

GUARANTY FEDERAL BANCSHARES INC
Form 10-K
March 25, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2015

- or -

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

For the transition period from _____ to _____

Commission File Number: 0-23325

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

Delaware 43-1792717
(State or Other Jurisdiction of Incorporation or Organization) (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

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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

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

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 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. []

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

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

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, 2015 (the last business day of the registrant's most recently completed second quarter) was \$57.9 million. As of March 14, 2016 there were 4,431,470 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 25, 2016 (Part III).

GUARANTY FEDERAL BANCSHARES, INC.

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PART I

Item 1. Business

Guaranty Federal Bancshares, Inc.

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

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

At December 31, 2015, the Company’s consolidated assets were \$652.8 million, net loans were \$492.9 million, deposits were \$517.4 million and total stockholders’ equity was \$66.4 million. See Item 6 “Selected Consolidated 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.

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 79% of our loan portfolio by value as of December 31, 2015. Set forth below is selected data relating to the composition of the Bank's loan portfolio at the dates indicated:

Composition of Loan Portfolio

	As of December 31,		2014		2013		2012		2011	
	2015		\$	%	\$	%	\$	%	\$	%
	\$	%	\$	%	\$	%	\$	%	\$	%
(Dollars in Thousands)										
Mortgage loans (includes loans held for sale):										
One to four family	\$100,160	20 %	\$99,116	20 %	\$94,422	20 %	\$102,225	21 %	\$101,734	21 %
Multi-family	41,604	8 %	33,786	7 %	46,188	10 %	46,405	10 %	43,166	9 %
Construction	45,463	9 %	36,785	7 %	43,266	9 %	48,917	10 %	44,912	9 %
Commercial real estate	208,824	42 %	215,605	44 %	179,079	38 %	167,761	35 %	194,856	39 %
Total mortgage loans	396,051	79 %	385,292	78 %	362,955	77 %	365,308	77 %	384,668	78 %
Commercial business loans	81,007	16 %	92,114	19 %	92,722	20 %	95,227	20 %	88,089	18 %
Consumer loans	21,992	4 %	17,246	3 %	17,303	4 %	16,717	4 %	20,758	4 %
Total commercial business and other	102,999	21 %	109,360	22 %	110,025	23 %	111,944	23 %	108,847	22 %

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loans										
Total loans	499,050	100%	494,652	100%	472,980	100%	477,252	100%	493,515	100%
Less:										
Deferred loan fees/costs, net	333		262		175		136		238	
Allowance for loan losses	5,812		6,589		7,802		8,740		10,613	
Total Loans, net	\$492,905		\$487,801		\$465,003		\$468,376		\$482,664	

The following table sets forth the maturity of the Bank's loan portfolio as of December 31, 2015. 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	Due	Due	Total
	One	After	After	
	Year or	One	Five	
	Less	Through	Years	
		Five		
		Years		
	(Dollars in thousands)			
One to four family	\$15,866	\$45,598	\$38,696	\$100,160
Multi-family	1,172	32,315	8,117	41,604
Construction	32,128	8,415	4,920	45,463
Commercial real estate	36,222	95,853	76,749	208,824
Commercial loans	29,479	37,411	14,117	81,007
Consumer loans	8,071	8,037	5,884	21,992
Total loans (1)	\$122,938	\$227,629	\$148,483	\$499,050
Less:				
Deferred loan fees/costs				333
Allowance for loan losses				5,812
Loans receivable net				\$492,905

(1) Includes mortgage loans held for sale of \$1,903

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, 2015 of all loans due after December 2016, which have pre-determined interest rates and which have adjustable interest rates.

	Fixed	Adjustable	Total	%	
	Rates	Rates		Adjustable	
	(Dollars in Thousands)				
One to four family	\$51,967	\$32,327	\$84,294	38	%
Multi-family	34,900	5,532	40,432	14	%
Construction	7,966	5,370	13,336	40	%
Commercial real estate	109,311	63,291	172,602	37	%
Commercial loans	31,781	19,747	51,528	38	%
Consumer loans	3,130	10,790	13,920	78	%
Total loans (1)	\$239,055	\$137,057	\$376,112	36	%

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

Commercial Real Estate Loans. As of December 31, 2015, the Bank had commercial real estate loans totaling \$208.8 million or 42% 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 \$21.1 million as of December 31, 2015, as its maximum commercial real estate loan amount. Because of the small number of commercial real estate loans and the relationship of each borrower to the Bank, each such loan has differing terms and conditions applicable to the particular borrower.

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, 2015, the Bank's commercial real estate loan portfolio included approximately \$8.3 million, or 1.7% 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, 2015, the Bank had commercial business loans totaling \$81.0 million or 16% 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, 2015, \$100.2 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, 2015, \$41.6 million or 8% 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, \$21.1 million as of December 31, 2015, 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, 2015, construction loans totaled \$45.5 million or 9% 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, 2015, the Bank has such loans totaling \$22.0 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, 2015, the Bank has eight loans 90 days or more past due with a principal balance of \$2,423,350 and ten loans between 30 and 89 days past due with an aggregate principal balance of \$265,987. 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,
2015 2014 2013 2012 2011
(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	\$2,272	\$911	\$816	\$2,281	\$1,671
Multi-family	-	-	-	-	-
Construction	8,080	2,893	4,530	6,274	8,514
Commercial real estate	1,241	460	3,663	3,664	4,083
	11,593	4,264	9,009	12,219	14,268
Non-mortgage loans:					
Commercial loans	2,149	1,027	6,776	2,793	2,377
Consumer and other loans	13	-	63	319	357
	2,162	1,027	6,839	3,112	2,734
Total non-accrual loans	13,755	5,291	15,848	15,331	17,002

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	\$13,755	\$5,291	\$15,848	\$15,331	\$17,002

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	2.79	%	1.08	%	3.41	%	3.27	%	3.52	%
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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	2.11	%	0.84	%	2.56	%	2.32	%	2.62	%
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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,				
	2015	2014	2013	2012	2011
	(Dollars in Thousands)				
Non-accrual loans:					
Mortgage loans:					
One to four family	\$2,272	\$911	\$816	\$2,281	\$1,671
Multi-family	-	-	-	-	-
Construction	8,080	2,893	4,530	6,274	8,514
Commercial real estate	1,241	460	3,663	3,664	4,083
	11,593	4,264	9,009	12,219	14,268
Non-mortgage loans:					
Commercial loans	2,149	1,027	6,776	2,793	2,377
Consumer and other loans	13	-	63	319	357
	2,162	1,027	6,839	3,112	2,734
Total non-accrual loans	13,755	5,291	15,848	15,331	17,002
Real estate and other assets acquired in settlement of loans	2,392	3,165	3,822	4,530	10,012
Total non-performing assets	\$16,147	\$8,456	\$19,670	\$19,861	\$27,014
Total non-accrual loans as a percentage of net loans	2.79 %	1.08 %	3.41 %	3.27 %	3.52 %
Total non-performing assets as a percentage of total assets	2.47 %	1.35 %	3.17 %	3.01 %	4.17 %
Impact on interest income for the period:					
Interest income that would have been recorded on non-accruing loans	\$573	\$337	\$572	\$484	\$243

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, 2015.

	Special Mention		Substandard		Doubtful		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(Dollars in Thousands)							
Loans:								
One to four family	2	\$ 3,319	33	\$ 3,671	-	\$ -	35	\$ 6,990
Multi-family	-	-	-	-	-	-	-	-
Construction	-	-	7	8,080	-	-	7	8,080
Commercial real estate	5	3,657	17	6,937	-	-	22	10,594
Commercial	3	2,267	20	4,730	2	603	25	7,600
Consumer and Other	-	-	3	217	-	-	3	217
Total loans	10	9,243	80	23,635	2	603	92	33,481
Foreclosed assets held-for-sale:								
One to four family	-	-	-	-	-	-	-	-
Land and other assets	-	-	7	2,392	-	-	7	2,392
Total foreclosed assets	-	-	7	2,392	-	-	7	2,392
Total	10	\$ 9,243	87	\$ 26,027	2	\$ 603	99	\$ 35,873

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, 2015, the Bank's total allowance for loan losses was \$5.8 million or 1.17% of gross loans outstanding (excluding mortgage loans held for sale), a decrease of \$777,000 from December 31, 2014. 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 2015, 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,				
	2015	2014	2013	2012	2011
	(Dollars in Thousands)				
Beginning balance	\$6,589	\$7,802	\$8,740	\$10,613	\$13,083
Gross loan charge offs					
Mortgage Loans:					
One to four family	(99)	(127)	(139)	(265)	(966)
Multi-family	-	-	-	-	-
Construction	(1,233)	(411)	(879)	(1,335)	(2,381)
Commercial real estate	-	(9)	(277)	(985)	(2,744)
	(1,332)	(547)	(1,295)	(2,585)	(6,091)
Non-mortgage loans:					
Commercial loans	-	(2,018)	(1,268)	(5,547)	(1,362)
Consumer and other loans	(119)	(150)	(164)	(73)	(322)
	(119)	(2,168)	(1,432)	(5,620)	(1,684)
Total charge offs	(1,451)	(2,715)	(2,727)	(8,205)	(7,775)
Recoveries					
Mortgage Loans:					
One to four family	20	9	23	25	45
Multi-family	-	-	-	-	-
Construction	10	5	50	28	77
Commercial real estate	-	99	-	94	221
	30	113	73	147	343
Non-mortgage loans:					
Commercial loans	4	65	110	198	322
Consumer and other loans	40	49	56	37	1,290

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	44	114	166	235	1,612					
Total recoveries	74	227	239	382	1,955					
Net loan charge-offs	(1,377)	(2,488)	(2,488)	(7,823)	(5,820)					
Provision charged to expense	600	1,275	1,550	5,950	3,350					
Ending balance	\$5,812	\$6,589	\$7,802	\$8,740	\$10,613					
Net charge-offs as a percentage of average loans, net	0.27	%	0.53	%	0.53	%	1.68	%	1.19	%
Allowance for loan losses as a percentage of average loans, net	1.16	%	1.41	%	1.67	%	1.88	%	2.17	%
Allowance for loan losses as a percentage of total non-performing loans	42	%	125	%	49	%	57	%	62	%

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,		2014		2013		2012		2011	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Mortgage Loans	\$3,770	65 %	\$4,349	66 %	\$5,652	72 %	\$6,642	76 %	\$7,358	69 %
Non-Mortgage Loans	2,042	35 %	2,240	34 %	2,150	28 %	2,098	24 %	3,255	31 %
Total	\$5,812	100%	\$6,589	100%	\$7,802	100%	\$8,740	100%	\$10,613	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, 2015, the Company has investment securities with an amortized cost of \$98.4 million and an estimated fair value of \$97.3 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, \$97.3 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 2015, the Company sold \$33.1 million in securities and recognized \$187,090 of gains.

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

Composition of Investment Securities Portfolio

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 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
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2014				
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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2013				
AVAILABLE-FOR-SALE SECURITIES:				
Equity Securities	\$ 102,212	\$ 16,007	\$(18,913)	\$ 99,306
Debt Securities:				
U. S. government agencies	33,198,865	-	(1,437,478)	31,761,387
Corporates	990,663	3,609	-	994,272
Municipals	14,133,821	18,827	(660,021)	13,492,627
Government sponsored mortgage-backed securities	53,245,297	265,038	(2,165,242)	51,345,093
HELD-TO-MATURITY SECURITIES:				
Government sponsored mortgage-backed securities	79,162	1,927	-	81,089
	\$ 101,750,020	\$ 305,408	\$(4,281,654)	\$ 97,773,774

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, 2015.

Investment Portfolio Maturities and Average Weighted Yields	Amortized Cost	Weighted Average Yield	Approximate Fair Value
Due in one to five years	6,011,451	1.43 %	4,987,190
Due in five to ten years	16,144,448	2.50 %	16,134,279
Due after ten years	22,476,340	3.66 %	22,438,177
Equity securities not due on a single maturity date	102,212	0.00 %	99,517
Government sponsored mortgage-backed securities and SBA loan pools not due on a single maturity date	54,686,780	2.74 %	53,677,259
	\$ 99,421,231	2.78 %	\$ 97,336,422

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

As of December 31, 2015

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Equity Securities	\$-	\$-	\$-	\$-	\$ 99,517	\$99,517
Debt Securities:						
U. S. government agencies	3,474,680	4,922,104	-	-	-	8,396,784
Corporates	-	-	3,813,700	-	-	3,813,700
Municipals	1,512,510	11,212,175	18,624,477	-	-	31,349,162
Government sponsored mortgage-backed securities and SBA loan pools	-	-	-	53,677,259	-	53,677,259
	\$4,987,190	\$16,134,279	\$22,438,177	\$53,677,259	\$ 99,517	\$97,336,422

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, 2015			As of December 31, 2014			As of December 31, 2013		
	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	0.31%	\$137,473	27%	0.34%	\$111,561	23%	0.35%	\$86,601	18%
Savings	0.20%	25,865	5%	0.20%	23,619	5%	0.21%	23,726	5%

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Money Market	0.42%	170,603	33	%	0.43%	171,948	36	%	0.47%	204,740	42	%
Non-interest bearing demand	0.00%	67,897	13	%	0.00%	51,708	11	%	0.00%	48,678	10	%
Total		401,838	78	%		358,836	75	%		363,745	75	%
Certificates of Deposit: (fixed-rate, fixed-term)												
1-11 months	0.54%	45,517	9	%	0.55%	56,369	12	%	0.58%	63,789	13	%
12-23 months	0.82%	43,523	8	%	0.81%	27,938	6	%	0.87%	37,225	8	%
24-35 months	1.02%	12,654	2	%	1.10%	21,925	5	%	1.26%	9,588	2	%
36-47 months	1.35%	6,895	1	%	1.28%	6,709	1	%	1.44%	6,954	1	%
48-59 months	1.44%	4,671	1	%	1.41%	4,528	1	%	1.38%	3,416	1	%
60-71 months	1.47%	2,274	0	%	1.50%	3,315	1	%	1.42%	2,433	0	%
72-95 months	1.34%	14	0	%	1.43%	198	0	%	1.44%	169	0	%
Total		115,548	22	%		120,982	25	%		123,574	25	%
Total Deposits		\$517,386	100	%		\$479,818	100	%		\$487,319	100	%

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

In 2015, 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, 2015.

	(Dollars in thousands) As of December 31, 2015
Three months or less	\$ 9,328
Over three through six months	3,304
Over six through twelve months	13,686
Over twelve months	37,124
Total	\$ 63,442

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,		
	2015	2014	2013
	(Dollars in Thousands)		
Remaining maturity:			
Less than one year	\$-	\$8,250	\$-
One to two years	-	-	250

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Two to three years	-	-	-
Three to four years	50,000	-	-
Four to five years	2,100	50,000	50,000
Over five years	-	2,100	2,100
Total	\$52,100	\$60,350	\$52,350
Weighted average rate at end of period	2.25 %	2.00 %	2.26 %
For the period:			
Average outstanding balance	\$52,592	\$54,588	\$56,144
Weighted average interest rate	2.24 %	2.18 %	2.28 %
Maximum outstanding as of any month end	\$56,500	\$66,700	\$67,950

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,		
2015	2014	2013

(Dollars in Thousands)

Subordinated debentures	\$15,465	\$15,465	\$15,465
Weighted average interest rate of subordinated debentures	3.48 %	3.45 %	3.47 %

Federal Reserve Bank Borrowings

During 2008, the Bank established a borrowing line with Federal Reserve Bank. The Bank had the ability to borrow \$30.6 million as of December 31, 2015. 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, 2015 and 2014.

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, 2015		Year ended December 31, 2014		Year ended December 31, 2013	
Common Dividend Payout Ratio	18	%	11	%	0	%
Return on Average Assets	0.88	%	0.92	%	0.82	%
Return on Average Equity	8.81	%	9.67	%	10.34	%
Stockholders' Equity to Assets	10.17	%	9.78	%	8.12	%
EPS Diluted	\$ 1.30		\$ 1.33		\$ 1.58	
Dividends on Common Shares	\$ 0.23		\$ 0.15		\$ -	

Employees

As of December 31, 2015, the Bank had 138 full-time employees and 32 part-time employees. As of December 31, 2015, 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;

repealed the prohibition on payment of interest on demand deposits;

provided for new disclosures related to executive compensation and corporate governance and prohibited compensation arrangements that encourage inappropriate risks or that could provide excessive compensation;

imposed new capital requirements on banking institutions (see "New Capital Rules" below);

enhanced the authority of the Federal Reserve Board to examine the Company and its non-bank subsidiaries; and

imposed new requirements and restrictions on consumer mortgage banking.

The Dodd-Frank Act contains numerous provisions scheduled to be implemented through rulemakings by various federal regulatory agencies over a period of several years. Many, but not all, of the regulations have been issued and full implementation of the Dodd-Frank Act is still not complete. This law will continue to significantly influence the regulatory environment in which the Bank and the Company operate. As a result, the Company cannot predict the Dodd-Frank Act's ultimate impact on the Company or the Bank at this time. Certain rules proposed or adopted under the Dodd-Frank Act are discussed throughout this section.

Minimum Capital Requirements

In July 2013, the U.S. federal banking agencies approved a final rule to comprehensively revise the regulatory capital framework for the U.S. banking sector, implementing many aspects of the framework agreed to by the international Basel Committee on Bank Supervision and incorporating changes required by the Dodd-Frank Act (the "Basel III Rule"). The new capital requirements apply to all banks and savings associations, bank holding companies with more than \$500 million in assets and savings and loan holding companies (other than certain savings and loan holding companies engaged in insurance underwriting and grandfathered diversified holding companies). The Basel III Rule establishes new higher capital ratio requirements, tightens the definition of "capital," imposes new operating restrictions on banking organizations with insufficient capital buffers, and increases the risk-weighting of certain assets. Cumulatively, these changes result in substantially more demanding capital standards for U.S. banking organizations.

The Basel III Rule distinguishes between banking organizations subject to the “advanced approaches” method of computing risk-based regulatory capital, which are those with \$250 billion or more in total consolidated assets or \$10 billion or more in foreign exposures, and other banking organizations that successfully opt-in (“Advanced Banks”) and other banking organizations, such as the Company and the Bank, which operate under the “standardized approach” (“Standardized Banks”). The new rules became effective for the Company and the Bank on January 1, 2015, with certain requirements to be phased-in between January 2016 and January 2019.

The Basel III Rule, among other features:

Introduces a new capital measure, Common Equity Tier 1 (“CET1” or “Tier 1 Common”), which is defined as common stock instruments, related surplus (net of Treasury stock), and retained earnings, subject to certain regulatory adjustments; and

Requires banking institutions to maintain:

o a new minimum ratio of CET1 to risk-weighted assets of at least 4.5% (plus a capital conservation buffer);

o a minimum amount of Tier 1 capital (the sum of Common Equity Tier 1 and Additional Tier 1 capital) to risk-weighted assets of at least 6%, which is an increase from 4% (plus a capital conservation buffer);

o a total capital (the sum of Tier 1 and Tier 2 capital) ratio of at least 8% of risk-weighted assets (plus a capital conservation buffer); and

o a minimum leverage ratio of Tier 1 capital of 4%.

In addition, the Basel III Rule requires that banking organizations maintain a “capital conservation buffer” comprised of CET1 in order to avoid restrictions on the ability to make capital distributions (including dividends and stock purchases) and pay discretionary bonuses to executive officers. The capital conservation buffer is equal to 2.5% of risk-weighted assets, in addition to the minimum CET1, Tier 1, and total capital ratios. The capital conservation buffer will be phased-in beginning at 0.625% of risk-weighted assets on January 1, 2016 and increasing each subsequent year by an additional 0.625%, to reach the final level of 2.5% of risk-weighted assets on January 1, 2019. Accordingly, factoring in the capital conservation buffer, the minimum ratios noted above increase to 7% for CET1, 8.5% for Tier 1 capital, and 10.5% for total capital.

Furthermore, the Basel III Rule includes more restrictive definitions for the components of capital. For example, cumulative perpetual preferred stock and trust preferred securities have been phased-out of Tier 1 capital. However,

for smaller entities with less than \$15 billion in assets as of December 31, 2009, such as the Bank, the final rule permanently grandfathers as Tier 1 capital trust preferred securities and similar instruments issued by such entities prior to May 19, 2010. The final Basel III Rule provides entities such as the Company and the Bank with a one time “opt-out” right to continue excluding accumulated other comprehensive income (“AOCI”) from CET1 capital. This opt-out was required to be made in the first quarter of 2015 and the Company and Bank made this election. Accordingly, the Bank and the Company need not include AOCI in CET1 capital going forward. The rule also requires that goodwill and certain other intangible assets, other than mortgage servicing assets, net of associated deferred tax liabilities, be deducted from CET1 capital. Additionally, certain deferred tax assets and mortgage servicing assets must be deducted from CET1 capital if such assets exceed a certain percentage of an institution’s CET1 capital. Generally, greater deductions from CET1 reduce an institution’s capital base.

Moreover, the Basel III Rule changes the risk-weightings for certain assets that are used to calculate capital ratios. All else being equal, a higher risk weight results in a higher risk-weighted asset amount which, in turn, gives rise to a lower risk-based capital ratio. The final rule assigns a higher risk-weighting of 150% (up from 100%) for exposures that are more than 90 days past due and assigns a higher risk-weighting of 150% (up from 100%) for high-volatility commercial real estate loans, which are credit facilities that, prior to conversion to permanent financing, finance or have financed the acquisition, development, or construction of real property, subject to certain exclusions. Although initially contemplated, there was no change to the risk-weighting treatment of residential mortgage loans in the final Basel III Rule.

Although the Basel III Rule is more stringent than previous capital rules, the Basel III Rule has had minimal impact on the Company and the Bank, to date. The Company and the Bank have a strong capital base and currently maintain adequate capital to meet the new standards.

Nonetheless, federal banking guidelines provide that financial institutions experiencing significant growth could be expected to maintain capital levels above the minimum requirements without significant reliance on intangible assets. Additionally, higher capital levels could be required under certain circumstances, such as situations involving interest rate risk, risk from concentrations of credit, or nontraditional activities. Accordingly, the Company and the Bank could be required to maintain higher capital levels in the future.

Regulation of the Bank

General. The Bank, as a Missouri-chartered non-member depository trust company, is primarily regulated by the MDF and FDIC. The Bank is subject to extensive federal and state regulatory oversight in all areas of banking operations, including, but not limited to, lending activities, investments, loans, deposits, interest rates payable on deposits, establishment of branches, corporate restructuring, and capital adequacy. The Bank is also subject to certain reserve requirements promulgated by the FRB.

The MDF, in conjunction with the FDIC, regularly examines the Bank and reports to the Bank's Board of Directors on any deficiencies that are found in the Bank's operations. The Bank must also file reports with the MDF and the FDIC concerning its activities and financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with or acquisitions of other banks or savings institutions. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities and examination policies. Regulation by these agencies is designed to protect the Bank's depositors and not the Company's shareholders.

Insurance of Deposit Accounts and Assessments. The deposit accounts held by the Bank are insured by the DIF. The Dodd-Frank Act permanently increased the maximum amount of deposit insurance for banks, savings institutions, and credit unions to \$250,000 per insured depositor, retroactive to January 1, 2009. The Dodd-Frank Act also increased the minimum ratio of net worth to insured deposits of the DIF from 1.15% to 1.35%.

A bank's insurance assessment is determined quarterly by multiplying its assessment rate by its assessment base. Per FDIC rules, a bank's assessment base is the institution's average consolidated total assets minus its average tangible equity. The FDIC has adopted a risk-based system for assessment rates. For banks with less than \$10 billion in assets, such as the Bank, the risk classification is based on the Bank's capital levels and level of supervisory risk. Assessment rates are subject to adjustment and (1) decrease for issuance of long-term unsecured debt (including senior unsecured debt and subordinated debt); (2) increase for holdings of long-term unsecured or subordinated debt issued by other

insured banks; and (3) for banks that are not well-rated or not well-capitalized, increase for significant holdings of brokered deposits.

The FDIC may terminate a bank's deposit insurance if it finds that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Regulatory Capital Requirements and Prompt Corrective Action. The FDIC is required to take prompt corrective action if an insured depository institution, such as the Bank, does not meet its minimum capital requirements. The FDIC has established five capital tiers: "well-capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized" and "critically undercapitalized". A depository institution's capital tier depends upon its capital levels in relation to various relevant capital measures, which, among others, include a Tier 1 and total risk-based capital measure and a leverage ratio capital measure. The Prompt Corrective Action rules were amended effective January 1, 2015 to incorporate changes under the Basel III Rule, including the CET1 requirements, and to raise capital requirements for certain categories. An insured financial institution is considered:

"Well-capitalized" if it has a Tier 1 leverage ratio of 5% or greater, a CET1 to risk-based capital ratio of 6.5% or greater, a Tier 1 to risk-based capital ratio of 8% or greater, a total risk-based capital ratio of 10% or greater and is not subject to any written agreement, order, capital directive, or prompt corrective action directive;

“Adequately capitalized” if it has it has a Tier 1 leverage ratio of 4% or greater, a CET1 to risk-based capital ratio of 4.5% or greater, a Tier 1 to risk-based capital ratio of 6% or greater, and a total risk-based capital ratio of 8% or greater;

“Undercapitalized” if it has a Tier 1 leverage ratio of less than 4%, a CET1 to risk-based capital ratio of less than 4.5%, a Tier 1 to risk-based capital ratio of less than 6% and a total risk-based capital ratio of less than 8%;

“Significantly undercapitalized” if it has a Tier 1 leverage ratio of less than 3%, a CET1 to risk-based capital ratio of less than 3%, a Tier 1 to risk-based capital ratio of less than 4%, and a total risk-based capital ratio of less than 6%; and

“Critically undercapitalized” if it has a tangible equity capital to total assets ratio equal to or less than 2%.

The FDIC may, under certain circumstances, reclassify a well-capitalized insured depository institution as adequately capitalized. It is also permitted to require an adequately capitalized or undercapitalized institution to comply with supervisory provisions as if the institution were in the next lower category (but not treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than the capital levels of the institution. An institution may be reclassified if the FDIC determines (after notice and opportunity for hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice.

Federal banking agencies are required to take prompt corrective action to resolve capital deficiencies at insured depository institutions. Failure to meet the capital guidelines could subject a bank to a variety of enforcement actions, including the issuance of a capital directive, prohibition on paying dividends or management fees, prohibition on accepting brokered deposits, and restrictions on paying bonuses or increasing compensation for executive officers. For critically undercapitalized institutions, a receiver may be appointed.

The Bank met its minimum capital adequacy guidelines, and the Bank was categorized as “well-capitalized”, as of December 31, 2015. Applicable capital and ratio information is contained under the section titled “Regulatory Matters” in Note 1 to the Notes of the Consolidated Financial Statements in this report.

Safety and Soundness Standards. The federal bank regulators have adopted guidelines to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest-rate-risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits and other operational and managerial standards. The guidelines provide standards in each area and an institution must establish its own procedures to achieve such goals.

If an institution fails to meet a standard, a regulator may require the institution to submit an acceptable plan to achieve compliance with the standard. If an institution fails to submit an acceptable plan or fails to implement an accepted plan, an agency must, by order, require the institution to correct the deficiency. The agency may, and in some cases must, take other supervisory actions until the deficiency has been corrected.

Federal Home Loan Bank System. The Bank is a member of the FHLB of Des Moines, which is one of 11 regional Federal Home Loan Banks (“FHLB”). The FHLB system’s primary purpose is to provide stable funding to member institutions that such institutions in turn use to make loans to families, farms and businesses. The FHLBanks are overseen by the Federal Housing Finance Agency (“FHFA”). As a member, the Bank is required to purchase and maintain a minimum investment in the stock of the FHLB. As of December 31, 2015, the Bank was in compliance with this requirement.

Dividend Limitations. The amount of dividends that the Bank may pay is subject to various regulatory limitations. Under federal law, an FDIC-insured institution may not pay dividends if it is undercapitalized or if payment would cause it to be undercapitalized. If the FDIC believes that a bank is engaged in, or about to engage in, an unsafe or unsound practice, the FDIC may require, after notice and hearing, that the bank cease and desist from that practice. In addition, under Missouri law, the Bank may pay dividends to the Company only from a portion of its undivided profits and may not pay dividends if its capital is impaired. Additionally, under Missouri statute, dividends paid by the Bank are restricted by a statutory formula, which provides for the maintenance of a surplus fund and prohibits the payment of dividends which would impair the surplus fund.

Anti-Money Laundering and Anti-Terrorism Regulation. The Bank Secrecy Act (“BSA”) establishes the framework for anti-money laundering (“AML”) obligations imposed on U.S. financial institutions. The purpose of the BSA is to prevent banks and other financial services providers from being used as intermediaries for, or to hide the transfer or deposit of money derived from, drug trafficking, money laundering, and other crimes. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“USA Patriot Act”) amended the BSA and imposes a number of obligations on banks, including the requirement to implement policies, procedures and controls reasonably designed to detect and report instances of money laundering and terrorism financing. The USA Patriot Act also requires financial institutions to develop written customer identification programs. In addition, the U.S. Department of Treasury’s Office of Foreign Asset Controls (“OFAC”) administers and enforces economic and trade sanctions based on U.S. foreign policy and national security against entities such as targeted foreign countries and terrorists.

Consumer Protection Laws. In connection with its banking activities, the Bank is subject to a number of federal and state laws designed to protect consumers in their transactions with banks. These laws include, but are not limited to, the Equal Credit Opportunity Act (“ECOA”), Fair Credit Reporting Act (“FCRA”), Fair and Accurate Credit Transaction Act of 2003 (“FACTA”), Gramm-Leach-Bliley Act (“GLBA”), Electronic Funds Transfer Act (“EFTA”), Home Mortgage Disclosure Act (“HMDA”), Real Estate Settlement Procedures Act (“RESPA”), and Truth in Lending Act (“TILA”), and their various state counterparts. In addition, the Dodd-Frank Act prohibits unfair, deceptive, or abusive acts or practices (“UDAAP”). Moreover, several federal laws, including GLBA, FCRA, and FACTA, regulate consumer financial privacy and restrict the sharing of consumer financial information.

Transactions with Affiliates and Insiders. Federal law imposes certain limitations on the ability of a bank to engage in “covered transactions” with affiliates. The Company is an affiliate of the Bank for purposes of these restrictions. The definition of “covered transactions,” which was expanded under the Dodd-Frank Act and includes extensions of credit to affiliates, investments in stock or other securities of affiliates, and acceptance of the stock or other securities of an affiliate as collateral for loans. Additionally, federal law prohibits institutions from engaging in certain transactions with affiliates unless the transactions are on terms substantially the same as, or at least as favorable to the bank as, those prevailing at the time for comparable transactions with non-affiliated companies. Federal law also restricts the Bank’s ability to extend credit to its executive officers, directors, principal shareholders, and their related interests, including that such credit extensions must be made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with unrelated third parties, and not involve more than the normal risk of repayment or present other unfavorable features.

Transaction Account Reserve Requirements. The FRB requires insured depository institutions to maintain reserves against specified deposit liabilities. Reservable liabilities consist of net transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities. For 2016, the first \$15.2 million of otherwise reservable balances are exempt from the reserve requirements; the reserve requirement is 3% for net transaction accounts between \$15.5 million and \$110.2 million; and the reserve requirement is 10% for net transaction accounts in excess of \$110.2 million. These reserve requirements are subject to annual adjustment.

Commercial Real Estate Lending. The Bank may be subject to greater scrutiny from federal banking regulators based on its concentration of commercial real estate (“CRE”) loans. Federal regulators have issued guidance to address concerns about CRE concentrations and to provide expectations for managing a concentrated portfolio. The guidance includes development and construction loans for which repayment is dependent upon the sale of the property, as well as properties for which repayment is dependent upon rental income.

Per the guidance, institutions that may have significant CRE concentration risk are those that have experienced rapid growth in CRE lending, have notable exposures to a specific type of CRE, or are approaching or exceed the following supervisory criteria: (i) total loans for construction, land development, and other land represent 100% or more of the institution’s total capital; or (ii) total CRE loans represent 300% or more of the institution’s total capital, and the outstanding balance of the institution’s CRE loan portfolio has increased by 50% or more during the prior 36 months. If a bank’s portfolio goes outside of these general guidelines, the bank must engage in heightened risk management practices.

Residential Real Estate Lending. The CFPB has issued new rules implementing several Dodd-Frank requirements regarding residential mortgage lending. Lenders must assess a borrower’s ability to repay the mortgage-related obligation and must consider certain underwriting factors. Lenders also receive certain protections from liability if they make “qualified mortgages.” Additionally, new rules prohibit certain loan features, such as negative amortization, interest-only payment, balloon payments, and restrict points and fees paid by a borrower and prepayment penalties.”

Volcker Rule. The Volcker Rule, issued by the federal banking and securities regulators pursuant to the Dodd-Frank Act, generally prohibits insured depository institutions and their affiliated companies from: (i) short-term proprietary trading in securities and other financial instruments; and (ii) sponsoring or acquiring or retaining an ownership interest in private equity and hedge funds, subject to certain exceptions.

Community Reinvestment Act. Under the Community Reinvestment Act of 1977 (“CRA”), the Bank has a continuing and affirmative obligation, consistent with safe and sound operation, to help meet the credit needs of its communities, including low- and moderate-income neighborhoods. As part of its examinations, the FDIC evaluates the Bank’s record in meeting these obligations. CRA ratings are also taken into account by regulators in evaluating applications for mergers, acquisitions, or to open a new branch or facility. Based on its most recent CRA compliance examinations, the Bank has received a “Satisfactory” CRA rating.

Regulation of the Company

General. The Company is a registered bank holding company subject to regulation and supervision by the FRB under the Bank Holding Company Act of 1956 (“BHCA”). The Company is required to file periodic reports of its operations with the FRB. Additionally, the Company is legally obligated to act as a source of strength to the Bank and to commit resources to support the Bank.

Regulatory Capital Requirements. The new capital adequacy requirements under the Basel III Rule that went into effect January 1, 2015, discussed above, apply to the Company as well as the Bank. The FRB has adopted the new minimum capital ratios and guidelines to provide a framework for assessing the adequacy of a bank holding company’s capital. Consistent with the principle that a bank holding company should serve as a source of managerial and financial strength to its subsidiary banks, the FRB expects a bank holding company to hold capital commensurate with its overall risk profile.

In assessing a bank holding company’s capital adequacy, the FRB evaluates the comprehensiveness and effectiveness of management’s capital planning. The FRB has indicated that effective capital planning process requires a banking organization to assess the risks to which it is exposed and its processes for managing and mitigating those risks, evaluate its capital adequacy relative to its risks, and consider the potential impact on its earnings and capital base from current and prospective economic conditions. If a bank holding company’s capital falls below the minimum requirements, the bank holding company will be required to submit an acceptable plan to increase its capital and its ability to pay dividends and make acquisitions may be restricted.

As of December 31, 2015, the Company met the applicable minimum capital adequacy guidelines. Additional capital and ratio information is contained in Item 8 under the section titled “Regulatory Matters” in Note 1 to the Consolidated

Financial Statements in this report.

Restrictions on Dividends and Stock Repurchases. The Company's source of funds (including cash flow to pay dividends to stockholders) is dividends paid to it by the Bank. The right of the Company to receive dividends or other distributions from the Bank is subject to the prior claims of creditors of the Bank, including depositors, and applicable regulatory restrictions, including prior approval in certain situations.

The amount of dividends that the Company may pay is subject to various regulatory limitations, including the requirement to maintain adequate capital. Financial institutions are generally prohibited from paying dividends if, following payment of dividends, the institution would be considered undercapitalized. Additionally, under the Basel III Rule, institutions seeking to pay dividends must maintain the required capital conservation buffer. Also, the FRB strongly encourages financial institutions to consult with the agency prior to paying dividends. The FRB has indicated that a board of directors should "eliminate, defer, or severely limit" dividends if:

the bank holding company's net income available to shareholders for the past four quarters, net of dividends paid during that period, is not sufficient to fully fund the dividends;

the bank holding company's rate of earnings retention is inconsistent with capital needs and overall macroeconomic outlook; or

the bank holding company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratio