

GUARANTY FEDERAL BANCSHARES INC  
Form 10-Q  
May 08, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

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

For the quarterly period ended March 31, 2015

OR

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

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

Commission file number 0-23325

**Guaranty Federal Bancshares, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

**43-1792717**

(State or other jurisdiction of  
incorporation or organization)

(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

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 May 1, 2015</u>
Common Stock, Par Value \$0.10 per share	4,375,969 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	8
Notes to Condensed Consolidated Financial Statements	9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3. Quantitative and Qualitative Disclosures about Market Risk	32
Item 4. Controls and Procedures	33

**PART II. OTHER INFORMATION**

Item 1. Legal Proceedings	34
Item 1A. Risk factors	34
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	34
Item 3. Defaults Upon Senior Securities	34
Item 4. Mine Safety Disclosures	34
Item 5. Other Information	34
Item 6. Exhibits	34
Signatures	35



**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****GUARANTY FEDERAL BANCSHARES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****MARCH 31, 2015 (UNAUDITED) AND DECEMBER 31, 2014**

<b>ASSETS</b>	<b>3/31/15</b>	<b>12/31/14</b>
Cash and due from banks	\$3,411,462	\$3,604,316
Interest-bearing deposits in other financial institutions	40,645,425	8,889,574
Cash and cash equivalents	44,056,887	12,493,890
Available-for-sale securities	87,255,740	86,467,985
Held-to-maturity securities	56,523	60,993
Stock in Federal Home Loan Bank, at cost	2,847,500	3,156,900
Mortgage loans held for sale	1,417,706	1,214,632
Loans receivable, net of allowance for loan losses of March 31, 2015 - \$6,755,671 - December 31, 2014 - \$6,588,597	494,728,868	486,586,636
Accrued interest receivable:		
Loans	1,565,888	1,704,374
Investments and interest-bearing deposits	262,946	325,684
Prepaid expenses and other assets	4,386,728	4,530,191
Foreclosed assets held for sale	3,160,316	3,165,447
Premises and equipment, net	10,668,600	10,602,763
Bank owned life insurance	14,507,656	14,417,220
Income taxes receivable	323,343	320,416
Deferred income taxes	3,199,794	3,412,513
	<b>\$668,438,495</b>	<b>\$628,459,644</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY****LIABILITIES**

Deposits	\$525,821,413	\$479,818,282
FHLB and Federal Reserve advances	52,350,000	60,350,000
Securities sold under agreements to repurchase	10,000,000	10,000,000
Subordinated debentures	15,465,000	15,465,000
Advances from borrowers for taxes and insurance	246,307	143,984
Accrued expenses and other liabilities	973,311	963,386
Accrued interest payable	240,626	242,145
	<b>605,096,657</b>	<b>566,982,797</b>

**COMMITMENTS AND CONTINGENCIES**

-

**STOCKHOLDERS' EQUITY**

Capital Stock:

Common stock, \$0.10 par value; authorized 10,000,000 shares; issued March 31, 2015 and December 31, 2014 - 6,844,503 and 6,823,203 shares; respectively	684,450	682,320
Additional paid-in capital	50,264,026	50,366,546
Retained earnings, substantially restricted	49,660,437	48,549,691
Accumulated other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale securities, net of income taxes	43,302	(448,421 )
	100,652,215	99,150,136
Treasury stock, at cost; March 31, 2015 and December 31, 2014 - 2,468,534 and 2,492,552 shares, respectively	(37,310,377 )	(37,673,289 )
	63,341,838	61,476,847
	\$668,438,495	\$628,459,644

See Notes to Condensed Consolidated Financial Statements

**GUARANTY FEDERAL BANCSHARES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****THREE MONTHS ENDED MARCH 31, 2015 AND 2014 (UNAUDITED)**

	3/31/2015	3/31/2014
		Retrospectively adjusted - Note 7
<b>Interest Income</b>		
Loans	\$5,904,566	\$5,867,558
Investment securities	353,050	457,566
Other	30,021	34,940
	6,287,637	6,360,064
<b>Interest Expense</b>		
Deposits	594,929	606,793
FHLB and Federal Reserve advances	298,806	295,691
Subordinated debentures	132,861	133,163
Other	65,094	65,250
	1,091,690	1,100,897
<b>Net Interest Income</b>	5,195,947	5,259,167
<b>Provision for Loan Losses</b>	150,000	200,000
<b>Net Interest Income After Provision for Loan Losses</b>	5,045,947	5,059,167
<b>Noninterest Income</b>		
Service charges	281,359	312,985
Gain on sale of investment securities	6,797	3,088
Gain on sale of loans	379,066	185,578
Net loss on foreclosed assets	(11,099 )	(15,783 )
Other income	345,586	331,825
	1,001,709	817,693
<b>Noninterest Expense</b>		
Salaries and employee benefits	2,453,092	2,304,768
Occupancy	473,227	427,061
FDIC deposit insurance premiums	106,760	136,934
Data processing	192,481	160,786
Advertising	131,250	106,251
Other expense	772,865	987,434
	4,129,675	4,123,234
<b>Income Before Income Taxes</b>	1,917,981	1,753,626
<b>Provision for Income Taxes</b>	588,437	452,200
<b>Net Income</b>	1,329,544	1,301,426
<b>Preferred Stock Dividends and Discount Accretion</b>	-	246,210
<b>Net Income Available to Common Shareholders</b>	\$1,329,544	\$1,055,216
<b>Basic Income Per Common Share</b>	\$0.31	\$0.33
<b>Diluted Income Per Common Share</b>	\$0.30	\$0.33

See Notes to Condensed Consolidated Financial Statements

4

---



**GUARANTY FEDERAL BANCSHARES, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**THREE MONTHS ENDED MARCH 31, 2015 AND 2014 (UNAUDITED)**

	3/31/2015	3/31/2014
<b>NET INCOME</b>	<b>\$1,329,544</b>	<b>\$1,301,426</b>
<b>OTHER ITEMS OF COMPREHENSIVE INCOME:</b>		
Change in unrealized gain on investment securities available-for-sale, before income taxes	787,310	1,284,938
Less: Reclassification adjustment for realized gains on investment securities included in net income, before income taxes	(6,797 )	(3,088 )
Total other items of comprehensive income	780,513	1,281,850
Income tax expense related to other items of comprehensive income	288,790	474,285
Other comprehensive income	491,723	807,565
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$1,821,267</b>	<b>\$2,108,991</b>

See Notes to Condensed Consolidated Financial Statements

**GUARANTY FEDERAL BANCSHARES, INC.****CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY****THREE MONTHS ENDED MARCH 31, 2015 (UNAUDITED)**

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance, January 1, 2015</b>	\$682,320	\$50,366,546	\$(37,673,289)	\$48,549,691	\$ (448,421 )	\$61,476,847
Net income	-	-	-	1,329,544	-	1,329,544
Change in unrealized gain (loss) on available-for-sale securities, net of income taxes	-	-	-	-	491,723	491,723
Dividends on common stock (\$0.05 per share)	-	-	-	(218,798 )	-	(218,798 )
Stock award plans	-	(211,694 )	362,912	-	-	151,218
Stock options exercised	2,130	109,174	-	-	-	111,304
<b>Balance, March 31, 2015</b>	\$684,450	\$50,264,026	\$(37,310,377)	\$49,660,437	\$ 43,302	\$63,341,838

See Notes to Condensed Consolidated Financial Statements

**GUARANTY FEDERAL BANCSHARES, INC.****CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY****THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)**

	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance, January 1, 2014</b>	\$11,983,790	\$678,360	\$57,655,031	\$(61,225,185)	\$43,769,485	\$(2,506,248)	\$50,355,233
Net income	-	-	-	-	1,301,426	-	1,301,426
Change in unrealized gain (loss) on available-for-sale securities, net of income taxes	-	-	-	-	-	807,565	807,565
Preferred stock discount accretion	16,210	-	-	-	(16,210 )	-	-
Preferred stock dividends	-	-	-	-	(230,000 )	-	(230,000 )
Stock award plans	-	280	(226,061 )	377,312	-	-	151,531
Proceeds from issuance of common stock	-	-	(6,782,011 )	22,664,985	-	-	15,882,974
<b>Balance, March 31, 2014</b>	\$12,000,000	\$678,640	\$50,646,959	\$(38,182,888)	\$44,824,701	\$(1,698,683)	\$68,268,729

See Notes to Condensed Consolidated Financial Statements

**GUARANTY FEDERAL BANCSHARES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****THREE MONTHS ENDED MARCH 31, 2015 AND 2014 (UNAUDITED)**

	<b>3/31/2015</b>	<b>3/31/2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 1,329,544	\$ 1,301,426
Items not requiring (providing) cash:		
Deferred income taxes	(76,071 )	(55,386 )
Depreciation	218,488	187,835
Provision for loan losses	150,000	200,000
Gain on loans and investment securities	(385,863 )	(188,666 )
Gain on sale of foreclosed assets	-	(6,981 )
Amortization of deferred income, premiums and discounts	192,568	101,495
Stock award plan expense	151,218	136,955
Origination of loans held for sale	(13,122,754)	(6,075,681 )
Proceeds from sale of loans held for sale	13,298,747	6,334,261
Increase in cash surrender value of bank owned life insurance	(90,436 )	(91,548 )
Changes in:		
Accrued interest receivable	201,224	189,310
Prepaid expenses and other assets	143,463	331,265
Accounts payable and accrued expenses	6,141	55,202
Income taxes receivable	(2,927 )	131,812
Net cash provided by operating activities	2,013,341	2,551,299
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net change in loans	(8,317,272 )	17,734,431
Principal payments on available-for-sale securities	2,318,059	1,776,923
Principal payments on held-to-maturity securities	4,470	4,679
Proceeds from maturities of available-for-sale securities	-	1,000,000
Purchase of premises and equipment	(284,325 )	(94,441 )
Purchase of available-for-sale securities	(12,283,794)	(11,337,265)
Proceeds from sale of available-for-sale securities	9,797,762	8,191,860
Redemption of FHLB stock	309,400	48,200
Proceeds from sale of foreclosed assets held for sale	5,131	172,593
Net cash provided by investing activities	(8,450,569 )	17,496,980
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividends paid	(216,533 )	-
Net increase in demand deposits, NOW accounts and savings accounts	43,344,354	5,541,510
Net decrease in certificates of deposit	2,658,777	(1,459,731 )
Proceeds from issuance of common stock	-	15,882,974
Repayments of FHLB and Federal Reserve advances	(8,000,000 )	(3,000,000 )
Advances from borrowers for taxes and insurance	102,323	90,905
Stock options exercised	111,304	14,576
Preferred cash dividends paid	-	(179,000 )

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

Net cash provided by (used in) financing activities	38,000,225	16,891,234
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>31,562,997</b>	<b>36,939,513</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>12,493,890</b>	<b>12,303,200</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$44,056,887</b>	<b>\$49,242,713</b>

See Notes to Condensed Consolidated Financial Statements

## **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 for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Guaranty Federal Bancshares, Inc.'s (the "Company") Annual Report on Form 10-K for the year ended December 31, 2014 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, 2014, 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:

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
<b>As of March 31, 2015</b>				
Equity Securities	\$102,212	\$ 16,247	\$(13,114 )	\$105,345
Debt Securities:				
U. S. government agencies	8,532,280	-	(80,050 )	8,452,230
Municipals	16,147,060	222,372	(45,703 )	16,323,729
Corporates	3,940,947	-	(60,947 )	3,880,000
Government sponsored mortgage-backed securities and SBA loan pools	58,464,508	416,508	(386,580 )	58,494,436
	\$87,187,007	\$ 655,127	\$(586,394 )	\$87,255,740

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
<b>As of December 31, 2014</b>				
Equity Securities	\$102,212	\$ 16,121	\$(13,310 )	\$105,023
Debt Securities:				
U. S. government agencies	10,528,055	-	(271,282 )	10,256,773
Municipals	15,474,316	185,747	(70,173 )	15,589,890
Government sponsored mortgage-backed securities and SBA loan pools	61,075,181	235,977	(794,859 )	60,516,299
	\$87,179,764	\$ 437,845	\$(1,149,624)	\$86,467,985

Maturities of available-for-sale debt securities as of March 31, 2015:

	Amortized Cost	Approximate Fair Value
< 1 year	285,000	285,379
1-5 years	4,728,525	4,710,730
6-10 years	10,897,302	10,869,772
After 10 years	12,709,460	12,790,078
Government sponsored mortgage-backed securities not due on a single maturity date	58,464,508	58,494,436
	\$87,084,795	\$87,150,395

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
<b>As of March 31, 2015</b>				
Debt Securities:				
Government sponsored mortgage-backed securities	\$ 56,523	\$ 1,485	\$ -	\$ 58,008

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
<b>As of December 31, 2014</b>				
Debt Securities:				
Government sponsored mortgage-backed securities	\$ 60,993	\$ 1,626	\$ -	\$ 62,619



Maturities of held-to-maturity securities as of March 31, 2015:

	Amortized Cost	Approximate Fair Value
Government sponsored mortgage-backed securities not due on a single maturity date	\$ 56,523	\$ 58,008

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$70,600,904 and \$53,355,716 as of March 31, 2015 and December 31, 2014, respectively. The approximate fair value of pledged securities amounted to \$70,644,189 and \$52,907,065 as of March 31, 2015 and December 31, 2014, 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 \$6,797 and \$3,088 as of March 31, 2015 and March 31, 2014, respectively, were realized from the sale of available-for-sale securities. The tax effect of these net gains was \$2,515 and \$1,142 as of March 31, 2015 and March 31, 2014, respectively.

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

Certain other investments in debt and equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at March 31, 2015 and December 31, 2014, was \$45,713,465 and \$60,733,191, respectively, which is approximately 52% 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 March 31, 2015 and December 31, 2014.

## March 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	\$-	\$-	\$34,813	\$(13,114 )	\$34,813	\$(13,114 )
U. S. government agencies	2,955,390	(26,890 )	5,496,840	(53,160 )	8,452,230	(80,050 )
Municipals	4,670,544	(20,668 )	712,000	(25,035 )	5,382,544	(45,703 )
Corporates	3,880,000	(60,947 )	-	-	3,880,000	(60,947 )
Government sponsored mortgage-backed securities and SBA loan pools	7,441,808	(52,211 )	20,522,070	(334,369 )	27,963,878	(386,580 )
	\$18,947,742	\$(160,716 )	\$26,765,723	\$(425,678 )	\$45,713,465	\$(586,394 )

## December 31, 2014

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	\$-	\$-	\$34,618	\$(13,310 )	\$34,618	\$(13,310 )
U. S. government agencies	-	-	10,256,773	(271,282 )	10,256,773	(271,282 )
Municipals	2,677,626	(7,692 )	5,859,560	(62,481 )	8,537,186	(70,173 )
Government sponsored mortgage-backed securities and SBA loan pools	12,703,301	(70,049 )	29,201,313	(724,810 )	41,904,614	(794,859 )
	\$15,380,927	\$(77,741 )	\$45,352,264	\$(1,071,883 )	\$60,733,191	\$(1,149,624 )

**Note 4: Loans and Allowance for Loan Losses**

Categories of loans at March 31, 2015 and December 31, 2014 include:

	March 31, 2015	December 31, 2014
Real estate - residential mortgage:		
One to four family units	\$97,129,080	\$97,900,814
Multi-family	34,997,580	33,785,959
Real estate - construction	35,954,290	36,784,584
Real estate - commercial	229,644,645	215,605,054
Commercial loans	87,647,903	92,114,216
Consumer and other loans	16,397,912	17,246,437
Total loans	501,771,410	493,437,064
Less:		
Allowance for loan losses	(6,755,671 )	(6,588,597 )
Deferred loan fees/costs, net	(286,871 )	(261,831 )
Net loans	\$494,728,868	\$486,586,636

Classes of loans by aging at March 31, 2015 and December 31, 2014 were as follows:

**As of March 31, 2015**

	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	\$ 305	\$ 266	\$ 550	\$ 1,121	\$96,008	\$ 97,129	\$ -
Multi-family	-	-	-	-	34,997	34,997	-
Real estate - construction	-	-	-	-	35,954	35,954	-
Real estate - commercial	-	-	-	-	229,645	229,645	-
Commercial loans	-	-	223	223	87,425	87,648	-
Consumer and other loans	82	-	16	98	16,300	16,398	-
Total	\$ 387	\$ 266	\$ 789	\$ 1,442	\$ 500,329	\$ 501,771	\$ -

As of December 31, 2014

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
<i>(In Thousands)</i>							
Real estate - residential mortgage:							
One to four family units	\$ 113	\$ 428	\$ 279	\$ 820	\$ 97,081	\$ 97,901	\$ -
Multi-family	-	-	-	-	33,786	33,786	-
Real estate - construction	-	-	-	-	36,785	36,785	-
Real estate - commercial	-	-	-	-	215,605	215,605	-
Commercial loans	-	-	227	227	91,887	92,114	-
Consumer and other loans	23	35	-	58	17,188	17,246	-
Total	\$ 136	\$ 463	\$ 506	\$ 1,105	\$ 492,332	\$ 493,437	\$ -

Nonaccruing loans are summarized as follows:

	March 31, 2015	December 31, 2014
Real estate - residential mortgage:		
One to four family units	\$1,417,106	\$911,240
Multi-family	-	-
Real estate - construction	2,685,863	2,892,772
Real estate - commercial	-	459,823
Commercial loans	956,094	1,026,772
Consumer and other loans	16,034	-
Total	\$5,075,097	\$5,290,607

The following tables present the activity in the allowance for loan losses based on portfolio segment for the three months ended March 31, 2015 and 2014:

### March 31, 2015

	Construction Real Estate	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
<b>Allowance for loan losses:</b>	<i>(In Thousands)</i>							
Balance, beginning of period	\$1,330	\$ 1,992	\$ 900	\$ 127	\$ 1,954	\$ 185	\$ 101	\$6,589
Provision charged to expense	24	(6 )	(24 )	6	(151 )	35	266	\$150
Losses charged off	-	-	-	-	-	(18 )	-	\$(18 )
Recoveries	7	-	8	-	1	19	-	\$35
Balance, end of period	\$1,361	\$ 1,986	\$ 884	\$ 133	\$ 1,804	\$ 221	\$ 367	\$6,756

### March 31, 2014

	Construction Real Estate	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	<i>(In Thousands)</i>							

**Allowance for loan losses:**

Balance, beginning of period	\$2,387	\$ 2,059	\$ 997	\$ 209	\$ 1,519	\$ 272	\$ 359	\$7,802
Provision charged to expense	(380 )	285	49	(62 )	437	(43 )	(86 )	\$200
Losses charged off	-	-	(86 )	-	(164 )	(19 )	-	\$(269 )
Recoveries	1	-	2	-	7	18	-	\$28
Balance, end of period	\$2,008	\$ 2,344	\$ 962	\$ 147	\$ 1,799	\$ 228	\$ 273	\$7,761

The following tables present the recorded investment in loans based on portfolio segment and impairment method as of March 31, 2015 and December 31, 2014:

### March 31, 2015

	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
<b>Allowance for loan losses:</b>								
<i>(In Thousands)</i>								
Ending balance:								
individually evaluated for impairment	\$375	\$ -	\$81	\$ -	\$ 323	\$ 39	\$ -	\$818
Ending balance:								
collectively evaluated for impairment	\$986	\$ 1,986	\$803	\$ 133	\$ 1,481	\$ 182	\$ 367	\$5,938
<b>Loans:</b>								
Ending balance:								
individually evaluated for impairment	\$2,686	\$ -	\$1,417	\$ -	\$ 956	\$ 618	\$ -	\$5,677
Ending balance:								
collectively evaluated for impairment	\$33,268	\$ 229,645	\$95,712	\$ 34,997	\$ 86,692	\$ 15,780	\$ -	\$496,094

### December 31, 2014

	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
<b>Allowance for loan losses:</b>								
<i>(In Thousands)</i>								
Ending balance:								
individually evaluated for impairment	\$376	\$ 158	\$36	\$ -	\$ 203	\$ 12	\$ -	\$785
Ending balance:								
collectively evaluated for impairment	\$954	\$ 1,834	\$864	\$ 127	\$ 1,751	\$ 173	\$ 101	\$5,804
<b>Loans:</b>								
Ending balance:								
individually evaluated for impairment	\$2,893	\$ 460	\$847	\$ -	\$ 1,027	\$ 801	\$ -	\$6,028
Ending balance:								
collectively evaluated for	\$33,892	\$ 215,145	\$97,054	\$ 33,786	\$ 91,087	\$ 16,445	\$ -	\$487,409



impairment

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

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

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

The following table summarizes the recorded investment in impaired loans at March 31, 2015 and December 31, 2014:

	March 31, 2015			December 31, 2014		
	Recorded Unpaid Principal Balance	Specific Allowance Balance		Recorded Unpaid Principal Balance	Specific Allowance Balance	
<i>(In Thousands)</i>						
<b>Loans without a specific valuation allowance</b>						
Real estate - residential mortgage:						
One to four family units	\$ 869	\$ 869	\$ -	\$ 632	\$ 632	\$ -
Multi-family	-	-	-	-	-	-
Real estate - construction	74	74	-	74	74	-
Real estate - commercial	-	-	-	-	-	-
Commercial loans	333	333	-	341	341	-
Consumer and other loans	-	-	-	-	-	-
<b>Loans with a specific valuation allowance</b>						
Real estate - residential mortgage:						
One to four family units	\$ 548	\$ 548	\$ 80	\$ 279	\$ 279	\$ 36
Multi-family	-	-	-	-	-	-
Real estate - construction	2,612	3,867	375	2,819	4,074	376
Real estate - commercial	-	-	-	460	460	158
Commercial loans	623	926	323	685	988	203
Consumer and other loans	618	618	39	91	91	12

**Total**

Real estate - residential mortgage:

One to four family units	\$1,417	\$ 1,417	\$ 80	\$911	\$ 911	\$ 36
Multi-family	-	-	-	-	-	-
Real estate - construction	2,686	3,941	375	2,893	4,148	376
Real estate - commercial	-	-	-	460	460	158
Commercial loans	956	1,259	323	1,026	1,329	203
Consumer and other loans	618	618	39	91	91	12
<b>Total</b>	<b>\$5,677</b>	<b>\$ 7,235</b>	<b>\$ 818</b>	<b>\$5,381</b>	<b>\$ 6,939</b>	<b>\$ 785</b>

The following table summarizes average impaired loans and related interest recognized on impaired loans for the three months ended March 31, 2015 and 2014:

	For the Three Months Ended March 31, 2015 Average		For the Three Months Ended March 31, 2014 Average	
	Investment in Impaired Loans ( <i>In Thousands</i> )	Interest Income Recognized	Investment in Impaired Loans	Interest Income Recognized
<b>Loans without a specific valuation allowance</b>				
Real estate - residential mortgage:				
One to four family units	\$709	\$ -	\$681	\$ 1
Multi-family	-	-	-	-
Real estate - construction	74	-	95	-
Real estate - commercial	-	-	553	-
Commercial loans	336	-	2,689	-
Consumer and other loans	489	-	-	-
<b>Loans with a specific valuation allowance</b>				
Real estate - residential mortgage:				
One to four family units	\$550	\$ -	\$334	\$ -
Multi-family	-	-	-	-
Real estate - construction	2,750	-	4,234	-
Real estate - commercial	-	-	250	-
Commercial loans	623	-	3,096	-
Consumer and other loans	-	-	478	-
<b>Total</b>				
Real estate - residential mortgage:				
One to four family units	\$1,259	\$ -	\$1,015	\$ 1
Multi-family	-	-	-	-
Real estate - construction	2,824	-	4,329	-
Real estate - commercial	-	-	803	-
Commercial loans	959	-	5,785	-
Consumer and other loans	489	-	478	-
<b>Total</b>	<b>\$5,531</b>	<b>\$ -</b>	<b>\$12,410</b>	<b>\$ 1</b>

At March 31, 2015, 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 March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014
Real estate - residential mortgage:		
One to four family units	\$497,375	\$505,047
Multi-family	-	-
Real estate - construction	2,685,863	2,892,772
Real estate - commercial	-	459,823
Commercial loans	732,694	799,572
Consumer and other loans	-	-
Total	\$3,915,932	\$4,657,214

The bank did not have any new TDRs for the three months ending March 31, 2015. The Bank has allocated \$734,568 and \$773,652 of specific reserves to customers whose loan terms have been modified in TDR as of March 31, 2015 and December 31, 2014, respectively.

There were no TDRs for which there was a payment default within twelve months following the modification during the three months ending March 31, 2015 and 2014. 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 March 31, 2015 and December 31, 2014:



**March 31, 2015**

	Commercial Construction Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Total	
	<i>(In Thousands)</i>						
Rating:							
Pass	\$26,520	\$ 219,940	\$92,492	\$ 34,416	\$ 73,819	\$ 15,657	\$462,844
Special Mention	6,748	4,782	2,997	581	10,154	-	24,681
Substandard	2,686	4,923	1,640	-	3,675	741	14,246
Doubtful	-	-	-	-	-	-	-
Total	\$35,954	\$ 229,645	\$97,129	\$ 34,997	\$ 87,648	\$ 16,398	\$501,771

**December 31, 2014**

	Commercial Construction Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Total	
	<i>(In Thousands)</i>						
Rating:							
Pass	\$27,370	\$ 207,311	\$94,129	\$ 33,786	\$ 78,197	\$ 17,015	\$457,808
Special Mention	6,522	5,076	2,501	-	10,273	-	24,372
Substandard	2,893	2,758	1,271	-	3,644	231	10,797
Doubtful	-	460	-	-	-	-	460
Total	\$36,785	\$ 215,605	\$97,901	\$ 33,786	\$ 92,114	\$ 17,246	\$493,437

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 December 31, 2014 Annual Report on Form 10-K.

The table below summarizes transactions under the Company's stock option plans for three months ended March 31, 2015:

	Number of shares		Weighted Average Exercise Price
	Incentive Stock Option	Non-Incentive Stock Option	
Balance outstanding as of January 1, 2015	140,300	82,500	\$ 18.23
Granted	-	-	\$ -
Exercised	(1,300 )	(20,000 )	\$ 5.23
Forfeited	(18,000 )	-	\$ 23.33
Balance outstanding as of March 31, 2015	121,000	62,500	\$ 19.24
Options exercisable as of March 31, 2015	121,000	62,500	\$ 19.24

Stock-based compensation expense, consisting of stock options and restricted stock awards, recognized for the three months ended March 31, 2015 and 2014 was \$42,599 and \$28,787, respectively. As of March 31, 2015, there was \$410,261 of unrecognized compensation expense related to nonvested restricted stock awards, which will be recognized over the remaining vesting period.

In February 2015, the Company granted restricted stock to directors pursuant to the 2010 Equity Plan that was fully vested and thus, expensed in full during the three months ended March 31, 2015. The amount expensed was \$122,476 for the quarter which represents 8,281 shares of common stock at a market price of \$14.79 at the date of grant.

In February 2015, the company granted 17,704 shares of restricted stock to officers that have a cliff vesting at the end of three years. The expense is being recognized over the applicable vesting period. The amount expensed during the first quarter of 2015 was \$19,013.

**Note 6: Income Per Common Share**

	For three months ended March 31, 2015		
	Income Available to Common Stockholders	Average Common Shares Outstanding	Per Common Share
Basic Income per Common Share	\$ 1,329,544	4,315,229	\$ 0.31
Effect of Dilutive Securities		58,772	
Diluted Income per Common Share	\$ 1,329,544	4,374,001	\$ 0.30

	For three months ended March 31, 2014		
	Income Available to Common Stockholders	Average Common Shares Outstanding	Per Common Share
Basic Income per Common Share	\$ 1,055,216	3,166,463	\$ 0.33
Effect of Dilutive Securities		61,416	
Diluted Income per Common Share	\$ 1,055,216	3,227,879	\$ 0.33

Stock options to purchase 108,500 and 136,500 shares of common stock were outstanding during the three months ended March 31, 2015 and 2014, respectively, but were not included in the computation of diluted income per common share because their exercise price was greater than the average market price of the common shares.

**Note 7: New Accounting Pronouncements**

In January 2015, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-01, which amends FASB ASC Topic 323, *Investments – Equity Method and Joint Ventures*. The ASU impacts the Company’s accounting for investments in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments in the update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. The Company does have significant investments in such qualified affordable housing projects that meet the conditions for utilizing the proportional amortization method. The Company’s adoption of this ASU did not have a

material impact on the Company's financial position or results of operations, except that the investment amortization expense which was included in Other Non-interest Expense in the Consolidated Statements of Income, is now included in Provision for Income Taxes in the Consolidated Statements of Income.

In June 2014, the FASB issued ASU No. 2014-11 “*Transfers and Servicing (Topic 860)-Repurchase to Maturity Transactions, Repurchase Financings, and Disclosures.*” ASU 2014-11 aligns the accounting for repurchase to maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. ASU 2014-11 is effective for the first interim or annual period beginning after December 15, 2014. In addition, the disclosure of certain transactions accounted for as a sale is effective for the first interim or annual period beginning on or after December 15, 2014 and the disclosure for transactions accounted for as secured borrowings is required for annual periods beginning after December 15, 2014, and interim periods beginning March 15, 2015. Early adoption is prohibited. The Company adopted ASU 2014-11 on January 1, 2015 and it did not have an impact on its accounting and disclosures.

In January 2014, the FASB issued ASU No. 2014-04 to amend FASB ASC Topic 310, *Receivables – Troubled Debt Restructurings by Creditors*. The objective of the amendments in this update is to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments in this update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The update was effective for the Company beginning January 1, 2015, and did not have a material impact on the Company’s financial position or results of operations.

#### **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 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 March 31, 2015 and December 31, 2014 (dollar amounts in thousands):

**3/31/2015**

Financial assets:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities	\$ 105	\$-	\$ -	\$ 105
Debt securities:				
U.S. government agencies	-	8,452	-	8,452
Municipals	-	16,324	-	16,324
Corporates	-	3,880	-	3,880
Government sponsored mortgage-backed securities and SBA loan pools	-	58,495	-	58,495
Available-for-sale securities	\$ 105	\$ 87,151	\$ -	\$ 87,256

**12/31/2014**

Financial assets:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities	\$ 105	\$-	\$ -	\$ 105
Debt securities:				
U.S. government agencies	-	10,257	-	10,257
Municipals	-	15,590	-	15,590
Government sponsored mortgage-backed securities and SBA loan pools	-	60,516	-	60,516
Available-for-sale securities	\$ 105	\$ 86,363	\$ -	\$ 86,468

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

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

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



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

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2015 and December 31, 2014 (dollar amounts in thousands):

Impaired loans:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
March 31, 2015	\$ -	\$ -	\$4,305	\$4,305
December 31, 2014	\$ -	\$ -	\$4,076	\$4,076

Foreclosed assets held for sale:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
March 31, 2015	\$ -	\$ -	\$ -	\$ -
December 31, 2014	\$ -	\$ -	\$ 354	\$ 354

There were no transfers between valuation levels for any asset during the three months ended March 31, 2015 or 2014. 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	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans (collateral dependent)	\$3,989	Market Comparable	Discount to reflect realizable value	0%-16% (10%)
Impaired loans	\$316		Discount rate	0%-52% (51%)

Discounted cash  
flow

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 and securities sold under agreements to repurchase

The fair value of advances and securities sold under agreements to repurchase is estimated by using rates on debt with similar terms and remaining maturities.

Subordinated debentures

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

Interest payable

The carrying amount approximates fair value.

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

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

The following tables present estimated fair values of the Company's financial instruments at March 31, 2015 and December 31, 2014.

	March 31, 2015		
	Carrying	Fair Value	Hierarchy
	Amount		Level

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

Financial assets:			
Cash and cash equivalents	\$44,056,887	\$44,056,887	1
Held-to-maturity securities	56,523	58,008	2
Federal Home Loan Bank stock	2,847,500	2,847,500	2
Mortgage loans held for sale	1,417,706	1,417,706	2
Loans, net	494,728,868	496,967,473	3
Interest receivable	1,828,834	1,828,834	2
Financial liabilities:			
Deposits	525,821,413	523,547,849	2
Federal Home Loan Bank advances	52,350,000	54,026,598	2
Securities sold under agreements to repurchase	10,000,000	10,413,014	2
Subordinated debentures	15,465,000	15,465,000	3
Interest payable	240,626	240,626	2
Unrecognized financial instruments (net of contractual value):			
Commitments to extend credit	-	-	-
Unused lines of credit	-	-	-

	December 31, 2014		Hierarchy Level
	Carrying Amount	Fair Value	
Financial assets:			
Cash and cash equivalents	\$12,493,890	\$12,493,890	1
Held-to-maturity securities	60,993	62,619	2
Federal Home Loan Bank stock	3,156,900	3,156,900	2
Mortgage loans held for sale	1,214,632	1,214,632	2
Loans, net	486,586,636	487,244,753	3
Interest receivable	2,030,058	2,030,058	2
Financial liabilities:			
Deposits	479,818,282	476,519,750	2
FHLB and Federal Reserve advances	60,350,000	61,615,252	2
Securities sold under agreements to repurchase	10,000,000	10,371,866	2
Subordinated debentures	15,465,000	15,465,000	3
Interest payable	242,145	242,145	2
Unrecognized financial instruments (net of contractual value):			
Commitments to extend credit	-	-	-
Unused lines of credit	-	-	-

### Note 9: Preferred Stock and Common Stock Warrants

On January 30, 2009, the Company issued and sold, and the U.S. Department of the Treasury (the "Treasury") purchased, (1) 17,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock Series A (the "Series A Preferred Shares"), and (2) a ten-year warrant to purchase up to 459,459 shares of the Company's common stock at an exercise price of \$5.55 per share (the "Warrant"), for an aggregate purchase price of \$17.0 million. The Certificate of Designations by which the Series A Preferred Shares were created (the "Certificate of Designations") provided, among other things, that the Series A Preferred Shares were redeemable at the liquidation amount of \$1,000 per share plus accrued but unpaid dividends. The Certificate of Designations also provided for a dividend rate of 5% per annum for the first five years from the date of issuance which increased to 9% per annum thereafter. The Series A Preferred Shares qualified as Tier 1 capital.

On June 13, 2012, with regulatory approval, the Company redeemed 5,000 Series A Preferred Shares for \$5 million plus accrued and unpaid dividends of \$19,444, leaving 12,000 Series A Preferred Shares remaining outstanding and owned by Treasury.

The Company entered into a Placement Agency Agreement with the Treasury on April 15, 2013 in connection with a private auction by the Treasury of all of its remaining 12,000 Series A Preferred Shares which was conducted immediately thereafter (the "Private Auction"). On April 29, 2013, the Treasury settled the sale of such Series A

Preferred Shares to the winning bidders in the Private Auction, consisting of six parties unrelated to the Company.

Shortly thereafter, the Company repurchased the Warrant from Treasury pursuant to the terms thereof for the aggregate purchase price of \$2,003,250 in cash. As a result of the Warrant repurchase, the Company's participation in the CPP was completed.

On April 3, 2014, the Company received approval from the Board of Governors of the Federal Reserve System to redeem the Company's remaining 12,000 Series A Preferred Shares from the parties who had purchased them from Treasury or their affiliates, for the liquidation amount of \$12 million plus accrued but unpaid dividends of \$19.50 per Series A Preferred Share. At the time of the redemption, the Series A Preferred Shares carried a coupon rate of 9.0% per annum. The Company provided the holders of the Series A Preferred Stock with a formal notice of redemption and thirty days thereafter redeemed the Series A Preferred Stock on May 7, 2014, plus all accrued and unpaid dividends.

### **Note 10: Common Stock Offering**

On March 7, 2014, the Company closed an underwritten offering of its common stock. The Company raised approximately \$17.2 million in gross proceeds by selling 1,499,999 shares of its Treasury Stock, which includes the full exercise of the over-allotment option granted to the underwriters of 195,652 shares, at a price to the public of \$11.50 per share.

Net proceeds from the sale of the shares after underwriting discounts and estimated offering expenses were approximately \$15.8 million. The Company used the net proceeds from the offering to redeem the remaining 12,000 shares of the Company's Series A Preferred Stock on May 7, 2014 and intends to use the remaining net proceeds for working capital and for general corporate purposes, including potential future acquisitions.

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

### **General**

The primary function of the Company is to monitor and oversee its investment in the Bank. The Company engages in few other activities, and the Company has no significant assets other than its investment in the Bank. As a result, the results of operations of the Company are derived primarily from operations of the Bank. The Bank's results of operations are primarily dependent on net interest margin, which is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. The Bank's income is also affected by the level of its noninterest expenses, such as employee salaries and benefits, occupancy expenses and other expenses. The following discussion reviews material changes in the Company's financial condition as of March 31, 2015, and the results of operations for the three months ended March 31, 2015 and 2014.

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



time, including the risk factors described under Item 1A. of the Company's Form 10-K for the fiscal year ended December 31, 2014.

### **Financial Condition**

The Company's total assets increased \$39,978,851 (6%) from \$628,459,644 as of December 31, 2014, to \$668,438,495 as of March 31, 2015.

Cash and cash equivalents increased \$31,562,997 (253%) from \$12,493,890 as of December 31, 2014, to \$44,056,887 as of March 31, 2015. This was primarily due to the increase of \$46,003,131 in deposits as further described below offset by an increase in net loans receivable of \$8,142,232 and paydowns of FHLB and Federal Reserve advances of \$8,000,000.

Available-for-sale securities increased \$787,755 (1%) from \$86,467,985 as of December 31, 2014, to \$87,255,740 as of March 31, 2015. The Company had purchases of \$12,283,794 offset by sales, maturities and principal payments received of \$12,115,821. The bank had unrealized gains of \$68,733 at March 31, 2015 which was an improvement from unrealized losses of \$711,779 at December 31, 2014.

Net loans receivable increased by \$8,142,232 (2%) from \$486,586,636 as of December 31, 2014, to \$494,728,868 as of March 31, 2015. During the quarter, commercial real estate loans increased \$14,039,591 (7%) and construction loans decreased \$830,294 (2%). These changes were primarily due to two larger credits classified as construction being completed and transferred to the commercial real estate category and one larger new loan. Also, commercial loans decreased \$4,466,313 (5%) which was due to various expected payoffs and principal reductions. Permanent multi-family loans increased \$1,211,621 (4%) due to various new loans. Loans secured by owner occupied one to four unit residential real estate decreased \$771,734 (1%) and installment loans decreased \$848,525 (5%). The Company continues to focus its lending efforts in the commercial and owner occupied real estate loan categories, and to reduce its concentrations in non-owner occupied commercial real estate.

Allowance for loan losses increased \$167,074 (3%) from \$6,588,597 as of December 31, 2014 to \$6,755,671 as of March 31, 2015. In addition to the provision for loan loss of \$150,000 recorded by the Company for the quarter ended March 31, 2015, loan recoveries exceeded charge-offs of specific loans (classified as nonperforming at December 31, 2014) by \$17,074. The increase in the allowance is primarily due to the increase in loan balances. The allowance for loan losses, as a percentage of gross loans outstanding (excluding mortgage loans held for sale), as of March 31, 2015 and December 31, 2014 was 1.35% and 1.34%, respectively. The allowance for loan losses, as a percentage of nonperforming loans outstanding, as of March 31, 2015 and December 31, 2014 was 133.1% and 124.5%, respectively. Management believes the allowance for loan losses is at a level to be sufficient in providing for potential loan losses in the Bank's existing loan portfolio.

Deposits increased \$46,003,131 (10%) from \$479,818,282 as of December 31, 2014, to \$525,821,413 as of March 31, 2015. For the three months ended March 31, 2015, checking and savings accounts increased by \$43,344,354 and certificates of deposit increased by \$2,658,777. 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. See also the discussion under "Quantitative and Qualitative Disclosure about Market Risk – Asset/Liability Management."

Federal Home Loan Bank and Federal Reserve Bank advances decreased \$8,000,000 (13%) from \$60,350,000 as of December 31, 2014, to \$52,350,000 as of March 31, 2015 due to principal reductions.

Stockholders' equity (including unrealized gain on available-for-sale securities, net of tax) increased \$1,864,991 from \$61,476,847 as of December 31, 2014, to \$63,341,838 as of March 31, 2015. The Company's net income during this period was \$1,329,544. On a per common share basis, stockholders' equity increased from \$14.30 as of December 31, 2014 to \$14.62 as of March 31, 2015.

#### **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 3/31/2015			Three months ended 3/31/2014		
	Average Balance	Interest	Yield / Cost	Average Balance	Interest	Yield / Cost
<b>ASSETS</b>						
Interest-earning:						
Loans	\$500,463	\$5,905	4.79 %	\$457,080	\$5,868	5.21 %
Investment securities	87,021	353	1.65 %	103,286	457	1.79 %
Other assets	26,200	30	0.46 %	33,406	35	0.42 %
Total interest-earning	613,684	6,288	4.16 %	593,772	6,360	4.34 %
Noninterest-earning	37,175			39,716		
	\$650,859			\$633,488		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Interest-bearing:						
Savings accounts	\$24,188	12	0.20 %	\$24,050	12	0.20 %
Transaction accounts	318,965	319	0.41 %	308,494	337	0.44 %
Certificates of deposit	120,527	264	0.89 %	124,508	258	0.84 %
FHLB advances	57,234	299	2.12 %	52,706	296	2.28 %
Securities sold under agreements to repurchase	10,000	65	2.64 %	10,000	65	2.64 %
Subordinated debentures	15,465	133	3.49 %	15,465	133	3.49 %
Total interest-bearing	546,379	1,092	0.81 %	535,223	1,101	0.83 %
Noninterest-bearing	41,455			41,726		
Total liabilities	587,834			576,949		
Stockholders' equity	63,025			56,539		
	\$650,859			\$633,488		
Net earning balance	\$67,305			\$58,549		
Earning yield less costing rate			3.34 %			3.51 %
Net interest income, and net yield spread on interest earning assets		\$5,196	3.43 %		\$5,259	3.59 %
Ratio of interest-earning assets to interest-bearing liabilities		112 %			111 %	

#### Results of Operations - Comparison of Three Month Periods Ended March 31, 2015 and 2014

Net income for the three months ended March 31, 2015 and 2014 was \$1,329,544 and \$1,301,426, respectively, which represents an increase in earnings of \$28,118 (2%).

### **Interest Income**

Total interest income for the three months ended March 31, 2015 decreased \$72,427 (1%) as compared to the three months ended March 31, 2014. For the three month period ended March 31, 2015 compared to the same period in 2014, the average yield on interest earning assets decreased 18 basis points to 4.16%, while the average balance of interest earning assets increased approximately \$19,913,000. The Company has continued to experience strong loan volume during the first quarter, as well as over the last twelve months. This has allowed the Company to put more low yielding cash and investment funds into higher yielding loans. However, pricing on loans remains challenging due to significant competition on new and existing credit relationships. This pricing pressure has adversely impacted the ability to maintain loan yield compared to 2014. Also impacting loan yield and loan income, compared to one year ago, was the recognition of approximately \$335,000 of interest income during the first quarter 2014 on the payoff of a credit relationship that had been classified as non-accrual. Due to this one-time adjustment, the Company's total interest income declined \$72,000 for the first quarter compared to the prior year quarter. For the quarter, the Company's total earning asset yield declined to 4.16% as compared to 4.34% during the same quarter in 2014.

### **Interest Expense**

Total interest expense for the three months ended March 31, 2015 decreased \$9,207 (1%) when compared to the three months ended March 31, 2014. For the three month period ended March 31, 2015, the average cost of interest bearing liabilities decreased 2 basis points to 0.81%, and the average balance of interest bearing liabilities increased approximately \$11,155,000 when compared to the same period in 2014. Over the last several quarters, the Company's cost of funds has improved. Significant efforts to grow lower cost core deposit relationships have been successful and allowed for reductions in wholesale funding and higher cost transaction and certificates of deposit accounts during the quarter.

### **Net Interest Income**

Net interest income for the three months ended March 31, 2015 decreased \$63,220 (1%) when compared to the same period in 2014. The average balance of interest earning assets increased by approximately \$8,758,000 more than the average balance of interest bearing liabilities increased when comparing the three month period ended March 31, 2015 to the same period in 2014. For the three month period ended March 31, 2015, the net interest margin decreased 16 basis points to 3.43% when compared to the same period in 2014.

### **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 \$150,000 for the three months ended March 31, 2015, compared to \$200,000 for the same period in 2014.

The Company's increase in overall loan balances during the first quarter has increased the general component of the allowance for loan loss reserve requirements. 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 \$184,016 (23%) for the three months ended March 31, 2015 when compared to the three months ended March 31, 2014.

Gain on sale of loans increased \$193,488 (104%) for the three months ended March 31, 2015 when compared to the same period in 2014. Fixed-rate mortgage volume of \$14.1 million for the quarter was an increase of 110% compared to the prior year quarter.

### **Noninterest Expense**

Noninterest expense increased \$6,441 (less than 1%) for the three months ended March 31, 2015 when compared to the three months ended March 31, 2014. Salaries and employee benefits increased \$148,000 due to the addition of key officers during the fourth quarter of 2014 and an increase of \$61,000 in mortgage commissions from the improved mortgage volume noted above. Offsetting the increases in personnel expense were reductions in other areas, primarily a decline in legal and other professional fees of \$127,000 and FDIC deposit insurance premium expenses of \$30,000.

### **Provision for Income Taxes**

The provision for income taxes increased by \$136,237 (30%) for the three months ended March 31, 2015 when compared to the three months ended March 31, 2014. Effective during the first quarter of 2015, the Company adopted FASB ASU No. 2014-01 (see Note 7: New Accounting Pronouncements for further discussion). The Company's adoption of this ASU did not have a material impact on the Company's financial position or results of operations, except that the investment amortization expense (\$221,000) which was previously included in Other Non-interest Expense in the Consolidated Statements of Income, is now included in Provision for Income Taxes in the Consolidated Statements of Income for the three months ended March 31, 2015. For the three months ended March 31, 2014, \$221,000 was also reclassified from Other Noninterest Expense to Provision for Income Taxes.

### **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 March 31, 2015 and December 31, 2014 was 133.1% and 124.5%, respectively. Total loans classified as substandard, doubtful or loss as of March 31, 2015, were \$13,664,935 or 2.72% of total assets as compared to \$11,256,195 or 1.79% of total assets at December 31, 2014. Management considered nonperforming and total classified loans in evaluating the adequacy of the Bank's allowance for loan losses.

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



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

	3/31/2015	12/31/2014	12/31/2013		
Nonperforming loans	\$ 5,075	\$ 5,291	\$ 15,848		
Troubled debt restructurings	-	-	-		
Real estate acquired in settlement of loans	3,160	3,165	3,822		
Total nonperforming assets	\$ 8,235	\$ 8,456	\$ 19,670		
Total nonperforming assets as a percentage of total assets	1.23	% 1.35	% 3.17	%	
Allowance for loan losses	\$ 6,756	\$ 6,589	\$ 7,802		
Allowance for loan losses as a percentage of gross loans	1.34	% 1.33	% 1.65	%	

## Liquidity and Capital Resources

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

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 \$44,056,887 as of March 31, 2015 and \$12,493,890 as of December 31, 2014, representing an increase of \$31,562,997. 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. This increase was primarily due to the increase of \$46,003,131 in deposits as further described above offset by an increase in net loans receivable of \$8,142,232 and paydowns of FHLB and Federal Reserve advances of \$8,000,000.

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 Company and 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 Company and 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 results 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 Company and the Bank under Basel III will continue to exceed the well capitalized minimum capital requirements.

The Bank's capital ratios are above the levels required to be considered a well-capitalized financial institution. As of March 31, 2015, the Bank's common equity Tier 1 ratio was 13.29%, the Bank's Tier 1 leverage ratio was 11.33%, its Tier 1 risk-based capital ratio was 13.29% and the Bank's total risk-based capital ratio was 14.51% - all exceeding the minimums of 6.5%, 5.0%, 8.0% and 10.0%, respectively.

On March 7, 2014, the Company closed an underwritten offering of its common stock. The Company raised approximately \$17.2 million in gross proceeds by re-issuing 1,499,999 shares of treasury stock, which includes the full exercise of the over-allotment option granted to the underwriters of 195,652 shares, at a price to the public of \$11.50 per share. Net proceeds from the sale of the shares after underwriting discounts and estimated offering expenses were approximately \$15.9 million. The Company used the net proceeds from the offering to redeem the remaining 12,000 shares of the Company's Series A Preferred Stock on May 7, 2014 and intends to use the remaining net proceeds for working capital and for general corporate purposes, including potential future acquisitions.

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

#### **Asset/Liability Management**

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

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

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

### **Interest Rate Sensitivity Analysis**

The following table sets forth as of March 31, 2015 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	\$65,053	\$(1,114)	-2	% 9.91	% 0.10	%	%
+100	65,010	(1,157)	-2	% 9.78	% -0.03	%	%
NC	66,167	-	0	% 9.81	% 0.00	%	%
-100	66,831	664	1	% 9.80	% -0.01	%	%
-200	73,820	7,653	12	% 10.72	% 0.90	%	%

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 2014 Annual Report on Form 10-K.

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

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

#### **Item 4. Controls and Procedures**

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

During the quarter ended March 31, 2015, the Company conducted an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2015.

(b) There have been no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2015 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 March 31, 2015.

### **Item 3. Defaults Upon Senior Securities**

Not applicable.

### **Item 4. Mine Safety Disclosures**

Not applicable.

### **Item 5. Other Information**

None

**Item 6. Exhibits**

- 10.1 Written Description of 2015 Executive Incentive Compensation Annual Plans-Chief Executive, Chief Financial, Chief Operating, Chief Lending and Chief Credit Officers\* (1)
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 March 31, 2015 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.\*\*

\* Management contract or compensatory plan or arrangement

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.

---

(1) Filed as Exhibit 10.1 through 10.5 to the Current Report on Form 8-K filed by the Registrant on March 3, 2015 and incorporated herein by reference.

## 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    May 8, 2015  
Shaun A. Burke  
President and Chief  
Executive Officer  
(Principal Executive  
Officer and Duly  
Authorized Officer)

/s/ Carter Peters    May 8, 2015  
Carter Peters  
Executive Vice  
President and Chief  
Financial Officer  
(Principal Financial  
and Accounting  
Officer)



