortgage-backed securities | \$ 30,363 | \$ 673 | \$ (5) | \$ 31,031 |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Approximate Fair Value |
|---|-------------------|------------------------------|---------------------------------|---------------------------|
| As of December 31, 2015 | | | | |
| Debt Securities: | | | | |
| Government sponsored mortgage-backed securities | \$ 43,099 | \$ 836 | \$ - | \$ 43,935 |

Maturities of held-to-maturity securities as of September 30, 2016:

| | Amortized | Approximate |
|---|-----------|-------------|
| | Cost | Fair Value |
| Government sponsored mortgage-backed securities not due on a single maturity date | \$ 30,363 | \$ 31,031 |

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$54,850,847 and \$52,554,932 as of September 30, 2016 and December 31, 2015, respectively. The approximate fair value of pledged securities amounted to \$55,524,321 and \$52,095,842 as of September 30, 2016 and December 31, 2015, respectively.

Realized gains and losses are recorded as net securities gains. Gains on sales of securities are determined on the specific identification method. Gross gains of \$155,465 and \$151,161 as of September 30, 2016 and September 30, 2015, respectively, were realized from the sale of available-for-sale securities. The tax effect of these net gains was \$57,522 and \$56,042 as of September 30, 2016 and September 30, 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 at less than their historical cost. These declines are primarily the result of the rate for these investments yielding less than current market rates, or declines in stock prices of equity securities. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. It is management's intent to hold the debt securities to maturity or until recovery of the unrealized loss. Should the impairment of any of these debt securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified, to the extent the loss is related to credit issues, and to other comprehensive income to the extent the decline on debt securities is related to other factors and the Company does not intend to sell the security prior to recovery of the unrealized loss.

Certain other investments in debt and equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at September 30, 2016 and December 31, 2015, was \$32,516,460 and \$68,123,480, respectively, which is approximately 34% and 70% 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 September 30, 2016 and December 31, 2015.

| September 30, 2016 | | | | | | |
|--|---------------------|-------------------|-------------------|-------------------|--------------|-------------------|
| Description of Securities | Less than 12 Months | | 12 Months or More | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | Equity Securities | \$- | \$- | \$30,751 | \$(17,176) | \$30,751 |
| Municipals | 5,529,687 | (41,862) | 182,900 | (524) | 5,712,587 | (42,386) |
| Corporates | - | - | 3,019,725 | (88,091) | 3,019,725 | (88,091) |
| Government sponsored mortgage-backed securities and SBA loan pools | 22,214,153 | (110,431) | 1,539,244 | (15,269) | 23,753,397 | (125,700) |
| | \$27,743,840 | \$(152,293) | \$4,772,620 | \$(121,060) | \$32,516,460 | \$(273,353) |

| December 31, 2015 | | | | | | |
|--|---------------------|-------------------|-------------------|-------------------|--------------|-------------------|
| Description of Securities | Less than 12 Months | | 12 Months or More | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | Equity Securities | \$- | \$- | \$35,151 | \$(12,776) | \$35,151 |
| U. S. government agencies | 6,399,920 | (83,965) | 1,996,864 | (53,136) | 8,396,784 | (137,101) |
| Municipals | 6,167,019 | (70,266) | 715,410 | (15,542) | 6,882,429 | (85,808) |
| Corporates | 1,675,500 | (79,708) | 2,138,200 | (72,311) | 3,813,700 | (152,019) |
| Government sponsored mortgage-backed securities and SBA loan pools | 33,072,102 | (493,865) | 15,923,314 | (530,256) | 48,995,416 | (1,024,121) |
| | \$47,314,541 | \$(727,804) | \$20,808,939 | \$(684,021) | \$68,123,480 | \$(1,411,825) |

Note 4: Loans and Allowance for Loan Losses

Categories of loans at September 30, 2016 and December 31, 2015 include:

| | September 30, 2016 | December 31, 2015 |
|-------------------------------------|--------------------------|----------------------|
| Real estate - residential mortgage: | | |
| One to four family units | \$ 109,391,522 | \$ 98,257,417 |
| Multi-family | 38,192,064 | 41,603,670 |
| Real estate - construction | 41,305,779 | 45,462,895 |
| Real estate - commercial | 238,722,021 | 208,824,573 |
| Commercial loans | 81,739,377 | 81,006,897 |
| Consumer and other loans | 23,261,945 | 21,991,881 |
| Total loans | 532,612,708 | 497,147,333 |
| Less: | | |
| Allowance for loan losses | (6,396,580) | (5,811,940) |
| Deferred loan fees/costs, net | (353,184) | (333,486) |
| Net loans | \$ 525,862,944 | \$ 491,001,907 |

Classes of loans by aging at September 30, 2016 and December 31, 2015 were as follows:

As of September 30, 2016

| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days and more Past Due | Total Past Due | Current | Total Loans Receivable | Total Loans > 90 Days and Accruing |
|-------------------------------------|------------------------------|------------------------------|--|----------------------|------------|------------------------------|--|
| <i>(In Thousands)</i> | | | | | | | |
| Real estate - residential mortgage: | | | | | | | |
| One to four family units | \$ 244 | \$ 295 | \$ 164 | \$ 703 | \$ 108,689 | \$ 109,392 | \$ - |
| Multi-family | - | - | - | - | 38,192 | 38,192 | - |
| Real estate - construction | - | - | - | - | 41,306 | 41,306 | - |
| Real estate - commercial | - | - | 835 | 835 | 237,887 | 238,722 | - |
| Commercial loans | - | - | 612 | 612 | 81,127 | 81,739 | - |
| Consumer and other loans | 70 | - | 16 | 86 | 23,176 | 23,262 | - |
| Total | \$ 314 | \$ 295 | \$ 1,627 | \$ 2,236 | \$ 530,377 | \$ 532,613 | \$ - |

As of December 31, 2015

| | 30-59 | 60-89 | Greater Than | Total Past Due | Current | Total Loans Receivable | Total Loans > 90 Days and Accruing |
|-------------------------------------|---------------------|---------------------|-----------------|----------------------|------------|------------------------------|--|
| | Days Past Due | Days Past Due | 90 Days | | | | |
| <i>(In Thousands)</i> | | | | | | | |
| Real estate - residential mortgage: | | | | | | | |
| One to four family units | \$- | \$ 168 | \$ 105 | \$ 273 | \$ 97,984 | \$ 98,257 | \$ - |
| Multi-family | - | - | - | - | 41,604 | 41,604 | - |
| Real estate - construction | - | - | - | - | 45,463 | 45,463 | - |
| Real estate - commercial | - | - | 1,079 | 1,079 | 207,745 | 208,824 | - |
| Commercial loans | 88 | - | 1,239 | 1,327 | 79,680 | 81,007 | - |
| Consumer and other loans | 2 | 8 | - | 10 | 21,982 | 21,992 | - |
| Total | \$ 90 | \$ 176 | \$ 2,423 | \$ 2,689 | \$ 494,458 | \$ 497,147 | \$ - |

Nonaccruing loans are summarized as follows:

| | September 30, 2016 | December 31, 2015 |
|-------------------------------------|--------------------------|-------------------------|
| Real estate - residential mortgage: | | |
| One to four family units | \$2,137,884 | \$2,272,535 |
| Multi-family | - | - |
| Real estate - construction | 7,536,662 | 8,079,807 |
| Real estate - commercial | 1,077,642 | 1,240,909 |
| Commercial loans | 943,259 | 2,149,333 |
| Consumer and other loans | 37,526 | 12,891 |
| Total | \$11,732,973 | \$13,755,475 |

The following tables present the activity in the allowance for loan losses based on portfolio segment for the three and nine months ended September 30, 2016 and 2015:

| Three months ended | Commercial | | One to | Multi-family | Commercial | Consumer | Unallocated | Total |
|-----------------------------------|-----------------------|-------------|-------------|--------------|------------|-----------|-------------|---------|
| September 30, 2016 | Construction | Real Estate | four family | | | and Other | | |
| Allowance for loan losses: | <i>(In Thousands)</i> | | | | | | | |
| Balance, beginning of period | \$1,668 | \$ 1,613 | \$ 862 | \$ 157 | \$ 1,366 | \$ 288 | \$ 227 | \$6,181 |
| Provision charged to expense | 282 | 86 | 6 | 6 | (40) | 33 | (173) | \$200 |
| Losses charged off | - | - | - | - | (11) | (58) | - | \$(69) |
| Recoveries | 46 | - | 17 | - | 8 | 14 | - | \$85 |
| Balance, end of period | \$1,996 | \$ 1,699 | \$ 885 | \$ 163 | \$ 1,323 | \$ 277 | \$ 54 | \$6,397 |

| Nine months ended | Commercial | | One to | Multi-family | Commercial | Consumer | Unallocated | Total |
|-----------------------------------|-----------------------|-------------|-------------|--------------|------------|-----------|-------------|---------|
| September 30, 2016 | Construction | Real Estate | four family | | | and Other | | |
| Allowance for loan losses: | <i>(In Thousands)</i> | | | | | | | |
| Balance, beginning of period | \$1,246 | \$ 1,526 | \$ 821 | \$ 177 | \$ 1,382 | \$ 223 | \$ 437 | \$5,812 |
| | 922 | 141 | 80 | (14) | 102 | 102 | (383) | \$950 |

Provision charged to
expense

| | | | | | | | | |
|------------------------|---------|----------|--------|--------|----------|--------|-------|----------|
| Losses charged off | (252) | - | (47) | - | (170) | (132) | - | \$(601) |
| Recoveries | 80 | 32 | 31 | - | 9 | 84 | - | \$236 |
| Balance, end of period | \$1,996 | \$ 1,699 | \$ 885 | \$ 163 | \$ 1,323 | \$ 277 | \$ 54 | \$6,397 |

| Three months ended | Commercial | | One to | Multi-family | Commercial | Consumer | Unallocated | Total |
|-----------------------------------|-----------------------|-------------|-------------|--------------|------------|-----------|-------------|----------|
| September 30, 2015 | Construction | Real Estate | four family | | | and Other | | |
| Allowance for loan losses: | <i>(In Thousands)</i> | | | | | | | |
| Balance, beginning of period | \$ 1,346 | \$ 1,945 | \$ 805 | \$ 151 | \$ 1,893 | \$ 232 | \$ 279 | \$ 6,651 |
| Provision charged to expense | 921 | (363) | (25) | 10 | (410) | (4) | 71 | \$ 200 |
| Losses charged off | - | - | (1) | - | - | (46) | - | \$(47) |
| Recoveries | 1 | - | 4 | - | 1 | 11 | - | \$ 17 |
| Balance, end of period | \$ 2,268 | \$ 1,582 | \$ 783 | \$ 161 | \$ 1,484 | \$ 193 | \$ 350 | \$ 6,822 |

| Nine months ended | Commercial | | One to | Multi-family | Commercial | Consumer | Unallocated | Total |
|-----------------------------------|-----------------------|-------------|-------------|--------------|------------|-----------|-------------|----------|
| September 30, 2015 | Construction | Real Estate | four family | | | and Other | | |
| Allowance for loan losses: | <i>(In Thousands)</i> | | | | | | | |
| Balance, beginning of period | \$ 1,330 | \$ 1,992 | \$ 900 | \$ 127 | \$ 1,954 | \$ 185 | \$ 101 | \$ 6,589 |
| Provision charged to expense | 929 | (410) | (32) | 34 | (474) | 54 | 249 | \$ 350 |
| Losses charged off | - | - | (99) | - | - | (80) | - | \$(179) |
| Recoveries | 9 | - | 14 | - | 4 | 34 | - | \$ 61 |
| Balance, end of period | \$ 2,268 | \$ 1,582 | \$ 783 | \$ 161 | \$ 1,484 | \$ 193 | \$ 350 | \$ 6,822 |

The following tables present the recorded investment in loans based on portfolio segment and impairment method as of September 30, 2016 and December 31, 2015:

| As of September 30, 2016 | Commercial | | One to | Multi-family | Commercial | Consumer | Unallocated | Total |
|---|-----------------------|-------------|-------------|--------------|------------|-----------|-------------|----------|
| | Construction | Real Estate | four family | | | and Other | | |
| Allowance for loan losses: | <i>(In Thousands)</i> | | | | | | | |
| Ending balance: individually evaluated for impairment | \$ 971 | \$ 69 | \$ 3 | \$ - | \$ 293 | \$ 16 | \$ - | \$ 1,352 |
| Ending balance: collectively evaluated for impairment | \$ 1,025 | \$ 1,630 | \$ 882 | \$ 163 | \$ 1,030 | \$ 261 | \$ 54 | \$ 5,045 |
| Loans: | | | | | | | | |

| | | | | | | | | |
|---|----------|------------|-----------|-----------|-----------|-----------|------|-----------|
| Ending balance: individually evaluated for impairment | \$7,537 | \$ 1,077 | \$2,138 | \$ - | \$ 943 | \$ 150 | \$ - | \$11,845 |
| Ending balance: collectively evaluated for impairment | \$33,769 | \$ 237,645 | \$107,254 | \$ 38,192 | \$ 80,796 | \$ 23,112 | \$ - | \$520,768 |

| December 31, 2015 | Commercial Construction Real Estate | Commercial One to four family | Multi-family | Commercial | Consumer and Other | Unallocated | Total | |
|---|---|--|--------------|------------|--------------------------|-------------|--------|-----------|
| Allowance for loan losses: | <i>(In Thousands)</i> | | | | | | | |
| 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 |

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 uncollectability 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 collectability 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 of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Bank's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

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

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

The following table summarizes the recorded investment in impaired loans at September 30, 2016 and December 31, 2015:

| | September 30, 2016 | | | December 31, 2015 | | |
|---|--------------------|--------------------------------|-----------------------|-------------------|--------------------------------|-----------------------|
| | Recorded | Unpaid Principal Balance | Specific Allowance | Recorded | Unpaid Principal Balance | Specific Allowance |
| <i>(In Thousands)</i> | | | | | | |
| Loans without a specific valuation allowance | | | | | | |
| Real estate - residential mortgage: | | | | | | |
| One to four family units | \$2,110 | \$2,110 | \$ - | \$2,272 | \$2,272 | \$ - |
| Multi-family | - | - | - | - | - | - |
| Real estate - construction | 5,581 | 5,581 | - | 5,730 | 5,730 | - |
| Real estate - commercial | 242 | 242 | - | 1,241 | 1,241 | - |
| Commercial loans | 596 | 596 | - | 1,538 | 1,538 | - |
| Consumer and other loans | 37 | 38 | - | 904 | 904 | - |
| Loans with a specific valuation allowance | | | | | | |
| Real estate - residential mortgage: | | | | | | |
| One to four family units | \$28 | \$28 | \$ 3 | \$- | \$- | \$ - |
| Multi-family | - | - | - | - | - | - |
| Real estate - construction | 1,956 | 4,696 | 971 | 2,350 | 4,838 | 540 |
| Real estate - commercial | 835 | 835 | 69 | - | - | - |
| Commercial loans | 347 | 800 | 293 | 611 | 914 | 312 |
| Consumer and other loans | 113 | 113 | 16 | 84 | 84 | 13 |
| Total | | | | | | |
| Real estate - residential mortgage: | | | | | | |
| One to four family units | \$2,138 | \$2,138 | \$ 3 | \$2,272 | \$2,272 | \$ - |
| Multi-family | - | - | - | - | - | - |
| Real estate - construction | 7,537 | 10,277 | 971 | 8,080 | 10,568 | 540 |
| Real estate - commercial | 1,077 | 1,077 | 69 | 1,241 | 1,241 | - |
| Commercial loans | 943 | 1,396 | 293 | 2,149 | 2,452 | 312 |
| Consumer and other loans | 150 | 151 | 16 | 988 | 988 | 13 |
| Total | \$11,845 | \$15,039 | \$ 1,352 | \$14,730 | \$17,521 | \$ 865 |

The following tables summarize average impaired loans and related interest recognized on impaired loans for the three and nine months ended September 30, 2016 and 2015:

| | For the Three Months Ended September 30, 2016 Average | | For the Three Months Ended September 30, 2015 Average | |
|---|--|----------------------------------|--|----------------------------------|
| | Investment in Impaired Loans (<i>In Thousands</i>) | Interest Income Recognized | Investment in Impaired Loans | Interest Income Recognized |
| Loans without a specific valuation allowance | | | | |
| Real estate - residential mortgage: | | | | |
| One to four family units | \$2,153 | \$ - | \$1,340 | \$ 1 |
| Multi-family | - | - | - | - |
| Real estate - construction | 5,597 | - | 1,528 | - |
| Real estate - commercial | 244 | - | 54 | - |
| Commercial loans | 657 | - | 640 | - |
| Consumer and other loans | 185 | - | 1,179 | 1 |
| Loans with a specific valuation allowance | | | | |
| Real estate - residential mortgage: | | | | |
| One to four family units | \$28 | \$ - | \$- | \$ - |
| Multi-family | - | - | - | - |
| Real estate - construction | 2,051 | - | 3,452 | - |
| Real estate - commercial | 278 | - | - | - |
| Commercial loans | 375 | - | 612 | - |
| Consumer and other loans | 110 | - | - | - |
| Total | | | | |
| Real estate - residential mortgage: | | | | |
| One to four family units | \$2,181 | \$ - | \$1,340 | \$ 1 |
| Multi-family | - | - | - | - |
| Real estate - construction | 7,648 | - | 4,980 | - |
| Real estate - commercial | 522 | - | 54 | - |
| Commercial loans | 1,032 | - | 1,252 | - |
| Consumer and other loans | 295 | - | 1,179 | 1 |
| Total | \$11,678 | \$ - | \$8,805 | \$ 2 |

| | For the Nine Months Ended September 30, 2016 Average | | For the Nine Months Ended September 30, 2015 Average | |
|---|---|----------------------------------|---|----------------------------------|
| | Investment in Impaired Loans (In Thousands) | Interest Income Recognized | Investment in Impaired Loans | Interest Income Recognized |
| Loans without a specific valuation allowance | | | | |
| Real estate - residential mortgage: | | | | |
| One to four family units | \$2,200 | \$ - | \$932 | \$ 2 |
| Multi-family | - | - | - | - |
| Real estate - construction | 5,661 | - | 559 | - |
| Real estate - commercial | 657 | - | 18 | - |
| Commercial loans | 960 | - | 434 | - |
| Consumer and other loans | 114 | 1 | 402 | 1 |
| Loans with a specific valuation allowance | | | | |
| Real estate - residential mortgage: | | | | |
| One to four family units | \$23 | \$ - | \$304 | \$ - |
| Multi-family | - | - | - | - |
| Real estate - construction | 2,222 | - | 2,937 | - |
| Real estate - commercial | 93 | - | - | - |
| Commercial loans | 489 | - | 618 | - |
| Consumer and other loans | 105 | - | 92 | - |
| Total | | | | |
| Real estate - residential mortgage: | | | | |
| One to four family units | \$2,223 | \$ - | \$1,236 | \$ 2 |
| Multi-family | - | - | - | - |
| Real estate - construction | 7,883 | - | 3,496 | - |
| Real estate - commercial | 750 | - | 18 | - |
| Commercial loans | 1,449 | - | 1,052 | - |
| Consumer and other loans | 219 | 1 | 494 | 1 |
| Total | \$12,524 | \$ 1 | \$6,296 | \$ 3 |

At September 30, 2016, the Bank's impaired loans shown in the table above included loans that were classified as troubled debt restructurings ("TDR"). The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

In assessing whether or not a borrower is experiencing financial difficulties, the Bank considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the debtor is currently in payment default on any of its debt; (ii) a payment default is probable in the foreseeable future

without the modification; (iii) the debtor has declared or is in the process of declaring bankruptcy and (iv) the debtor's projected cash flow is sufficient to satisfy the contractual payments due under the original terms of the loan without a modification.

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

The following table presents the carrying balance of TDRs as of September 30, 2016 and December 31, 2015:

| | September 30, 2016 | December 31, 2015 |
|-------------------------------------|--------------------------|-------------------------|
| Real estate - residential mortgage: | | |
| One to four family units | \$1,569,183 | \$1,556,964 |
| Multi-family | - | - |
| Real estate - construction | 7,536,662 | 8,079,807 |
| Real estate - commercial | 161,491 | 161,491 |
| Commercial loans | 416,980 | 1,442,476 |
| Consumer and other loans | - | - |
| Total | \$9,684,316 | \$11,240,738 |

The bank did not have any new TDRs for the nine months ending September 30, 2016. The Bank has allocated \$1,047,836 and \$841,284 of specific reserves to customers whose loan terms have been modified in TDR as of September 30, 2016 and December 31, 2015, respectively.

There were no TDRs for which there was a payment default within twelve months following the modification during the nine months ending September 30, 2016 and 2015. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

As part of the on-going monitoring of the credit quality of the Bank's loan portfolio, management tracks loans by an internal rating system. All loans are assigned an internal credit quality rating based on an analysis of the borrower's financial condition. The criteria used to assign quality ratings to extensions of credit that exhibit potential problems or well-defined weaknesses are primarily based upon the degree of risk and the likelihood of orderly repayment, and their effect on the Bank's safety and soundness. The following are the internally assigned ratings:

Pass: This rating represents loans that have strong asset quality and liquidity along with a multi-year track record of profitability.

Special mention: This rating represents loans that are currently protected but are potentially weak. The credit risk may be relatively minor, yet constitute an increased risk in light of the circumstances surrounding a specific loan.

Substandard: This rating represents loans that show signs of continuing negative financial trends and unprofitability and therefore, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.

Doubtful: This rating represents loans that have all the weaknesses of substandard classified loans with the additional characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Risk characteristics applicable to each segment of the loan portfolio are described as follows.

Real estate-Residential 1-4 family: The residential 1-4 family real estate loans are generally secured by owner-occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Bank's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Real estate-Construction: Construction and land development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Bank until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Bank's market areas.

Real estate-Commercial: Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Bank's market areas.

Commercial: The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Consumer: The consumer loan portfolio consists of various term and line of credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Bank's market area) and the creditworthiness of a borrower.

The following tables provide information about the credit quality of the loan portfolio using the Bank's internal rating system as of September 30, 2016 and December 31, 2015:

| | | | | | | |
|---------------------------|---|--------------------------|--------------|------------|-----------------------|-------|
| September 30, 2016 | Commercial Construction Real Estate | One to four family | Multi-family | Commercial | Consumer and Other | Total |
|---------------------------|---|--------------------------|--------------|------------|-----------------------|-------|

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(In Thousands)

Rating:

| | | | | | | | |
|-----------------|----------|------------|-----------|-----------|-----------|-----------|-----------|
| Pass | \$33,769 | \$ 230,410 | \$103,048 | \$ 38,192 | \$ 75,379 | \$ 22,991 | \$503,789 |
| Special Mention | - | 5,924 | 2,802 | - | 4,544 | - | 13,270 |
| Substandard | 7,537 | 2,388 | 3,542 | - | 1,213 | 271 | 14,951 |
| Doubtful | - | - | - | - | 603 | - | 603 |
| Total | \$41,306 | \$ 238,722 | \$109,392 | \$ 38,192 | \$ 81,739 | \$ 23,262 | \$532,613 |

| December 31, 2015 | Commercial Construction Real Estate <i>(In Thousands)</i> | Commercial Real Estate | One to four family | Multi-family | Commercial | Consumer and Other | Total |
|--------------------------|--|---------------------------|--------------------------|--------------|------------|-----------------------|-----------|
| Rating: | | | | | | | |
| Pass | \$37,383 | \$ 198,230 | \$91,267 | \$ 41,604 | \$ 73,407 | \$ 21,775 | \$463,666 |
| Special Mention | - | 3,657 | 3,319 | - | 2,267 | - | 9,243 |
| Substandard | 8,080 | 6,937 | 3,671 | - | 4,730 | 217 | 23,635 |
| Doubtful | - | - | - | - | 603 | - | 603 |
| Total | \$45,463 | \$ 208,824 | \$98,257 | \$ 41,604 | \$ 81,007 | \$ 21,992 | \$497,147 |

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

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

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

Note 5: Benefit Plans

The Company has stock-based employee compensation plans, which are described in the Company's 2015 Annual Report.

The following tables below summarize transactions under the Company's equity plans for the nine months ended September 30, 2016:

Stock Options

| | Number of shares | |
|--|------------------|----------|
| | Incentive Non- | Weighted |

| | Stock | Incentive | Average |
|--|----------|-----------|----------|
| | Option | Stock | Exercise |
| | | Option | Price |
| Balance outstanding as of January 1, 2016 | 91,500 | 57,500 | \$ 19.58 |
| Granted | - | - | - |
| Exercised | (11,500) | (5,000) | 5.20 |
| Forfeited | (15,000) | - | 28.11 |
| Balance outstanding as of September 30, 2016 | 65,000 | 52,500 | \$ 20.51 |
| Options exercisable as of September 30, 2016 | 65,000 | 52,500 | \$ 20.51 |

The total intrinsic value of stock options exercised for the nine months ended September 30, 2016 was \$169,103. The total intrinsic value of outstanding stock options (including exercisable) was \$438,800 at September 30, 2016.

Restricted Stock

| | Number of Shares | Weighted Average Grant- Date Fair Value |
|---|------------------------|---|
| Balance of shares non-vested as of January 1, 2016 | 43,477 | \$ 12.75 |
| Granted | 24,679 | 15.01 |
| Vested | (7,201) | 13.13 |
| Forfeited | - | - |
| Balance of shares non-vested as of September 30, 2016 | 60,955 | \$ 13.62 |

In February 2016, the Company granted 9,336 shares of restricted stock to directors pursuant to the 2015 Equity Plan of which 1,167 were immediately vested (and expensed in full) and 8,169 have a cliff vesting at the end of one year, and thus, expensed over that same period. These shares had a grant date market price of \$15.00 per share. The total amount expensed for restricted stock grant to directors (including all previous years grants) during the nine months ended September 30, 2016 was \$97,776.

For the nine months ended September 30, 2016, the Company granted 15,343 shares of restricted stock to officers that have a cliff vesting at the end of three years. The 2016 grants had 14,593 shares with a grant date market price of \$15.00 and 750 shares with a grant date market price of \$15.34. The expense is being recognized over the applicable vesting period. The total amount of expense for restricted stock grants to officers (including all previous years grants) during the nine months ended September 30, 2016 was \$216,079.

Total stock-based compensation expense recognized for the three months ended September 30, 2016 was \$100,594. Total stock-based compensation expense recognized for the nine months ended September 30, 2016 was \$313,855. As of September 30, 2016, there was \$377,515 of unrecognized compensation expense related to nonvested restricted stock awards, which will be recognized over the remaining vesting period.

Note 6: Income Per Common Share

| For three months ended September 30, 2016 | | | For nine months ended September 30, 2016 | | |
|--|---------|-----|---|---------|-----|
| Income Available | Average | Per | Income Available | Average | Per |

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| | to | Common | Common | to | Common | Common |
|---------------------------------|-------------|--------------------------|---------|-------------|--------------------------|---------|
| | Common | Shares | Share | Common | Shares | Share |
| | | Shareholders Outstanding | | | Shareholders Outstanding | |
| Basic Income Per Common Share | \$1,541,907 | 4,370,700 | \$ 0.35 | \$4,074,664 | 4,365,835 | \$ 0.93 |
| Effect of Dilutive Securities | | 56,853 | | | 53,553 | |
| Diluted Income Per Common Share | \$1,541,907 | 4,427,553 | \$ 0.35 | \$4,074,664 | 4,419,388 | \$ 0.92 |

| | For three months ended September 30, 2015 | | | For nine months ended September 30, 2015 | | |
|---------------------------------|---|--------------------------|------------|--|--------------------------|------------|
| | Income Available to | Average Common | Per Common | Income Available to | Average Common | Per Common |
| | Common | Shares | Share | Common | Shares | Share |
| | | Shareholders Outstanding | | | Shareholders Outstanding | |
| Basic Income Per Common Share | \$1,418,635 | 4,338,803 | \$ 0.33 | \$4,286,128 | 4,329,526 | \$ 0.99 |
| Effect of Dilutive Securities | | 55,216 | | | 56,340 | |
| Diluted Income Per Common Share | \$1,418,635 | 4,394,019 | \$ 0.32 | \$4,286,128 | 4,385,866 | \$ 0.98 |

Stock options to purchase 73,500 shares of common stock were outstanding during the three and nine months ended September 30, 2016 and stock options to purchase 98,500 shares of common stock were outstanding during the three and nine months ended September 30, 2015 but were not included in the computation of diluted income per common share because their exercise price was greater than the average market price of the common shares.

Note 7: New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, (Topic 606): *Revenue from Contracts with Customers* (“ASU 2014-09”). The scope of the guidance applies to revenue arising from contracts with customers, except for the following: lease contracts, insurance contracts, contractual rights and obligations within the scope of other guidance and nonmonetary exchanges between entities in the same line of business to facilitate sales to customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration that the entity receives or expects to receive. ASU 2014-09 is not expected to significantly impact the timing or approach to revenue recognition for financial institutions. Initially, the amendments were effective for public entities for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. However, in July 2015, the FASB voted to defer the effective date of ASU 2014-09 by one year making the amendments effective for public entities for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. The Company is currently evaluating the impact of adopting ASU 2014-09 on its consolidated financial statements, but at this time do not believe the standard will have a significant impact on the financial statements, other than the required new disclosures.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments- Overall (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”). ASU 2016-01 simplifies the impairment assessment of equity investments, clarifies reporting disclosure requirements for financial instruments measured at amortized cost, and requires the exit price notion be disclosed when measuring fair value of financial instruments. ASU 2016-01 details the required separate presentation in other comprehensive income for the change in fair value of a liability related to change in instrument specific credit risk and details the required separate presentation of financial assets and liabilities by measurement category, and clarifies the guidance for a valuation allowance on deferred tax assets related to available-for-sale securities. ASU 2016-01 is effective for annual and interim reporting periods beginning after December 15, 2017. Adoption of ASU 2016-01 is not expected to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (“ASU 2016-02”). ASU 2016-02 establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is

currently evaluating the impact of our pending adoption of the new standard on our consolidated financial statements, but at this time do not believe the standard will have a significant impact on the financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): *Improvements to Employee Share-Based Payment Accounting*. The purpose of the update was to simplify the accounting for share-based payment transactions, including the income tax consequences of such transactions. Under the provisions of the update the income tax consequences of excess tax benefits and deficiencies should be recognized in income tax expense in the reporting period in which the awards vest. Currently, excess tax benefits or deficiencies impact stockholders' equity directly to the extent there is a cumulative excess tax benefit. In the event that a tax deficiency has occurred during the reporting period and a cumulative excess tax benefit does not exist, the tax deficiency is recognized in income tax expense under current GAAP. The update also provides that entities may continue to estimate forfeitures in accounting for stock based compensation or recognize them as they occur. The provisions of this update become effective for interim and annual periods beginning after December 15, 2016. The update requires a modified retrospective transition under which a cumulative effect to equity will be recognized in the period of adoption. Management does not expect the requirements of this update to have a material impact on the Company's financial position, results of operations or cash flows.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments*. Among other things, the amendments in this ASU require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For SEC filers, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with later effective dates for non-SEC registrant public companies and other organizations. Early adoption will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the provisions of ASU No. 2016-13 to determine the potential impact the new standard will have on the Company's consolidated financial statements, and it is too early at this time to determine the impact on the financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): *Classification of Certain Cash Receipts and Cash Payments*. The update is intended to reduce the diversity in practice around how certain transactions are classified within the statement of cash flows with respect to eight types of cash flows. This new accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2017. Adoption of ASU 2016-15 is not expected to have a material impact on our consolidated financial statements.

Note 8: Disclosures about Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The following is a description of the inputs and valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying condensed consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Available-for-sale securities: Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For these investments, the inputs used by the pricing service to determine fair value may include one or a combination of observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bid offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. Level 2 securities include U.S. government agencies, municipal securities and government sponsored mortgage-backed securities. The Company has no Level 3 securities.

The following table presents the fair value measurements of assets recognized in the accompanying condensed consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2016 and December 31, 2015 (dollar amounts in thousands):

9/30/2016

Financial assets:

| | Level 1 inputs | Level 2 inputs | Level 3 inputs | Total fair value |
|--|----------------------|-------------------|----------------------|------------------------|
| Equity securities | \$ 94 | \$- | \$ - | \$94 |
| Debt securities: | | | | |
| Municipals | - | 40,238 | - | 40,238 |
| Corporates | - | 5,967 | - | 5,967 |
| Government sponsored mortgage-backed securities and SBA loan pools | - | 50,274 | - | 50,274 |
| Available-for-sale securities | \$ 94 | \$96,479 | \$ - | \$96,573 |

12/31/2015

Financial assets:

| | Level 1 inputs | Level 2 inputs | Level 3 inputs | Total fair value |
|--|----------------------|-------------------|----------------------|------------------------|
| Equity securities | \$ 99 | \$- | \$ - | \$99 |
| Debt securities: | | | | |
| U.S. government agencies | - | 8,397 | - | 8,397 |
| Municipals | - | 31,349 | - | 31,349 |
| Corporates | - | 3,814 | - | 3,814 |
| Government sponsored mortgage-backed securities and SBA loan pools | - | 53,633 | - | 53,633 |
| Available-for-sale securities | \$ 99 | \$97,193 | \$ - | \$97,292 |

The following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Foreclosed Assets Held for Sale: Fair value is estimated using recent appraisals, comparable sales and other estimates of value obtained principally from independent sources, adjusted for selling costs. Foreclosed assets held for sale are classified within Level 3 of the valuation hierarchy.

Impaired loans (Collateral Dependent): Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral dependent loans.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2016 and December 31, 2015 (dollar amounts in thousands):

Impaired loans (collateral dependent):

| | Level 1 inputs | Level 2 inputs | Level 3 inputs | Total fair value |
|--------------------|----------------------|----------------------|----------------------|------------------------|
| September 30, 2016 | \$ - | \$ - | \$3,021 | \$3,021 |
| December 31, 2015 | \$ - | \$ - | \$5,000 | \$5,000 |

Foreclosed assets held for sale:

| | Level 1 inputs | Level 2 inputs | Level 3 inputs | Total fair value |
|--------------------|----------------------|----------------------|----------------------|------------------------|
| September 30, 2016 | \$ - | \$ - | \$ - | \$ - |
| December 31, 2015 | \$ - | \$ - | \$ - | \$ - |

There were no transfers between valuation levels for any asset during the nine months ended September 30, 2016 or 2015. If valuation techniques are deemed necessary, the Company considers those transfers to occur at the end of the period when the assets are valued.

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurement (dollar amounts in thousands):

| | Fair Value September 30, 2016 | Valuation Technique | Unobservable Input | Range (Weighted Average) |
|---------------------------------------|-------------------------------------|------------------------|---|--------------------------------|
| Impaired loans (collateral dependent) | \$ 3,021 | Market Comparable | Discount to reflect realizable value | 0% - 50% (11%) |
| Foreclosed assets held for sale | \$ - | Market Comparable | Discount to reflect | 0% |

| | Fair Value | Valuation Technique | Unobservable Input | Discount to reflect realizable value | Range (Weighted Average) |
|---------------------------------------|------------|---------------------|--------------------|--------------------------------------|--------------------------|
| Impaired loans (collateral dependent) | \$ 5,000 | Market Comparable | | Discount to reflect realizable value | 0% - 23% (4%) |
| Foreclosed assets held for sale | \$ - | Market Comparable | | Discount to reflect realizable value | 0% |

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying condensed consolidated balance sheets at amounts other than fair value.

Cash and cash equivalents, interest-bearing deposits and Federal Home Loan Bank stock

The carrying amounts reported in the condensed consolidated balance sheets approximate those assets' fair value.

Held-to-maturity securities

Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans

The fair value of loans is estimated by discounting the future cash flows using the market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

Deposits

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using rates currently offered for deposits of similar remaining maturities.

Federal Home Loan Bank advances

The fair value of advances is estimated by using rates on debt with similar terms and remaining maturities.

Subordinated debentures

For these variable rate instruments, the carrying amount is a reasonable estimate of fair value. There is currently a limited market for similar debt instruments and the Company has the option to call the subordinated debentures at an amount close to its par value.

Interest payable

The carrying amount approximates fair value.

Commitments to originate loans, letters of credit and lines of credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

The following tables present estimated fair values of the Company's financial instruments at September 30, 2016 and December 31, 2015.

| | September 30, 2016 | | Hierarchy Level |
|--|--------------------|---------------|--------------------|
| | Carrying | Fair Value | |
| | Amount | | |
| Financial assets: | | | |
| Cash and cash equivalents | \$ 10,948,705 | \$ 10,948,705 | 1 |
| Held-to-maturity securities | 30,363 | 31,031 | 2 |
| Federal Home Loan Bank stock | 3,767,000 | 3,767,000 | 2 |
| Mortgage loans held for sale | 2,564,342 | 2,564,342 | 2 |
| Loans, net | 525,862,944 | 528,440,979 | 3 |
| Interest receivable | 1,808,980 | 1,808,980 | 2 |
| Financial liabilities: | | | |
| Deposits | 515,764,148 | 501,675,796 | 2 |
| Federal Home Loan Bank advances | 74,600,000 | 74,731,510 | 2 |
| Subordinated debentures | 15,465,000 | 15,465,000 | 3 |
| Interest payable | 203,417 | 203,417 | 2 |
| Unrecognized financial instruments (net of contractual value): | | | |
| Commitments to extend credit | - | - | - |
| Unused lines of credit | - | - | - |

| | December 31, 2015 | | Hierarchy Level |
|--|-------------------|---------------|--------------------|
| | Carrying | Fair Value | |
| | Amount | | |
| Financial assets: | | | |
| Cash and cash equivalents | \$ 18,774,419 | \$ 18,774,419 | 1 |
| Held-to-maturity securities | 43,099 | 43,935 | 2 |
| Federal Home Loan Bank stock | 2,837,500 | 2,837,500 | 2 |
| Mortgage loans held for sale | 1,902,933 | 1,902,933 | 2 |
| Loans, net | 491,001,907 | 495,207,798 | 3 |
| Interest receivable | 1,986,692 | 1,986,692 | 2 |
| Financial liabilities: | | | |
| Deposits | 517,385,695 | 511,225,380 | 2 |
| Federal Home Loan Bank advances | 52,100,000 | 53,227,960 | 2 |
| Subordinated debentures | 15,465,000 | 15,465,000 | 3 |
| Interest payable | 196,102 | 196,102 | 2 |
| Unrecognized financial instruments (net of contractual value): | | | |
| Commitments to extend credit | - | - | - |
| Unused lines of credit | - | - | - |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The primary function of the Company is to monitor and oversee its investment in the Bank. The Company engages in few other activities, and the Company has no significant assets other than its investment in the Bank. As a result, the results of operations of the Company are derived primarily from operations of the Bank. The Bank's results of operations are primarily dependent on net interest margin, which is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. The Bank's income is also affected by the level of its noninterest expenses, such as employee salaries and benefits, occupancy expenses and other expenses. The following discussion reviews material changes in the Company's financial condition as of September 30, 2016, and the results of operations for the three and nine months ended September 30, 2016 and 2015.

The discussion set forth below, as well as other portions of this Form 10-Q, may contain forward-looking comments. Such comments are based upon the information currently available to management of the Company and management's perception thereof as of the date of this Form 10-Q. When used in this Form 10-Q, words such as "anticipates," "estimates," "believes," "expects," and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Such statements are subject to risks and uncertainties. Actual results of the Company's operations could materially differ from those forward-looking comments. The differences could be caused by a number of factors or combination of factors including, but not limited to: changes in demand for banking services; changes in portfolio composition; changes in management strategy; increased competition from both bank and non-bank companies; changes in the general level of interest rates; changes in general or local economic conditions; changes in federal or state regulations and legislation governing the operations of the Company or the Bank; and other factors set forth in reports and other documents filed by the Company with the SEC from time to time, including the risk factors described under Item 1A. of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Financial Condition

The Company's total assets increased \$26,770,187 (4%) from \$652,835,072 as of December 31, 2015, to \$679,605,259 as of September 30, 2016.

Available-for-sale securities decreased \$719,441 (1%) from \$97,292,487 as of December 31, 2015, to \$96,573,046 as of September 30, 2016. The Company had purchases of \$71,652,913 offset by sales, maturities and principal payments received of \$74,097,557. The Company had unrealized gains of \$933,484 at September 30, 2016 which was an improvement from unrealized losses of \$1,085,644 at December 31, 2015.

Net loans receivable increased by \$34,861,037 (7%) from \$491,001,907 as of December 31, 2015 to \$525,862,944 as of September 30, 2016. Commercial real estate loans increased \$29,897,448 (14%) primarily due to \$8,600,000 of existing loans moving out of the construction category and \$17,500,000 of new larger credit loans. During the nine month period, construction loans decreased \$4,157,116 (9%) primarily due to \$5,400,000 of new volume offset by larger credits moving to commercial real estate (noted above) and \$1,300,000 of anticipated payoffs. Loans secured by one-to-four family unit residential real estate increased \$11,134,105 (11%) due to new credits secured by investment rental properties. Also, permanent multi-family loans decreased \$3,411,606 (8%), installment loans increased \$1,270,064 (6%) and commercial loans increased \$732,480 (1%). The Company continues to focus its lending efforts primarily in the commercial and owner occupied real estate loan categories.

Allowance for loan losses increased \$584,640 (10%) from \$5,811,940 as of December 31, 2015 to \$6,396,580 as of September 30, 2016. In addition to the provision for loan loss of \$950,000 recorded by the Company for the nine months ended September 30, 2016, charge-offs of specific loans (classified as nonperforming at December 31, 2015) exceeded loan recoveries by \$365,360. The increase in the allowance is primarily due to the increased loan balances 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 September 30, 2016 and December 31, 2015 was 1.20% and 1.17%, respectively. The allowance for loan losses, as a percentage of nonperforming loans outstanding, as of September 30, 2016 and December 31, 2015 was 54.5% and 42.3%, respectively. Management believes the allowance for loan losses is at a level to be sufficient in providing for potential loan losses in the Bank's existing loan portfolio.

Deposits decreased \$1,621,547 (less than 1%) from \$517,385,695 as of December 31, 2015, to \$515,764,148 as of September 30, 2016. For the nine months ended September 30, 2016, checking and savings accounts increased by \$5,344,326 and certificates of deposit decreased by \$6,965,873. The increase in checking and savings accounts was due to the Bank's continued efforts to increase core transaction deposits, including retail, commercial and public funds which has allowed the Bank to reduce higher priced certificates of deposit. See also the discussion under Item 3-“Quantitative and Qualitative Disclosure about Market Risk – Asset/Liability Management.”

Stockholders' equity (including unrealized gain on available-for-sale securities, net of tax) increased \$4,662,660 (7%) from \$66,422,465 as of December 31, 2015, to \$71,085,125 as of September 30, 2016. The Company's net income for the nine months ended September 30, 2016 was \$4,074,664. Also, the equity portion of the Company's unrealized gains (losses) on available-for-sale securities improved by \$1,272,051 during the nine month period. The above increases were offset by \$1,063,853 in shareholder dividends declared during the nine months ended September 30, 2016. On a per common share basis, stockholders' equity increased from \$15.27 as of December 31, 2015 to \$16.26 as of September 30, 2016.

Average Balances, Interest and Average Yields

The Company's profitability is primarily dependent upon net interest income, which represents the difference between interest and fees earned on loans and debt and equity securities, and the cost of deposits and borrowings. Net interest income is dependent on the difference between the average balances and rates earned on interest-earning assets and the average balances and rates paid on interest-bearing liabilities. Non-interest income, non-interest expense, and income taxes also impact net income.

The following table sets forth certain information relating to the Company's average consolidated statements of financial condition and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense annualized by the average balance of assets or liabilities, respectively, for the periods shown. Average balances were derived from average daily balances. The average balance of loans includes loans on which the Company has discontinued accruing interest. The yields and costs include fees which are considered adjustments to yields. All dollar amounts are in thousands.

| | Three months ended 9/30/2016 | | | Three months ended 9/30/2015 | | |
|--|---------------------------------|----------|--------------------|---------------------------------|----------|--------------------|
| | Average Balance | Interest | Yield / Cost | Average Balance | Interest | Yield / Cost |
| ASSETS | | | | | | |
| Interest-earning: | | | | | | |
| Loans | \$527,382 | \$5,854 | 4.42 % | \$503,598 | \$5,847 | 4.61 % |
| Investment securities | 100,338 | 461 | 1.83 % | 87,451 | 350 | 1.59 % |
| Other assets | 15,608 | 39 | 0.99 % | 18,580 | 32 | 0.68 % |
| Total interest-earning | 643,328 | 6,354 | 3.93 % | 609,629 | 6,229 | 4.05 % |
| Noninterest-earning | 41,110 | | | 36,098 | | |
| | \$684,438 | | | \$645,727 | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Interest-bearing: | | | | | | |
| Savings accounts | \$27,858 | 14 | 0.20 % | \$24,983 | 13 | 0.21 % |
| Transaction accounts | 312,619 | 301 | 0.38 % | 320,759 | 319 | 0.39 % |
| Certificates of deposit | 109,893 | 245 | 0.89 % | 119,380 | 281 | 0.93 % |
| FHLB advances | 88,261 | 350 | 1.58 % | 52,235 | 299 | 2.27 % |
| Securities sold under agreements to repurchase | - | - | 0.00 % | - | - | 0.00 % |
| Subordinated debentures | 15,465 | 146 | 3.76 % | 15,465 | 135 | 3.46 % |
| Total interest-bearing | 554,096 | 1,056 | 0.76 % | 532,822 | 1,047 | 0.78 % |
| Noninterest-bearing | 59,162 | | | 47,434 | | |
| Total liabilities | 613,258 | | | 580,256 | | |
| Stockholders' equity | 71,180 | | | 65,471 | | |
| | \$684,438 | | | \$645,727 | | |
| Net earning balance | \$89,232 | | | \$76,807 | | |
| Earning yield less costing rate | | | 3.17 % | | | 3.27 % |
| Net interest income, and net yield spread on interest earning assets | | \$5,298 | 3.28 % | | \$5,182 | 3.37 % |
| Ratio of interest-earning assets to interest-bearing liabilities | | 116 % | | | 114 % | |

| | Nine months ended 9/30/2016 | | | Nine months ended 9/30/2015 | | |
|--|--------------------------------|----------|--------------------|--------------------------------|----------|--------------------|
| | Average Balance | Interest | Yield / Cost | Average Balance | Interest | Yield / Cost |
| ASSETS | | | | | | |
| Interest-earning: | | | | | | |
| Loans | \$507,346 | \$17,184 | 4.52 % | \$503,267 | \$17,740 | 4.71 % |
| Investment securities | 103,026 | 1,445 | 1.87 % | 88,099 | 1,055 | 1.60 % |
| Other assets | 19,324 | 135 | 0.93 % | 24,238 | 108 | 0.60 % |
| Total interest-earning | 629,696 | 18,764 | 3.98 % | 615,604 | 18,903 | 4.11 % |
| Noninterest-earning | 40,953 | | | 36,876 | | |
| | \$670,649 | | | \$652,480 | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Interest-bearing: | | | | | | |
| Savings accounts | \$27,258 | 41 | 0.20 % | \$24,625 | 37 | 0.20 % |
| Transaction accounts | 318,181 | 926 | 0.39 % | 322,975 | 969 | 0.40 % |
| Certificates of deposit | 111,820 | 748 | 0.89 % | 120,791 | 827 | 0.92 % |
| FHLB advances | 70,275 | 964 | 1.83 % | 53,967 | 895 | 2.22 % |
| Securities sold under agreements to repurchase | - | - | 0.00 % | 6,117 | 121 | 2.64 % |
| Subordinated debentures | 15,465 | 429 | 3.71 % | 15,465 | 402 | 3.48 % |
| Total interest-bearing | 542,999 | 3,108 | 0.76 % | 543,940 | 3,251 | 0.80 % |
| Noninterest-bearing | 58,186 | | | 44,229 | | |
| Total liabilities | 601,185 | | | 588,169 | | |
| Stockholders' equity | 69,464 | | | 64,311 | | |
| | \$670,649 | | | \$652,480 | | |
| Net earning balance | \$86,697 | | | \$71,664 | | |
| Earning yield less costing rate | | | 3.22 % | | | 3.31 % |
| Net interest income, and net yield spread on interest earning assets | | \$15,656 | 3.32 % | | \$15,652 | 3.40 % |
| Ratio of interest-earning assets to interest-bearing liabilities | | 116 % | | | 113 % | |

Results of Operations - Comparison of Three and Nine Month Periods Ended September 30, 2016 and 2015

Net income for the three and nine months ended September 30, 2016 was \$1,541,907 and \$4,074,664, respectively, compared to \$1,418,636 and \$4,286,128 for the three and nine months ended September 30, 2015, respectively, which represents an increase in net income of \$123,271 (9%) for the three month period, and a decrease in net income of \$211,464 (5%) for the nine month period.

Interest Income

Total interest income for the three and nine months ended September 30, 2016 increased \$125,212 (2%) and decreased \$139,576 (1%), respectively, as compared to the three and nine months ended September 30, 2015. For the three and nine month period ended September 30, 2016 compared to the same periods in 2015, the average yield on interest earning assets decreased 12 basis points to 3.93% and decreased 13 basis points to 3.98%, while the average balance of interest earning assets increased approximately \$33,699,000 for the three month period and increased approximately \$14,092,000 for the nine month period. The Company continued to experience strong loan activity during the third quarter. However, pricing on loans remains challenging due to significant competition on new and renewing credits. This pricing pressure has impacted the ability to maintain loan yield compared to 2015. These issues have prevented the Company from improving its loan interest income and yield compared to 2015.

Interest Expense

Total interest expense for the three and nine months ended September 30, 2016 increased \$9,520 (1%) and decreased \$142,353 (4%), respectively, when compared to the three and nine months ended September 30, 2015. For the three and nine months period ended September 30, 2016 compared to the same periods in 2015, the average cost of interest bearing liabilities decreased 2 basis points to 0.76% and decreased 4 basis points to 0.76%, while the average balance of interest bearing liabilities increased approximately \$21,274,000 for the three month period and decreased approximately \$941,000 for the nine month period. 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.

Net Interest Income

Net interest income for the three and nine months ended September 30, 2016 increased \$115,692 (2%) and \$2,777 (less than 1%), respectively, when compared to the same periods in 2015. For the three and nine month periods ended September 30, 2016, the average balance of net interest earning assets over liabilities increased by approximately \$12,425,000 and \$15,033,000, respectively, when compared to the same periods in 2015. For the three and nine month periods ended September 30, 2016, the net interest margin decreased 9 basis points to 3.28% and decreased 8 basis points to 3.32%, respectively, when compared to the same periods in 2015.

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 \$200,000 and \$950,000 for the three months and nine months ended September 30, 2016, respectively, compared to \$200,000 and \$350,000 for the same periods in 2015.

The Company's increase in the provision was primarily due to the increased loan balances and various reserves on a few specific problem credits. 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.

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

Noninterest Income

Noninterest income increased \$205,541 (19%) for the three months ended September 30, 2016, respectively, when compared to the three months ended September 30, 2015. The increase is primarily due to the Company's increase in gains on sale of Small Business Administration loans of \$85,000, gains on sale of investment securities of \$48,000 and gains on sale of mortgage loans held for sale of \$108,000. The Company's mortgage division experienced another strong quarter resulting in fixed-rate mortgage volume of \$20.4 million for the quarter which was an increase of 41% compared to the same quarter of 2015.

Noninterest income increased \$68,104 (2%) for the nine months ended September 30, 2016 when compared to the nine months ended September 30, 2015. The Company recognized increased gains on sale of mortgage loans held for sale in 2016 which were offset by a decline in gains on sale of SBA guaranteed loans. The higher level of gains recognized on sale of SBA guaranteed loans in 2015 were part of a structured transaction where the Company used the sale proceeds to prepay a \$10,000,000 repurchase agreement (bearing annual interest of 2.61%), incurring a prepayment penalty of \$463,992.

Noninterest Expense

Noninterest expense increased \$265,704 (7%) and \$90,908 (1%) for the three and nine months ended September 30, 2016 when compared to the same periods in 2015.

Salaries and employee benefits increased \$210,557 (8%) and \$526,043 (7%) for the three and nine months ended September 30, 2016 when compared to the same periods in 2015. This was primarily due to the addition of a loan production office in Joplin and the addition of other key positions in the areas of technology, commercial and retail production. The Company is 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 "Noninterest Income". For the nine month period, the increase in salaries and employee benefits was partially offset by the prepayment penalty of \$463,992 paid during the second quarter of 2015 as part of the structured transaction discussed above under "Noninterest Income".

Provision for Income Taxes

The provision for income taxes decreased by \$67,742 (11%) and \$408,563 (21%) for the three and nine months ended September 30, 2016 when compared to the same periods of 2015. The decrease in the provision for income taxes is a direct result of the Company's decrease in taxable income and increased utilization of tax-exempt revenue sources.

Nonperforming Assets

The allowance for loan losses is calculated based upon an evaluation of pertinent factors underlying the various types and quality of the Bank's existing loan portfolio. When making such evaluation, management considers such factors as the repayment status of its loans, the estimated net realizable value of the underlying collateral, borrowers' intent (to the extent known by the Bank) and ability to repay the loan, local economic conditions and the Bank's historical loss ratios. Due to the decrease in nonperforming loans, the allowance for loan losses, as a percentage of nonperforming

loans outstanding, as of September 30, 2016 and December 31, 2015 was 54.5% and 42.3%, respectively. Total loans classified as substandard, doubtful or loss as of September 30, 2016, were \$15,552,631 or 2.29% of total assets as compared to \$24,237,463 or 3.71% of total assets at December 31, 2015. Management considered nonperforming and total classified loans in evaluating the adequacy of the Bank's allowance for loan losses.

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

| | 9/30/2016 | 12/31/2015 | 12/31/2014 | | | |
|--|-----------|------------|------------|--|--|---|
| Nonperforming loans | \$ 11,733 | \$ 13,755 | \$ 5,291 | | | |
| Real estate acquired in settlement of loans | 2,247 | 2,392 | 3,165 | | | |
| Total nonperforming assets | \$ 13,980 | \$ 16,147 | \$ 8,456 | | | |
| Total nonperforming assets as a percentage of total assets | 2.06 | % 2.47 | % 1.35 | | | % |
| Allowance for loan losses | \$ 6,397 | \$ 5,812 | \$ 6,589 | | | |
| Allowance for loan losses as a percentage of gross loans | 1.20 | % 1.17 | % 1.33 | | | % |

Liquidity and Capital Resources

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

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 \$10,948,705 as of September 30, 2016 and \$18,774,419 as of December 31, 2015, representing a decrease of \$7,825,714. The variations in levels of cash and cash equivalents are influenced by many factors but primarily loan originations and payments, deposit flows and anticipated future deposit flows, which are subject to, and influenced by, many factors.

In July 2013, the Board of Governors of the Federal Reserve Board and the FDIC approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (commonly known as Basel III). Under the final rules, which began for the Bank on January 1, 2015 and are subject to a phase-in period through January 1, 2019, minimum requirements will increase for both the quantity and quality of capital held by the Bank. The rules include a new common equity Tier 1 capital to risk-weighted assets ratio (CET1 ratio) of 4.5% and a capital conservation buffer of 2.5% of risk-weighted assets, which when fully phased-in, effectively results in a minimum CET1 ratio of 7.0%. Basel III raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% (which, with the capital conservation buffer, effectively results in a minimum Tier 1 capital ratio of 8.5% when fully phased-in), effectively resulting in a minimum total capital to risk-weighted assets ratio of 10.5% (with the capital conservation buffer fully phased-in), and requires a minimum leverage ratio of 4.0%. Basel III also makes changes to risk weights for certain assets and off-balance-sheet exposures. We expect that the capital ratios for the Bank under Basel III will continue to exceed the well capitalized minimum capital requirements, when fully phased in.

The Bank's capital ratios are above the levels required to be considered a well-capitalized financial institution. As of September 30, 2016, the Bank's common equity Tier 1 ratio was 13.69%, the Bank's Tier 1 leverage ratio was 12.21%, its Tier 1 risk-based capital ratio was 13.69% and the Bank's total risk-based capital ratio was 14.74% - all exceeding the well-capitalized requirements of 6.5%, 5.0%, 8.0% and 10.0%, respectively, as well as exceeding the minimums plus the first 0.625% of capital conservation buffer required as of September 30, 2016.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Asset/Liability Management

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

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

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

Interest Rate Sensitivity Analysis

The following table sets forth as of September 30, 2016 management's estimates of the projected changes in net portfolio value ("NPV") in the event of 100 and 200 basis point ("BP") instantaneous and permanent increases and decreases in market interest rates. Dollar amounts are expressed in thousands.

| BP Change in Rates | Estimated Net Portfolio Value | | | NPV as % of PV of Assets | |
|-----------------------|----------------------------------|--------------|-------------|-----------------------------|--------|
| | \$ Amount | \$ Change | % Change | NPV Ratio | Change |

| | | | | | | | |
|------|----------|-----------|----|---|--------|-------|---|
| +200 | \$87,186 | \$(3,326) | -4 | % | 13.21% | -0.03 | % |
| +100 | 89,183 | (1,329) | -2 | % | 13.28% | 0.04 | % |
| NC | 90,512 | - | 0 | % | 13.24% | 0.00 | % |
| -100 | 84,914 | (5,598) | -6 | % | 12.26% | -0.98 | % |
| -200 | 89,125 | (1,387) | -2 | % | 12.71% | -0.53 | % |

Computations of prospective effects of hypothetical interest rate changes are based on an internally generated model using actual maturity and repricing schedules for the Bank's loans and deposits, and are based on numerous assumptions, including relative levels of market interest rates, loan repayments and deposit run-offs, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the Bank may undertake in response to changes in interest rates. For further discussion of the Company's market risk, see the Interest Rate Sensitivity Analysis Section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

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

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

Item 4. Controls and Procedures

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

During the quarter ended September 30, 2016, the Company conducted an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2016.

(b) There have been no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Not applicable.

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

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 quarter ended September 30, 2016.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None

Item 6. Exhibits

- | | |
|---------|--|
| 11. | Statement re: computation of per share earnings (set forth in “Note 6: Income Per Common Share” of the Notes to Condensed Consolidated Financial Statement (unaudited)) |
| 31(i).1 | Certification of the Principal Executive Officer pursuant to Rule 13a -14(a) of the Exchange Act |
| 31(i).2 | Certification of the Principal Financial Officer pursuant to Rule 13a - 14(a) of the Exchange Act |
| 32 | Officer certifications pursuant to 18 U.S.C. Section 1350 |
| 101 | The following materials from Guaranty Federal Bancshares, Inc.’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets (unaudited), (ii) Condensed Consolidated Statements of Income (unaudited), (iii) Condensed Consolidated Statements of Comprehensive Income (unaudited), (iv) Condensed Consolidated Statement of Stockholders’ Equity (unaudited), (v) the Condensed Consolidated Statements of Cash Flows (unaudited), and (vi) related notes.* |

*Pursuant to Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

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

Guaranty Federal Bancshares, Inc.

Signature and Title

Date

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

November 8, 2016

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

November 8, 2016