GUARANTY FEDERAL BANCSHARES INC
Form 10-K
March 24, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2016

- or -

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

For the transition period from ______________________ to ______________________

Commission File Number: 0-23325

GUARANTY FEDERAL BANCSHARES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	43-1792717
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ___ No_X_

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ___ No_X_

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes _X_No___

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

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

Large accelerated file ___ Accelerated filer ___ Non-accelerated filer ___
Smaller reporting company _X_

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, based on the average bid and asked prices of the registrant's Common Stock as quoted on the Global Market of The NASDAQ Stock Market on June 30, 2016 (the last business day of the registrant’s most recently completed second quarter) was $63.3 million. As of March 15, 2017 there were 4,421,275 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders (the “Proxy Statement”) to be held on May 24, 2017 (Part III).

GUARANTY FEDERAL BANCSHARES, INC.

Form 10-K

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PART I

Item 1. Business

Guaranty Federal Bancshares, Inc.

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

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

At December 31, 2016, the Company’s consolidated assets were $688.0 million, net loans were $540.5 million, deposits were $505.4 million and total stockholders’ equity was $70.0 million. See Item 6 “Selected Financial Data” for further details regarding the Company’s financial position and results of operations for the previous five fiscal years.

Guaranty Bank

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

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

Internet Website

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

Market Area

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

Lending Activities

Like many commercial banks in our market, our loan portfolio is comprised of different types of industries. However, real estate lending is a significant portion of our business and accounted for more than 82% of our loan portfolio by value as of December 31, 2016. Set forth below is selected data relating to the composition of the Bank’s loan portfolio at the dates indicated:

	As of December 31,									
	2016		2015		2014		2013		2012	
	$	%	$	%	$	%	$	%	$	%
	(Dollars in Thousands)									
Mortgage loans (includes loans held for sale):										
One to four family	$108,594	20 %	$100,160	20 %	$99,116	20 %	$94,422	20 %	$102,225	21 %
Multi-family	48,483	9 %	41,604	8 %	33,786	7 %	46,188	10 %	46,405	10 %
Construction	40,912	7 %	45,463	9 %	36,785	7 %	43,266	9 %	48,917	10 %
Commercial real estate	249,581	46 %	208,824	42 %	215,605	44 %	179,079	38 %	167,761	35 %
Total mortgage loans	447,570	82 %	396,051	79 %	385,292	78 %	362,955	77 %	365,308	77 %
Commercial business loans	75,405	14 %	81,007	16 %	92,114	19 %	92,722	20 %	95,227	20 %
Consumer loans	23,606	4 %	21,992	4 %	17,246	3 %	17,303	4 %	16,717	4 %
Total consumer and other loans	99,011	18 %	102,999	21 %	109,360	22 %	110,025	23 %	111,944	23 %
Total loans	546,581	100%	499,050	100%	494,652	100%	472,980	100%	477,252	100%
Less:										
	382		333		262		175		136	

Deferred loan fees/costs, net					
Allowance for loan losses	5,742	5,812	6,589	7,802	8,740
Total Loans, net	$540,457	$492,905	$487,801	$465,003	$468,376

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The following table sets forth the maturity of the Bank's loan portfolio as of December 31, 2016. The table shows loans that have adjustable rates as due in the period during which they contractually mature. The table does not include prepayments or scheduled principal amortization.

Loan Maturities	Due in One Year or Less	Due After One Through Five Years	Due After Five Years	Total
	(Dollars in thousands)			
One to four family	$14,336	$48,589	$45,669	$108,594
Multi-family	4,979	28,172	15,332	48,483
Construction	23,480	12,484	4,948	40,912
Commercial real estate	23,141	118,557	107,883	249,581
Commercial loans	26,243	32,208	16,954	75,405
Consumer loans	9,719	6,801	7,086	23,606
Total loans (1)	$101,898	$246,811	$197,872	$546,581
Less:				
Deferred loan fees/costs				382
Allowance for loan losses				5,742
Loans receivable net				$540,457

(1) Includes mortgage loans held for sale of $2,183

The following table sets forth the dollar amount, before deductions for unearned discounts, deferred loan fees/costs and allowance for loan losses, as of December 31, 2016 of all loans due after December 2017, which have pre-determined interest rates and which have adjustable interest rates.

	Fixed Rates	Adjustable Rates	Total	% Adjustable	
	(Dollars in Thousands)				
One to four family	$57,934	$36,324	$94,258	39	%
Multi-family	24,068	19,436	43,504	45	%
Construction	12,165	5,267	17,432	30	%
Commercial real estate	140,276	86,164	226,440	38	%

Commercial loans	16,504	32,658	49,162	66	%
Consumer loans	2,090	11,797	13,887	85	%
Total loans (1)	$253,037	$191,646	$444,683	43	%

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

Commercial Real Estate Loans. As of December 31, 2016, the Bank had commercial real estate loans totaling $250.0 million or 46% of the Bank's total loan portfolio. Commercial real estate loans are generally originated in amounts up to 80% of the appraised value of the mortgaged property. The majority of the Bank’s commercial real estate loans have been originated with adjustable rates of interest, the majority of which are quoted at a spread to the Wall Street Prime rate for the initial fixed rate period with subsequent adjustments at a spread to the Wall Street Prime rate. The Bank's commercial real estate loans are generally permanent loans secured by improved property such as office buildings, retail stores, small shopping centers, medical offices, motels, churches and other non-residential buildings.

To originate commercial real estate loans, the Bank generally requires a mortgage and security interest in the subject real estate, personal guarantees of the principals, a security interest in the related personal property, and a standby assignment of rents and leases. The Bank has established its loan-to-one borrower limitation, which was $22.7 million as of December 31, 2016, as its maximum commercial real estate loan amount.

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

As of December 31, 2016, the Bank’s commercial real estate loan portfolio included approximately $7.5 million, or 1.4% in loans to develop land into residential lots. The Bank utilizes its knowledge of the local market conditions and appraisals to evaluate the development cost and estimate projected lot prices and absorption rates to assess loans on residential subdivisions. The Bank typically loans up to 75% of the appraised value over terms up to two years. Development loans generally involve a greater degree of risk than residential mortgage loans because (1) the funds are advanced upon the security of the land which has a materially lower value prior to completion of the infrastructure required of a subdivision, (2) the cash flow available for debt repayment is a function of the sale of the individual lots, and (3) the amount of interest required to service the debt is a function of the time required to complete the development and sell the lots.

Commercial Business Loans. As of December 31, 2016, the Bank had commercial business loans totaling $75.4 million or 14% of the Bank's total loan portfolio. Commercial business loans are generally secured by business assets, such as accounts receivable, equipment and inventory. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself. Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. The Bank expects to continue to expand its commercial business lending as opportunities present themselves.

One- to Four-Family Mortgage Loans. The Bank offers fixed- and adjustable-rate (“ARM”) first mortgage loans secured by one- to four-family residences in the Bank's primary lending area. Typically, such residences are single family homes that serve as the primary residence of the owner. However, there are a number of loans originated by the Bank which are secured by non-owner occupied properties. Loan originations are generally obtained from existing or past customers, members of the local community, attorney referrals, established builders and realtors within our Market Area. Originated mortgage loans in the Bank's portfolio include due-on-sale clauses which provide the Bank with the contractual right to deem the loan immediately due and payable in the event that the borrower transfers ownership of the property without the Bank's consent.

As of December 31, 2016, $108.6 million or 20% of the Bank’s total loan portfolio consisted of one- to four-family residential loans. The Bank currently offers ARM and balloon loans that have fixed interest rate periods of one to seven years. Generally, ARM loans provide for limits on the maximum interest rate adjustment ("caps") that can be

made at the end of each applicable period and throughout the duration of the loan. ARM loans are originated for a term of up to 30 years on owner-occupied properties and generally up to 25 years on non-owner occupied properties. Typically, interest rate adjustments are calculated based on U.S. treasury securities adjusted to a constant maturity of one year (CMT), plus a 2.50% to 2.75% margin. Interest rates charged on fixed-rate loans are competitively priced based on market conditions and the cost of funds existing at the time the loan is committed. The Bank's fixed-rate mortgage loans are made for terms of 15 to 30 years which are currently being sold on the secondary market.

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

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

Multi-Family Mortgage Loans. The Bank originates multi-family mortgage loans in its primary lending area. As of December 31, 2016, $48.5 million or 9% of the Bank's total loan portfolio consisted of multi-family residential real estate loans. With regard to multi-family mortgage loans, the Bank generally requires personal guarantees of the principals as well as a security interest in the real estate. Multi-family mortgage loans are generally originated in amounts of up to 80% of the appraised value of the property. A portion of the Bank’s multi-family mortgage loans have been originated with adjustable rates of interest which are quoted at a spread to the FHLB advance rate for the initial fixed rate period with subsequent adjustments based on the Wall Street prime rate. The loan-to-one-borrower limitation, $22.7 million as of December 31, 2016, is the maximum the Bank will lend on a multi-family residential real estate loan.

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

Construction Loans. As of December 31, 2016, construction loans totaled $41.0 million or 7% of the Bank's total loan portfolio. Construction loans originated by the Bank are generally secured by permanent mortgage loans for the construction of owner-occupied residential real estate or to finance speculative construction secured by residential real estate or owner-operated commercial real estate. This portion of the Bank’s loan portfolio consists of speculative loans, i.e., loans to builders who are speculating that they will be able to locate a purchaser for the underlying property prior to or shortly after the time construction has been completed.

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

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

Consumer and Other Loans. The Bank also offers consumer loans, primarily consisting of loans secured by certificates of deposit, automobiles, boats and home equity loans. As of December 31, 2016, the Bank has such loans totaling $23.6 million or 4% of the Bank's total loan portfolio. The Bank expects to continue to expand its consumer lending as opportunities present themselves.

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

Delinquencies, Non-Performing and Problem Assets.

Delinquent Loans. As of December 31, 2016, the Bank has ten loans 90 days or more past due with a principal balance of $733,562 and two loans between 30 and 89 days past due with an aggregate principal balance of $862,718. The Bank generally does not accrue interest on loans past due more than 90 days.

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

Delinquency Summary	As of December 31,				
	2016	2015	2014	2013	2012
	(Dollars in Thousands)				
Loans accounted for on a non-accrual basis or contractually past due 90 days or more					
Mortgage Loans:					
One to four family	$2,060	$2,272	$911	$816	$2,281
Multi-family	-	-	-	-	-
Construction	5,447	8,080	2,893	4,530	6,274
Commercial real estate	162	1,241	460	3,663	3,664
	7,669	11,593	4,264	9,009	12,219
Non-mortgage loans:					
Commercial loans	925	2,149	1,027	6,776	2,793
Consumer and other loans	38	13	-	63	319
	963	2,162	1,027	6,839	3,112
Total non-accrual loans	8,632	13,755	5,291	15,848	15,331
Accruing loans which are contractually past maturity or past due 90 days or more:					
Mortgage Loans:					
One to four family	-	-	-	-	-
Multi-family	-	-	-	-	-
Construction	-	-	-	-	-
Commercial real estate	-	-	-	-	-
	-	-	-	-	-
Non-mortgage loans:					
Commercial loans	-	-	-	-	-
Consumer and other loans	-	-	-	-	-
	-	-	-	-	-
Total past maturity or past due accruing loans	-	-	-	-	-
Total accounted for on a non-accrual basis or contractually past maturity or 90 days or more past due	$8,632	$13,755	$5,291	$15,848	$15,331
Total accounted for on a non-accrual basis or contractually past maturity or 90 days or more past due as a percentage of net loans	1.60 %	2.79 %	1.08 %	3.41 %	3.27 %
Total accounted for on a non-accrual basis or contractually past maturity or 90 days or more past due as a percentage of total assets	1.25 %	2.11 %	0.84 %	2.56 %	2.32 %

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

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

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

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

Non-Performing Assets	As of December 31,				
	2016	2015	2014	2013	2012
Non-accrual loans:	(Dollars in Thousands)				
Mortgage loans:					
One to four family	$2,060	$2,272	$911	$816	$2,281
Multi-family	-	-	-	-	-
Construction	5,447	8,080	2,893	4,530	6,274
Commercial real estate	162	1,241	460	3,663	3,664
	7,669	11,593	4,264	9,009	12,219
Non-mortgage loans:					
Commercial loans	925	2,149	1,027	6,776	2,793
Consumer and other loans	38	13	-	63	319
	963	2,162	1,027	6,839	3,112
Total non-accrual loans	8,632	13,755	5,291	15,848	15,331
Real estate and other assets acquired in settlement of loans	2,682	2,392	3,165	3,822	4,530
Total non-performing assets	$11,314	$16,147	$8,456	$19,670	$19,861
Total non-accrual loans as a percentage of net loans	1.60 %	2.79 %	1.08 %	3.41 %	3.27 %
Total non-performing assets as a percentage of total assets	1.64 %	2.47 %	1.35 %	3.17 %	3.01 %
Impact on interest income for the period:					
Interest income that would have been recorded on non-accruing loans	$90	$573	$337	$572	$484

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

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

The following table shows the aggregate amounts of the Bank's classified assets as of December 31, 2016.

	Special Mention		Substandard		Doubtful		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(Dollars in Thousands)							
Loans:								
One to four family	2	$2,591	32	$3,453	-	$ -	34	$6,044
Multi-family	-	-	-	-	-	-	-	-
Construction	-	-	5	5,447	-	-	5	5,447
Commercial real estate	4	5,922	8	1,459	-	-	12	7,381
Commercial	2	4,503	12	1,225	3	584	17	6,312
Consumer and Other	-	-	6	226	-	-	6	226
Total loans	8	13,016	63	11,810	3	584	74	25,410
Foreclosed assets held-for-sale:								
One to four family	-	-	4	1,078	-	-	4	1,078
Land and other assets	-	-	6	1,604	-	-	6	1,604
Total foreclosed assets	-	-	10	2,682	-	-	10	2,682
Total	8	$13,016	73	$14,492	3	$ 584	84	$28,092

Allowance for Loan Losses and Provision for Loan Losses

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

As of December 31, 2016, the Bank's total allowance for loan losses was $5.7 million or 1.06% of gross loans outstanding (excluding mortgage loans held for sale), a decrease of $69,491 from December 31, 2015. The Bank experienced loan charge offs in excess of recoveries as management charged off specific loans that had been previously identified and classified as impaired. This allowance reflects not only management's determination to maintain an allowance for loan losses consistent with regulatory expectations for non-performing or problem assets, but also reflects the regional economy and the Bank's policy of evaluating the risks inherent in its loan portfolio.

Management records a provision for loan losses to bring the total allowance for loan losses to a level considered adequate based on the Bank's internal analysis and methodology. During 2016, the Bank recorded a provision for loan loss expense, as shown in the table below. Management anticipates the need to continue adding to the allowance through charges to provision for loan losses as growth in the loan portfolio or other circumstances warrant.

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

Allowance for Loan Losses	Year ended December 31,				
	2016	2015	2014	2013	2012
	(Dollars in Thousands)				
Beginning balance	$5,812	$6,589	$7,802	$8,740	$10,613
Gross loan charge offs					
Mortgage Loans:					
One to four family	(47)	(99)	(127)	(139)	(265)
Multi-family	-	-	-	-	-
Construction	(1,222)	(1,233)	(411)	(879)	(1,335)
Commercial real estate	(69)	-	(9)	(277)	(985)
	(1,338)	(1,332)	(547)	(1,295)	(2,585)
Non-mortgage loans:					
Commercial loans	(171)	-	(2,018)	(1,268)	(5,547)
Consumer and other loans	(190)	(119)	(150)	(164)	(73)
	(361)	(119)	(2,168)	(1,432)	(5,620)
Total charge offs	(1,699)	(1,451)	(2,715)	(2,727)	(8,205)
Recoveries					
Mortgage Loans:					
One to four family	34	20	9	23	25
Multi-family	-	-	-	-	-
Construction	91	10	5	50	28
Commercial real estate	32	-	99	-	94
	157	30	113	73	147
Non-mortgage loans:					
Commercial loans	8	4	65	110	198
Consumer and other loans	89	40	49	56	37
	97	44	114	166	235
Total recoveries	254	74	227	239	382
Net loan charge-offs	(1,445)	(1,377)	(2,488)	(2,488)	(7,823)
Provision charged to expense	1,375	600	1,275	1,550	5,950
Ending balance	$5,742	$5,812	$6,589	$7,802	$8,740
Net charge-offs as a percentage of average loans, net	0.28 %	0.27 %	0.53 %	0.53 %	1.68 %
Allowance for loan losses as a percentage of average loans, net	1.12 %	1.16 %	1.41 %	1.67 %	1.88 %
Allowance for loan losses as a percentage of total non-performing loans	67 %	42 %	125 %	49 %	57 %

Allocation of Allowance for Loan Losses

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

	As of December 31, 2016		2015		2014		2013		2012	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Mortgage Loans	$4,126	72 %	$3,770	65 %	$4,349	66 %	$5,652	72 %	$6,642	76 %
Non-Mortgage Loans	1,616	28 %	2,042	35 %	2,240	34 %	2,150	28 %	2,098	24 %
Total	$5,742	100%	$5,812	100%	$6,589	100%	$7,802	100%	$8,740	100%

Investment Activities

The investment policy of the Company, which is established by the Company’s Board of Directors and reviewed by the Asset/Liability Committee of the Company’s Board of Directors, is designed primarily to provide and maintain liquidity, to generate a favorable return on investments, to help mitigate interest rate and credit risk, and to complement the Bank's lending activities. The policy currently provides for held-to-maturity and available-for-sale investment security portfolios. The Company does not currently engage in trading investment securities and does not anticipate doing so in the future. As of December 31, 2016, the Company has investment securities with an amortized cost of $94.5 million and an estimated fair value of $92.4 million. See Note 1 of the “Notes to Consolidated Financial Statements” for description of the accounting policy for investments. Based on the carrying value of these securities, $92.4 million, or 99.9%, of the Company’s investment securities portfolio are available-for-sale.

From time to time, the Company will sell a security to change its interest rate risk profile or restructure the portfolio and its cash flows. In 2016, the Company sold $76.5 million in securities and recognized $192,537 of gains.

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

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Composition of Investment Securities Portfolio

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

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2015				
AVAILABLE-FOR-SALE SECURITIES:				
Equity Securities	$102,212	$10,081	$(12,776)	$99,517
Debt Securities:				
U. S. government agencies	8,533,885	-	(137,101)	8,396,784
Corporates	3,965,719	-	(152,019)	3,813,700
Municipals	31,132,635	302,335	(85,808)	31,349,162
Government sponsored mortgage-backed securities and SBA loan pools	54,643,681	13,764	(1,024,121)	53,633,324
HELD-TO-MATURITY SECURITIES:				
Government sponsored mortgage-backed securities	43,099	836	-	43,935
	$98,421,231	$327,016	$(1,411,825)	$97,336,422

As of December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
AVAILABLE-FOR-SALE SECURITIES:				
Equity Securities	$102,212	$16,121	$(13,310)	$105,023
Debt Securities:				
U. S. government agencies	10,528,055	-	(271,282)	10,256,773
Municipals	15,474,316	185,747	(70,173)	15,589,890
Government sponsored mortgage-backed securities and SBA loan pools	61,075,181	235,977	(794,859)	60,516,299
HELD-TO-MATURITY SECURITIES:				
Government sponsored mortgage-backed securities	60,993	1,626	-	62,619
	$87,240,757	$439,471	$(1,149,624)	$86,530,604

The following tables set forth certain information regarding the weighted average yields and maturities of the Bank's investment securities portfolio as of December 31, 2016.

Investment Portfolio Maturities and Average Weighted Yields	Amortized Cost	Weighted Average Yield	Approximate Fair Value
Due in one to five years	1,297,373	1.43 %	1,299,297
Due in five to ten years	11,327,059	2.50 %	11,187,770
Due after ten years	33,737,060	3.66 %	32,903,980
Government sponsored mortgage-backed securities and SBA loan pools not due on a single maturity date	48,143,321	2.74 %	47,036,341
	$94,504,813	2.95 %	$92,427,388

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

				Maturity Date	
As of December 31, 2016					
Debt Securities:					
Corporates	$-	$2,997,422	$4,056,100	$-	$7,053,522
Municipals	1,299,297	8,190,348	28,847,880	-	38,337,525
Government sponsored mortgage-backed securities and SBA loan pools	-	-	-	47,036,341	47,036,341
	$1,299,297	$11,187,770	$32,903,980	$47,036,341	$92,427,388

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Sources of Funds

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

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

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

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

Deposit Account Types

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

	As of December 31, 2016			As of December 31, 2015			As of December 31, 2014		
	Average Interest Rate	Amount	Percent of Total Deposits	Average Interest Rate	Amount	Percent of Total Deposits	Average Interest Rate	Amount	Percent of Total Deposits
NOW	0.30%	$129,138	26 %	0.31%	$137,473	27 %	0.34%	$111,561	23 %
Savings	0.20%	28,095	6 %	0.20%	25,865	5 %	0.20%	23,619	5 %
Money Market	0.45%	155,530	31 %	0.42%	170,603	33 %	0.43%	171,948	36 %

Non-interest bearing demand	0.00%	80,911	15	%	0.00%	67,897	13	%	0.00%	51,708	11	%
Total		393,674	78	%		401,838	78	%		358,836	75	%
Certificates of Deposit: (fixed-rate, fixed-term)												
1-11 months	0.75%	65,802	13	%	0.54%	45,517	9	%	0.55%	56,369	11	%
12-23 months	0.89%	22,328	4	%	0.82%	43,523	8	%	0.81%	27,938	6	%
24-35 months	1.24%	12,882	3	%	1.02%	12,654	3	%	1.10%	21,925	5	%
36-47 months	1.40%	5,106	1	%	1.35%	6,895	1	%	1.28%	6,709	1	%
48-59 months	1.47%	3,655	1	%	1.44%	4,671	1	%	1.41%	4,528	1	%
60-71 months	1.37%	1,874	0	%	1.47%	2,274	0	%	1.50%	3,315	1	%
72-95 months	1.34%	42	0	%	1.34%	14	0	%	1.43%	198	0	%
Total		111,689	22	%		115,548	22	%		120,982	25	%
Total Deposits		$505,363	100	%		$517,386	100	%		$479,818	100	%

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

In 2016, management continued to place emphasis on reducing the dependence on jumbo deposits ($100,000 or more). The following table indicates the approximate amount of the Bank's certificate of deposit accounts of $100,000 or more by time remaining until maturity as of December 31, 2016.

	(Dollars in thousands) As of December 31, 2016
Three months or less	$ 18,383
Over three through six months	24,530
Over six through twelve months	16,002
Over twelve months	4,782
Total	$ 63,697

Borrowings

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

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

	As of December 31,		
	2016	2015	2014

	(Dollars in Thousands)		
Remaining maturity:			
Less than one year	$43,600	$-	$8,250
One to two years	50,000	-	-
Two to three years	2,100	-	-
Three to four years	-	50,000	-
Four to five years	-	2,100	50,000
Over five years	-	-	2,100
Total	$95,700	$52,100	$60,350
Weighted average rate at end of period	1.72 %	2.25 %	2.00 %
For the period:			
Average outstanding balance	$71,200	$52,592	$54,588
Weighted average interest rate	1.79 %	2.24 %	2.18 %
Maximum outstanding as of any month end	$95,700	$56,500	$66,700

Junior Subordinated Debentures:

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

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

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

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

	As of December 31,		
	2016	2015	2014
	(Dollars in Thousands)		
Subordinated debentures	$15,465	$15,465	$15,465
Weighted average interest rate of subordinated debentures	3.75 %	3.48 %	3.45 %

Federal Reserve Bank Borrowings

During 2008, the Bank established a borrowing line with Federal Reserve Bank. The Bank had the ability to borrow $25.2 million as of December 31, 2016. The Federal Reserve Bank requires the Bank to maintain collateral in relation to borrowings outstanding. The Bank had no borrowings on this line as of December 31, 2016 and 2015.

Securities Sold Under Agreements to Repurchase

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

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

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

Subsidiary Activity and Segment Information

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

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

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

Return on Equity and Assets

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

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Common Dividend Payout Ratio	27 %	18 %	11 %
Return on Average Assets	0.83 %	0.88 %	0.92 %
Return on Average Equity	8.00 %	8.81 %	9.67 %
Stockholders' Equity to Assets	10.17 %	10.17 %	9.78 %
EPS Diluted	$ 1.27	$ 1.30	$ 1.33
Dividends on Common Shares	$ 0.34	$ 0.23	$ 0.15

Employees

As of December 31, 2016, the Bank had 146 full-time employees and 26 part-time employees. As of December 31, 2016, the Company had no employees. None of the Bank's employees are represented by a collective bargaining group.

Competition

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

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

Supervision and Regulation

General

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

- Board of Governors of the Federal Reserve System (“FRB”);
- Missouri Division of Finance;
- Federal Deposit Insurance Corporation; and
- Consumer Financial Protection Bureau (“CFPB”).

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

- anti-money laundering laws enforced by the U.S. Department of Treasury (Treasury);
- taxation laws administered by the Internal Revenue Service (IRS) and state taxing authorities;
- accounting rules developed by the Financial Accounting Standards Board (FASB); and
- securities laws administered by the Securities and Exchange Commission (SEC) and state securities authorities.

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

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

Dodd-Frank Act

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

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

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