

GUARANTY FEDERAL BANCSHARES INC
Form 10-Q
August 10, 2017
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 June 30, 2017

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, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

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

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

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 August 8, 2017</u>
Common Stock, Par Value \$0.10 per share	4,421,775 Shares

GUARANTY FEDERAL BANCSHARES, INC.

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PART I FINANCIAL INFORMATION**Item 1. Financial Statements****GUARANTY FEDERAL BANCSHARES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****JUNE 30, 2017 (UNAUDITED) AND DECEMBER 31, 2016**

	6/30/17	12/31/16
ASSETS		
Cash and due from banks	\$3,531,188	\$3,769,478
Interest-bearing deposits in other financial institutions	7,216,159	5,318,963
Cash and cash equivalents	10,747,347	9,088,441
Available-for-sale securities	85,006,043	92,399,235
Held-to-maturity securities	20,954	27,528
Stock in Federal Home Loan Bank, at cost	4,577,500	4,611,000
Mortgage loans held for sale	1,903,062	2,183,633
Loans receivable, net of allowance for loan losses of June 30, 2017 - \$6,640,164 - December 31, 2016 - \$5,742,449	608,159,460	538,273,640
Accrued interest receivable	2,060,646	1,947,063
Prepaid expenses and other assets	3,487,669	2,961,336
Foreclosed assets held for sale	1,302,012	2,682,353
Premises and equipment, net	11,717,390	10,871,039
Bank owned life insurance	19,505,622	19,272,893
Deferred and income taxes receivable	3,231,501	3,661,658
	\$751,719,206	\$687,979,819

LIABILITIES AND STOCKHOLDERS' EQUITY**LIABILITIES**

Deposits	\$567,013,636	\$505,362,750
Federal Home Loan Bank advances	93,800,000	95,700,000
Subordinated debentures	15,465,000	15,465,000
Advances from borrowers for taxes and insurance	374,878	192,460
Accrued expenses and other liabilities	1,528,647	1,077,396
Accrued interest payable	213,907	207,833
	678,396,068	618,005,439

COMMITMENTS AND CONTINGENCIES

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STOCKHOLDERS' EQUITY

Capital Stock:

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Common stock, \$0.10 par value; authorized 10,000,000 shares; issued June 30, 2017 and December 31, 2016 - 6,875,503 shares	687,550	687,550
Additional paid-in capital	50,569,054	50,552,077
Retained earnings, substantially restricted	59,484,791	57,347,282
Accumulated other comprehensive loss	(292,716)	(1,309,241)
	110,448,679	107,277,668
Treasury stock, at cost; June 30, 2017 and December 31, 2016 - 2,453,728 and 2,465,476 shares, respectively	(37,125,541)	(37,303,288)
	73,323,138	69,974,380
	\$751,719,206	\$687,979,819

See Notes to Condensed Consolidated Financial Statements.

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GUARANTY FEDERAL BANCSHARES, INC.**CONDENSED CONSOLIDATED STATEMENTS OF INCOME****THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016 (UNAUDITED)**

	Three months ended		Six months ended	
	6/30/2017	6/30/2016	6/30/2017	6/30/2016
Interest Income				
Loans	\$6,743,613	\$5,628,133	\$12,990,123	\$11,330,025
Investment securities	454,040	525,713	929,509	983,564
Other	43,855	50,468	93,278	95,770
	7,241,508	6,204,314	14,012,910	12,409,359
Interest Expense				
Deposits	746,701	570,194	1,368,555	1,155,011
FHLB and Federal Reserve advances	449,698	313,108	849,625	614,272
Subordinated debentures	155,910	143,480	307,590	282,910
	1,352,309	1,026,782	2,525,770	2,052,193
Net Interest Income	5,889,199	5,177,532	11,487,140	10,357,166
Provision for Loan Losses	575,000	375,000	1,050,000	750,000
Net Interest Income After Provision for Loan Losses	5,314,199	4,802,532	10,437,140	9,607,166
Noninterest Income				
Service charges	290,926	279,099	558,032	545,068
Gain on sale of investment securities	62,274	60,375	62,274	111,405
Gain on sale of mortgage loans held for sale	523,534	382,583	932,148	732,457
Gain on sale of Small Business Administration loans	124,857	82,686	255,345	152,238
Net gain (loss) on foreclosed assets	(29,809)	(8,797)	8,264	(19,505)
Other income	395,278	383,467	780,362	766,572
	1,367,060	1,179,413	2,596,425	2,288,235
Noninterest Expense				
Salaries and employee benefits	2,934,648	2,705,866	5,792,419	5,256,798
Occupancy	485,154	433,124	971,383	877,825
FDIC deposit insurance premiums	59,377	127,864	112,489	244,714
Data processing	232,436	211,535	461,752	426,665
Advertising	131,250	131,250	262,500	262,500
Other expense	725,051	699,755	1,386,993	1,350,368
	4,567,916	4,309,394	8,987,536	8,418,870
Income Before Income Taxes	2,113,343	1,672,551	4,046,029	3,476,531
Provision for Income Taxes	520,770	416,399	1,024,215	943,774
Net Income Available to Common Shareholders	\$1,592,573	\$1,256,152	\$3,021,814	\$2,532,757
Basic Income Per Common Share	\$0.36	\$0.29	\$0.69	\$0.58
Diluted Income Per Common Share	\$0.36	\$0.28	\$0.68	\$0.57

See Notes to Condensed Consolidated Financial Statements.

GUARANTY FEDERAL BANCSHARES, INC.**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016 (UNAUDITED)**

	Three months ended		Six months ended	
	6/30/2017	6/30/2016	6/30/2017	6/30/2016
NET INCOME	\$1,592,573	\$1,256,152	\$3,021,814	\$2,532,757
OTHER ITEMS OF COMPREHENSIVE INCOME:				
Change in unrealized gain on investment securities available-for-sale, before income taxes	812,311	1,588,158	1,448,165	2,447,064
Change in unrealized gain on interest rate swaps, before income taxes	227,642	-	227,642	-
Less: Reclassification adjustment for realized gains on investment securities included in net income, before income taxes	(62,274)	(60,375)	(62,274)	(111,405)
Total other items of comprehensive income	977,679	1,527,783	1,613,533	2,335,659
Income tax expense related to other items of comprehensive income	361,742	565,280	597,008	864,193
Other comprehensive income	615,937	962,503	1,016,525	1,471,466
TOTAL COMPREHENSIVE INCOME	\$2,208,510	\$2,218,655	\$4,038,339	\$4,004,223

See Notes to Condensed Consolidated Financial Statements.

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GUARANTY FEDERAL BANCSHARES, INC.**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY****SIX MONTHS ENDED JUNE 30, 2017 (UNAUDITED)**

	Common Stock	Additional Paid- In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2017	\$687,550	\$50,552,077	\$(37,303,288)	\$57,347,282	\$(1,309,241)	\$69,974,380
Net income	-	-	-	3,021,814	-	3,021,814
Change in unrealized gain on available-for-sale securities and effect of interest rate swaps, net of income taxes					1,016,525	1,016,525
Dividends on common stock (\$0.20 per share)	-	-	-	(884,305)	-	(884,305)
Stock award plans	-	16,977	177,747	-	-	194,724
Balance, June 30, 2017	\$687,550	\$50,569,054	\$(37,125,541)	\$59,484,791	\$(292,716)	\$73,323,138

See Notes to Condensed Consolidated Financial Statements.

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GUARANTY FEDERAL BANCSHARES, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****SIX MONTHS ENDED JUNE 30, 2017 AND 2016 (UNAUDITED)**

	6/30/2017	6/30/2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$3,021,814	\$2,532,757
Items not requiring (providing) cash:		
Deferred income taxes	(786,131)	(124,379)
Depreciation	465,587	401,932
Provision for loan losses	1,050,000	750,000
Gain on sale of mortgage loans held for sale and investment securities	(994,422)	(843,862)
Gain on sale of foreclosed assets	(60,132)	-
Gain on sale of Small Business Administration Loans	(255,345)	(152,238)
Amortization of deferred income, premiums and discounts	398,523	281,861
Stock award plan expense	194,724	213,260
Origination of loans held for sale	(30,824,846)	(28,598,708)
Proceeds from sale of loans held for sale	32,037,565	29,256,415
Increase in cash surrender value of bank owned life insurance	(232,729)	(245,382)
Changes in:		
Accrued interest receivable	(113,583)	106,091
Prepaid expenses and other assets	(302,583)	(51,540)
Accounts payable and accrued expenses	456,151	(54,158)
Income taxes receivable	619,280	459,404
Net cash provided by operating activities	4,673,873	3,931,453
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of loans receivable	-	(11,132,508)
Proceeds on sale of loans	19,683,510	-
Net change in loans	(90,700,542)	(17,629,540)
Principal payments on available-for-sale securities	3,655,127	3,909,170
Principal payments on held-to-maturity securities	6,573	9,241
Proceeds from calls/maturities of available-for-sale securities	-	535,000
Purchase of premises and equipment	(1,311,938)	(679,031)
Purchase of available-for-sale securities	(5,568,959)	(64,776,154)
Proceeds from sale of available-for-sale securities	10,717,148	54,920,025
Redemption (purchase) of Federal Home Loan Bank stock	33,500	(1,081,500)
Purchase of tax credit investments	(223,750)	-
Proceeds from sale of foreclosed assets held for sale	1,644,191	108,592
Net cash used in investing activities	(62,065,140)	(35,816,705)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid on common stock	(883,131)	(705,921)
Net increase in demand deposits, NOW accounts and savings accounts	38,682,025	781,901
Net increase (decrease) in certificates of deposit	22,968,861	(3,753,036)
Proceeds from Federal Home Loan Bank advances	149,500,000	116,350,000

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Repayments of Federal Home Loan Bank and Federal Reserve advances	(151,400,000)	(90,050,000)
Advances from borrowers for taxes and insurance	182,418	200,869
Stock options exercised	-	85,800
Net cash provided by financing activities	59,050,173	22,909,613
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,658,906	(8,975,639)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	9,088,441	18,774,419
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$10,747,347	\$9,798,780

See Notes to Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation

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

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Guaranty Federal Bancshares, Inc.'s (the "Company") Annual Report on Form 10-K for the year ended December 31, 2016 ("2016 Annual Report") filed with the Securities and Exchange Commission (the "SEC"). The results of operations for the periods are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet of the Company as of December 31, 2016, has been derived from the audited consolidated balance sheet of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted.

Note 2: Principles of Consolidation

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

Note 3: Securities

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

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of June 30, 2017				
Debt Securities:				
Municipals	35,989,090	235,378	(368,313)	35,856,155
Corporates	3,000,000	55,000	-	3,055,000
Government sponsored mortgage-backed securities and SBA loan pools	46,709,113	22,669	(636,894)	46,094,888
	\$85,698,203	\$ 313,047	\$(1,005,207)	\$85,006,043

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

Maturities of available-for-sale debt securities as of June 30, 2017:

	Amortized Cost	Approximate Fair Value
1-5 years	2,846,819	2,890,286
6-10 years	15,422,023	15,486,199
After 10 years	20,720,248	20,534,670
Government sponsored mortgage-backed securities and SBA loan pools not due on a single maturity date	46,709,113	46,094,888
	\$ 85,698,203	\$ 85,006,043

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of June 30, 2017				
Debt Securities:				
Government sponsored mortgage-backed securities	\$ 20,954	\$ 568	\$ (17)	\$ 21,505

Amortized Gross Gross Approximate

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

Maturities of held-to-maturity securities as of June 30, 2017:

	Amortized	Approximate
	Cost	Fair Value
Government sponsored mortgage-backed securities not due on a single maturity date	\$ 20,954	\$ 21,505

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$62,989,893 and \$48,723,259 as of June 30, 2017 and December 31, 2016, respectively. The approximate fair value of pledged securities amounted to \$62,398,478 and \$47,617,900 as of June 30, 2017 and December 31, 2016, 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 \$62,274 and \$111,405 as of June 30, 2017 and June 30, 2016, respectively, were realized from the sale of available-for-sale securities. The tax effect of these net gains was \$23,041 and \$41,220 as of June 30, 2017 and June 30, 2016, 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 June 30, 2017 and December 31, 2016, was \$62,887,238 and \$79,361,229, respectively, which is approximately 74% and 86% of the Company's investment portfolio.

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 June 30, 2017 and December 31, 2016.

June 30, 2017

Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized	Fair Value	Unrealized	Fair Value	Unrealized
		Losses		Losses		Losses
Municipals	19,268,849	(306,515)	1,572,882	(61,798)	20,841,731	(368,313)
Government sponsored mortgage-backed securities and SBA loan pools	36,305,898	(512,187)	5,739,609	(124,724)	42,045,507	(636,911)
	\$55,574,747	\$(818,702)	\$7,312,491	\$(186,522)	\$62,887,238	\$(1,005,224)

December 31, 2016

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

Note 4: Loans and Allowance for Loan Losses

Categories of loans at June 30, 2017 and December 31, 2016 include:

	June 30, 2017	December 31, 2016
Real estate - residential mortgage:		
One to four family units	\$106,372,711	\$106,410,559
Multi-family	76,025,304	48,483,523
Real estate - construction	56,812,066	40,912,307
Real estate - commercial	263,215,296	249,580,873
Commercial loans	87,030,844	75,404,732
Consumer and other loans	25,858,453	23,606,306
Total loans	615,314,674	544,398,300
Less:		
Allowance for loan losses	(6,640,164)	(5,742,449)
Deferred loan fees/costs, net	(515,050)	(382,211)
Net loans	\$608,159,460	\$538,273,640

Classes of loans by aging at June 30, 2017 and December 31, 2016 were as follows:

As of June 30, 2017

30-59 Days	60-89 Days	90 Days	Total Past	Current	Total Loans	Total Loans
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	Past Due	Past Due	and more	Due		Receivable	> 90 Days
			Past Due				and Accruing
<i>(In Thousands)</i>							
Real estate - residential mortgage:							
One to four family units	\$1,153	\$422	\$193	\$1,768	\$104,605	\$106,373	\$ -
Multi-family	351	-	-	351	75,674	76,025	-
Real estate - construction	\$7,440	-	-	7,440	49,372	56,812	-
Real estate - commercial	161	-	666	827	262,388	263,215	-
Commercial loans	601	-	1,278	1,879	85,152	87,031	-
Consumer and other loans	-	-	7	7	25,852	25,859	-
Total	\$9,706	\$422	\$2,144	\$12,272	\$603,043	\$615,315	\$ -

As of December 31, 2016

	30-59 Days	60-89 Days	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	\$ 367	\$ 495	\$ 103	\$ 965	\$ 105,446	\$ 106,411	\$ -
Multi-family	-	-	-	-	48,483	48,483	-
Real estate - construction	-	-	-	-	40,912	40,912	-
Real estate - commercial	-	-	-	-	249,581	249,581	-
Commercial loans	-	-	593	593	74,812	75,405	-
Consumer and other loans	-	-	38	38	23,568	23,606	-
Total	\$ 367	\$ 495	\$ 734	\$ 1,596	\$ 542,802	\$ 544,398	\$ -

Nonaccruing loans are summarized as follows:

	June 30, 2017	December 31, 2016
Real estate - residential mortgage:		
One to four family units	\$ 1,847,293	\$ 2,060,180
Multi-family	-	-
Real estate - construction	5,364,771	5,446,896
Real estate - commercial	827,272	161,491
Commercial loans	1,670,686	925,281
Consumer and other loans	6,400	37,791
Total	\$ 9,716,422	\$ 8,631,639

The following tables present the activity in the allowance for loan losses based on portfolio segment for the three and six months ended June 30, 2017 and 2016:

Three months ended	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
June 30, 2017								
<i>(In Thousands)</i>								
Allowance for loan losses:								
Balance, beginning of period	\$ 1,299	\$ 1,742	\$ 818	\$ 273	\$ 883	\$ 282	\$ 875	\$ 6,172

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Provision charged to expense	142	119	51	50	99	88	26	\$575
Losses charged off	-	-	-	-	(85)	(53)	-	\$(138)
Recoveries	21	-	2	-	2	6	-	\$31
Balance, end of period	\$1,462	\$ 1,861	\$ 871	\$ 323	\$ 899	\$ 323	\$ 901	\$6,640

Six months ended June 30, 2017	Commercial Construction Real Estate		One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
	<i>(In Thousands)</i>							
Balance, beginning of period	\$1,377	\$ 1,687	\$ 856	\$ 206	\$ 1,168	\$ 337	\$ 111	\$5,742
Provision charged to expense	46	174	18	117	(188)	93	790	\$1,050
Losses charged off	-	-	(11)	-	(85)	(123)	-	\$(219)
Recoveries	39	-	8	-	4	16	-	\$67
Balance, end of period	\$1,462	\$ 1,861	\$ 871	\$ 323	\$ 899	\$ 323	\$ 901	\$6,640

Three months ended	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
June 30, 2016								
Allowance for loan losses:	<i>(In Thousands)</i>							
Balance, beginning of period	\$ 1,868	\$ 1,486	\$ 826	\$ 159	\$ 1,503	\$ 270	\$ 73	\$ 6,185
Provision charged to expense	19	101	77	(2)	21	5	154	\$ 375
Losses charged off	(252)	-	(47)	-	(159)	(45)	-	\$(503)
Recoveries	33	26	6	-	1	58	-	\$ 124
Balance, end of period	\$ 1,668	\$ 1,613	\$ 862	\$ 157	\$ 1,366	\$ 288	\$ 227	\$ 6,181

Six months ended	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
June 30, 2016								
Allowance for loan losses:	<i>(In Thousands)</i>							
Balance, beginning of period	\$ 1,246	\$ 1,526	\$ 821	\$ 177	\$ 1,382	\$ 223	\$ 437	\$ 5,812
Provision charged to expense	640	55	74	(20)	142	69	(210)	\$ 750
Losses charged off	(252)	-	(47)	-	(159)	(74)	-	\$(532)
Recoveries	34	32	14	-	1	70	-	\$ 151
Balance, end of period	\$ 1,668	\$ 1,613	\$ 862	\$ 157	\$ 1,366	\$ 288	\$ 227	\$ 6,181

The following tables present the recorded investment in loans based on portfolio segment and impairment method as of June 30, 2017 and December 31, 2016:

As of June 30, 2016	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Unallocated	Total
Allowance for loan losses:	<i>(In Thousands)</i>							
Ending balance: individually evaluated for impairment	\$ 277	\$ 93	\$ 65	\$ -	\$ 327	\$ 12	\$ -	\$ 774

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Ending balance: collectively evaluated for impairment	\$ 1,185	\$ 1,768	\$ 806	\$ 323	\$ 572	\$ 311	\$ 901	\$ 5,866
Loans: Ending balance: individually evaluated for impairment	\$ 5,364	\$ 328	\$ 1,848	\$ -	\$ 975	\$ 64	\$ -	\$ 8,579
Ending balance: collectively evaluated for impairment	\$ 51,448	\$ 262,887	\$ 104,525	\$ 76,025	\$ 86,056	\$ 25,795	\$ -	\$ 606,736

December 31, 2016	Commercial		One to	Multi-family	Consumer		Unallocated	Total
	Construction	Real Estate	four family		Commercial	and Other		
Allowance for loan losses: (In Thousands)								
Ending balance: individually evaluated for impairment	\$ 302	\$ -	\$ 14	\$ -	\$ 241	\$ 45	\$ -	\$ 602
Ending balance: collectively evaluated for impairment	\$ 1,075	\$ 1,687	\$ 842	\$ 206	\$ 927	\$ 292	\$ 111	\$ 5,140
Loans: Ending balance: individually evaluated for impairment	\$ 5,447	\$ 161	\$ 2,060	\$ -	\$ 925	\$ 106	\$ -	\$ 8,699
Ending balance: collectively evaluated for impairment	\$ 35,465	\$ 249,420	\$ 104,351	\$ 48,483	\$ 74,480	\$ 23,500	\$ -	\$ 535,699

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

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

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

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

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

The following table summarizes the recorded investment in impaired loans at June 30, 2017 and December 31, 2016:

	June 30, 2017			December 31, 2016		
	Recorded Unpaid Principal Balance	Specific Allowance	Balance	Recorded Unpaid Principal Balance	Specific Allowance	Balance
Loans without a specific valuation allowance						
Real estate - residential mortgage:						
One to four family units	\$1,802	\$1,802	\$ -	\$2,006	\$2,006	\$ -
Multi-family	-	-	-	-	-	-
Real estate - construction	2,967	2,967	-	3,017	3,017	-
Real estate - commercial	328	328	-	161	161	-
Commercial loans	540	540	-	622	622	-
Consumer and other loans	6	6	-	3	3	-
Loans with a specific valuation allowance						
Real estate - residential mortgage:						
One to four family units	\$46	\$46	\$ 65	\$54	\$54	\$ 14
Multi-family	-	-	-	-	-	-
Real estate - construction	2,397	3,630	277	2,430	3,663	302
Real estate - commercial	-	-	93	-	-	-
Commercial loans	435	936	327	303	755	241
Consumer and other loans	58	58	12	103	103	45
Total						
Real estate - residential mortgage:						
One to four family units	\$1,848	\$1,848	65	\$2,060	\$2,060	\$ 14
Multi-family	-	-	-	-	-	-
Real estate - construction	5,364	6,597	277	5,447	6,680	302
Real estate - commercial	328	328	93	161	161	-
Commercial loans	975	1,476	327	925	1,377	241
Consumer and other loans	64	64	12	106	106	45
Total	\$8,579	\$10,313	\$ 774	\$8,699	\$10,384	\$ 602

The following table summarizes average impaired loans and related interest recognized on impaired loans for the three and six months ended June 30, 2017 and 2016:

	For the Three Months Ended June 30, 2017 Average		For the Three Months Ended June 30, 2016 Average	
	Investment in Impaired Loans (<i>In Thousands</i>)	Interest Income Recognized	Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	\$1,823	\$ -	\$2,207	\$ -
Multi-family	-	-	-	-
Real estate - construction	2,966	-	5,662	-
Real estate - commercial	398	-	525	-
Commercial loans	564	-	872	-
Consumer and other loans	13	-	128	1
Loans with a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	\$46	\$ -	\$9	\$ -
Multi-family	-	-	-	-
Real estate - construction	2,397	-	2,266	-
Real estate - commercial	-	-	-	-
Commercial loans	463	-	392	-
Consumer and other loans	71	-	120	-
Total				
Real estate - residential mortgage:				
One to four family units	\$1,869	\$ -	\$2,216	\$ -
Multi-family	-	-	-	-
Real estate - construction	5,363	-	7,928	-
Real estate - commercial	398	-	525	-
Commercial loans	1,027	-	1,264	-
Consumer and other loans	84	-	248	1
Total	\$8,741	\$ -	\$12,181	\$ 1

	For the Six Months Ended June 30, 2017 Average		For the Six Months Ended June 30, 2016 Average	
	Investment in Impaired Loans (In Thousands)	Interest Income Recognized	Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	\$1,856	\$ -	\$2,223	\$ -
Multi-family	-	-	-	-
Real estate - construction	2,978	-	5,693	-
Real estate - commercial	460	-	863	-
Commercial loans	583	-	1,112	-
Consumer and other loans	11	-	78	1
Loans with a specific valuation allowance				
Real estate - residential mortgage:				
One to four family units	\$43	\$ -	\$21	\$ -
Multi-family	-	-	-	-
Real estate - construction	2,406	-	2,308	-
Real estate - commercial	-	-	-	-
Commercial loans	507	-	545	-
Consumer and other loans	79	-	102	-
Total				
Real estate - residential mortgage:				
One to four family units	\$1,899	\$ -	\$2,244	\$ -
Multi-family	-	-	-	-
Real estate - construction	5,384	-	8,001	-
Real estate - commercial	460	-	863	-
Commercial loans	1,090	-	1,657	-
Consumer and other loans	90	-	180	1
Total	\$8,923	\$ -	\$12,945	\$ 1

At June 30, 2017, the Bank's impaired loans shown in the table above included loans that were classified as troubled debt restructurings ("TDR"). The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

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

The Bank considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by the Bank include the debtor's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by the Bank generally include one or more modifications to the terms of the debt, such as (i) a reduction in the interest rate for the remaining life of the debt, (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (iii) a reduction 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 June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
Real estate - residential mortgage:		
One to four family units	\$ 1,345,609	\$ 1,564,468
Multi-family	-	-
Real estate - construction	5,364,770	5,446,895
Real estate - commercial	5,736,849	5,736,849
Commercial loans	282,352	401,403
Consumer and other loans	-	-
Total	\$ 12,729,580	\$ 13,149,615

The bank did not have any new TDRs for the six months ending June 30, 2017. The Bank has allocated \$357,585 and \$329,734 of specific reserves to customers whose loan terms have been modified in TDR as of June 30, 2017 and December 31, 2016, respectively.

There were no TDRs for which there was a payment default within twelve months following the modification during the three and six months ending June 30, 2017 and 2016. 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 June 30, 2017 and December 31, 2016:

June 30, 2017	Commercial Construction Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Total	
<i>(In Thousands)</i>							
Rating:							
Pass	\$51,447	\$ 255,457	\$ 100,349	\$ 76,025	\$ 83,654	\$ 25,675	\$592,607
Special Mention	-	5,916	2,803	-	1,715	-	10,434

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Substandard	5,365	1,676	3,221	-	954	184	11,400
Doubtful	-	166	-	-	708	-	874
Total	\$56,812	\$ 263,215	\$106,373	\$ 76,025	\$ 87,031	\$ 25,859	\$615,315

December 31, 2016	Construction	Commercial Real Estate	One to four family	Multi-family	Commercial	Consumer and Other	Total
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(In Thousands)

Rating:							
Pass	\$35,465	\$ 242,200	\$100,367	\$ 48,483	\$ 69,093	\$ 23,380	\$518,988
Special Mention	-	5,922	2,591	-	4,503	-	13,016
Substandard	5,447	1,459	3,453	-	1,225	226	11,810
Doubtful	-	-	-	-	584	-	584
Total	\$40,912	\$ 249,581	\$106,411	\$ 48,483	\$ 75,405	\$ 23,606	\$544,398

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 2016 Annual Report.

The following tables below summarize transactions under the Company's equity plans for the six months ended June 30, 2017:

Stock Options	Number of shares		Weighted Average Exercise Price
	Incentive Stock Option	Non- Incentive Stock Option	
Balance outstanding as of January 1, 2017	60,000	52,500	\$ 20.15
Granted	-	-	-
Exercised	-	-	-
Forfeited	(10,000)	(25,000)	29.49
Balance outstanding as of June 30, 2017	50,000	27,500	\$ 15.93
Options exercisable as of June 30, 2017	50,000	27,500	\$ 15.93

The total intrinsic value of stock options exercised for the six months ended June 30, 2017 and 2016 was \$0 and \$169,103, respectively. The total intrinsic value of outstanding stock options (including exercisable) was \$618,320 and \$430,880 at June 30, 2017 and 2016, respectively.

Restricted Stock

	Number of Shares	Weighted Average Grant- Date Fair Value
Balance of shares non-vested as of January 1, 2017	60,955	\$ 13.62
Granted	13,386	20.33
Vested	(27,291)	12.25
Forfeited	-	-
Balance of shares non-vested as of June 30, 2017	47,050	\$ 16.33

In February 2017, the Company granted 6,960 shares of restricted stock to directors pursuant to the 2015 Equity Plan of which 6,195 have a cliff vesting at the end of one year and thus, expensed over that same period and 765 shares have a cliff vesting at the end of three years, and thus, expensed over that same period. These shares had a grant date market price of \$20.35 per share. The total amount of expense for restricted stock grants to directors (including all previous years grants) during the six months ended June 30, 2017 and 2016 was \$66,924 and \$62,240, respectively.

For the six months ended June 30, 2017 and 2016, the Company granted 6,426 and 15,343 shares, respectively, 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 total amount of expense for restricted stock grants to officers (including all previous years grants) during the six months ended June 30, 2017 and 2016 was \$108,039 and \$151,020, respectively.

Performance Stock Units

	Performance	Weighted Average Grant- Date Fair Value
Balance of shares non-vested as of January 1, 2017	-	\$ -
Granted	55,823	20.48
Vested	-	-
Forfeited	-	-
Balance of shares non-vested as of June 30, 2017	55,823	\$ 20.48

On March 29, 2017, the Company granted restricted stock units representing 55,823 hypothetical shares of common stock to officers. There are three possible levels of incentive awards: threshold (25%); target (50%); and maximum (100%). The restricted stock units vest based on two financial performance factors over the period from March 29, 2017 to December 31, 2019 (the "Performance Period"). The two performance measurements of the Company (and the weight given to each measurement) applicable to each award level are as follows: (i) Total Assets (50%) and (ii) Return on Average Assets (50%). In determining compensation expense, the fair value of the restricted stock unit awards was determined based on the closing price of the Company's common stock on the date of grant, which was \$20.48 per share. The expense is being recognized over the applicable vesting period. Due to the fact that the measurements cannot be determined at the time of the grant, the Company estimated that the most likely outcome is the achievement of the target level. If during the Performance Period, additional information becomes available to lead the Company to believe a different level will be achieved for the Performance Period, the Company will reassess the number of units that will vest for the grant and adjust its compensation expense accordingly on a prospective basis. The total amount of expense for restricted stock units during the six months ended June 31, 2017 was \$51,816.

Total stock-based compensation expense recognized for the three months ended June 30, 2017 and 2016 was \$134,318 and \$126,403, respectively. Total stock-based compensation expense recognized for the six months ended June 30, 2017 and 2016 was \$226,779 and \$213,260, respectively. As of June 30, 2017, there was \$940,486 of unrecognized compensation expense related to nonvested restricted stock awards, which will be recognized over the remaining vesting period.

Note 6: Income Per Common Share

	For three months ended June 30, 2017			For six months ended June 30, 2017		
	Income Available to Common Shareholders	Average Common Shares Outstanding	Per Common Share	Income Available to Common Shareholders	Average Common Shares Outstanding	Per Common Share
Basic Income Per Common Share	\$ 1,592,573	4,374,725	\$ 0.36	\$ 3,021,814	4,368,921	\$ 0.69
Effect of Dilutive Securities		51,686			54,439	
Diluted Income Per Common Share	\$ 1,592,573	4,426,411	\$ 0.36	\$ 3,021,814	4,423,360	\$ 0.68

	For three months ended June 30, 2016			For six months ended June 30, 2016		
	Income Available to Common Shareholders	Average Common Shares Outstanding	Per Common Share	Income Available to Common Shareholders	Average Common Shares Outstanding	Per Common Share
Basic Income Per Common Share	\$ 1,256,152	4,366,507	\$ 0.29	\$ 2,532,757	4,363,375	\$ 0.58
Effect of Dilutive Securities		53,977			52,028	
Diluted Income Per Common Share	\$ 1,256,152	4,420,484	\$ 0.28	\$ 2,532,757	4,415,403	\$ 0.57

Stock options to purchase 58,500 and 33,500 shares of common stock were outstanding during the three and six months ended June 30, 2017 and stock options to purchase 83,500 shares of common stock were outstanding during the three and six months ended June 30, 2016 but were not included in the computation of diluted income per common share because their exercise price was greater than the average market price of the common shares.

Note 7: New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, (Topic 606): *Revenue from Contracts with Customers* (“ASU 2014-09”). The scope of the guidance applies to revenue arising from contracts with customers, except for the following: lease contracts, insurance contracts, contractual rights and obligations within the scope of other guidance and nonmonetary exchanges between entities in the same line of business to facilitate sales to customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration that the entity receives or expects to receive. ASU 2014-09 is not expected to significantly impact the timing or approach to revenue recognition for financial institutions. Initially, the amendments were effective for public entities for annual reporting periods beginning after December 15, 2016, however, the FASB issued ASU 2015-14 *Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date*” which deferred the effective date of ASU 2014-09 by one year to annual and interim periods beginning after December 15, 2017. The guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under GAAP, which comprises a significant portion of our revenue stream. As the Company plans to adopt the new guidance in the first quarter of 2018, it is currently evaluating the impact of adopting ASU 2014-09 on its consolidated financial statements, but at this time do not believe the standard will have a significant impact on the financial statements, other than the required new disclosures.

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

In February 2016, the FASB issued ASU 2016-02, *Leases* (“ASU 2016-02”). ASU 2016-02 establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of our pending adoption of the new standard on our consolidated financial statements, but at this time do not believe the standard will have a significant impact on the financial statements.

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

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments*. Among other things, the amendments in this ASU require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For SEC filers, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with later

effective dates for non-SEC registrant public companies and other organizations. Early adoption will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the provisions of ASU No. 2016-13 to determine the potential impact the new standard will have on the Company's consolidated financial statements, and it is too early at this time to determine the impact on the financial statements.

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

In March 2017, the FASB issued ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): *Premium Amortization of Purchased Callable Debt Securities*. The amendments in this ASU shorten the amortization period for certain callable debt securities held at a premium. The amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendment will be effective for interim and annual reporting periods beginning after December 15, 2018. The Company elected to early adopt ASU 2017-08 during 2017 and it did not have a significant effect on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Subtopic 718): *Scope of Modification Accounting*. ASU 2017-09 clarifies when changes to terms or conditions of a share-based payment award must be accounted for as a modification. Under the new guidance, an entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: (i) the fair value of the award, (ii) the vesting conditions of the award, and (iii) the classification of the award as either an equity or liability instrument. ASU 2017-09 is effective for the fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The guidance requires companies to apply the requirements prospectively to awards modified on or after the adoption date. ASU 2017-09 is not expected to have a significant impact on our consolidated financial statements.

Note 8: Derivative Financial Instruments

The Company records all derivative financial instruments at fair value in the financial statements. Derivatives are used as a risk management tool to hedge the exposure to changes in interest rates or other identified market risks.

When a derivative is intended to be a qualifying hedged instrument, the Company prepares written hedge documentation that designates the derivative as 1) a hedge of fair value of a recognized asset or liability (fair value hedge) or 2) a hedge of a forecasted transaction, such as, the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). The written documentation includes identification of, among other items, the risk management objective, hedging instrument, hedged item, and methodologies for assessing and measuring hedge effectiveness and ineffectiveness, along with support for management's assertion that the hedge will be highly effective.

In June 2017, the Company entered into a forward start interest rate swap agreement totaling \$50 million notional amount to hedge against interest rate risk on FHLB advances. As a cash flow hedge, the portion of the change in the fair value of the derivative that has been deemed highly effective is recognized in other comprehensive income until the related cash flows from the hedged item are recognized in earnings. At June 30, 2017, the Company reported a \$143,415 unrealized gain, net of an \$84,228 tax effect, in other comprehensive income related to this cash flow hedge. The Company documents, both at inception and periodically over the life of the hedge, its analysis of actual and expected hedge effectiveness. To the extent that the hedge of future cash flows is deemed ineffective, changes in the fair value of the derivative are recognized in earnings as a component of other noninterest expense. For the quarter ended June 30, 2017, there was no ineffectiveness attributable to the cash flow hedge.

A summary of the Company's derivative financial instruments at June 30, 2017 is shown in the following table:

Forward Start	Termination	Derivative	Notional	Rate	Rate	Estimated Fair Value
Inception Date	Date	Type	Amount	Paid	Hedged	at June 30, 2017
					3 month	
2/28/2018	2/28/2025	Interest rate swap	\$50,000,000	2.12%	LIBOR	\$227,643
					Floating	

Note 9: Disclosures about Fair Value of Assets and Liabilities

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

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

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

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

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

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

Derivative Financial Instruments: Derivatives are recorded at fair value on a recurring basis utilizing Level 2 inputs. The Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, live trading levels, among other things.

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 June 30, 2017 and December 31, 2016 (dollar amounts in thousands):

6/30/2017

Financial assets:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Debt securities:				
Municipals	\$ -	\$35,856	\$ -	\$35,856
Corporates	-	3,055	-	3,055
Government sponsored mortgage-backed securities and SBA loan pools	-	46,095	-	46,095
Available-for-sale securities	\$ -	\$85,006	\$ -	\$85,006

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Interest rate swaps	\$ -	\$ 228	\$ -	\$ 228

12/31/2016