

GUARANTY FEDERAL BANCSHARES INC
Form 10-K
March 27, 2015

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, 2014

- 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 (I.R.S. Employer Identification No.)
or Organization)

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

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

Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value \$.10 per share

(Title of Class)

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. [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 filer Accelerated filer Non-accelerated filer
Smaller reporting company

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

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, 2014 (the last business day of the registrant's most recently completed second quarter) was \$49.3 million. As of March 18, 2015 there were 4,375,969 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Stockholders (the "2014 Annual Report") for the fiscal year ended December 31, 2014 (Parts I and II).
2. Portions of the Proxy Statement for the Annual Meeting of Stockholders (the "Proxy Statement") to be held on May 27, 2015 (Part III).

GUARANTY FEDERAL BANCSHARES, INC.

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Signatures

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

GUARANTY FEDERAL BANCSHARES, INC. (THE "COMPANY") MAY FROM TIME TO TIME MAKE WRITTEN OR ORAL "FORWARD-LOOKING STATEMENTS", INCLUDING STATEMENTS CONTAINED IN THE COMPANY'S FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION (INCLUDING THIS ANNUAL REPORT ON FORM 10-K AND THE EXHIBITS THERETO), IN ITS REPORTS TO STOCKHOLDERS AND IN OTHER COMMUNICATIONS BY THE COMPANY, WHICH ARE MADE IN GOOD FAITH BY THE COMPANY PURSUANT TO THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. WHEN USED IN THIS ANNUAL REPORT ON FORM 10-K, WORDS SUCH AS "ANTICIPATES," "ESTIMATES," "BELIEVES," "EXPECTS," AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY SUCH FORWARD-LOOKING STATEMENTS BUT ARE NOT THE EXCLUSIVE MEANS OF IDENTIFYING SUCH STATEMENTS.

THESE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES, SUCH AS STATEMENTS OF THE COMPANY'S PLANS, OBJECTIVES, EXPECTATIONS, ESTIMATES AND INTENTIONS, THAT ARE SUBJECT TO CHANGE BASED ON VARIOUS IMPORTANT FACTORS (SOME OF WHICH ARE BEYOND THE COMPANY'S CONTROL). THE FOLLOWING FACTORS, AMONG OTHERS, COULD CAUSE THE COMPANY'S FINANCIAL PERFORMANCE TO DIFFER MATERIALLY FROM THE PLANS, OBJECTIVES, EXPECTATIONS, ESTIMATES AND INTENTIONS EXPRESSED IN SUCH FORWARD-LOOKING STATEMENTS: THE STRENGTH OF THE UNITED STATES ECONOMY IN GENERAL AND THE STRENGTH OF THE LOCAL ECONOMIES IN WHICH THE COMPANY CONDUCTS OPERATIONS; THE EFFECTS OF, AND CHANGES IN, TRADE, MONETARY AND FISCAL POLICIES AND LAWS, INCLUDING INTEREST RATE POLICIES OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, INFLATION, INTEREST RATES, MARKET AND MONETARY FLUCTUATIONS; THE TIMELY DEVELOPMENT OF AND ACCEPTANCE OF NEW PRODUCTS AND SERVICES OF THE COMPANY AND THE PERCEIVED OVERALL VALUE OF THESE PRODUCTS AND SERVICES BY USERS, INCLUDING THE FEATURES, PRICING AND QUALITY COMPARED TO COMPETITORS' PRODUCTS AND SERVICES; THE WILLINGNESS OF USERS TO SUBSTITUTE COMPETITORS' PRODUCTS AND SERVICES FOR THE COMPANY'S PRODUCTS AND SERVICES; THE SUCCESS OF THE COMPANY IN GAINING REGULATORY APPROVAL OF ITS PRODUCTS AND SERVICES, WHEN REQUIRED; THE IMPACT OF CHANGES IN FINANCIAL SERVICES' LAWS AND REGULATIONS (INCLUDING LAWS CONCERNING TAXES, BANKING, SECURITIES AND INSURANCE); TECHNOLOGICAL CHANGES; ACQUISITIONS; CHANGES IN CONSUMER SPENDING AND SAVING HABITS; THE SUCCESS OF THE COMPANY AT MANAGING THE RISKS RESULTING FROM THESE FACTORS; AND OTHER FACTORS SET FORTH IN REPORTS AND OTHER DOCUMENTS FILED BY THE COMPANY WITH THE SECURITIES AND EXCHANGE COMMISSION FROM TIME TO TIME. FOR FURTHER INFORMATION ABOUT THESE AND OTHER RISKS, UNCERTAINTIES AND FACTORS, PLEASE REVIEW THE DISCLOSURE INCLUDED IN ITEM 1A. OF THIS FORM 10-K.

THE COMPANY CAUTIONS THAT THE LISTED FACTORS ARE NOT EXCLUSIVE. THE COMPANY DOES NOT UNDERTAKE TO UPDATE ANY FORWARD-LOOKING STATEMENT, WHETHER WRITTEN OR ORAL, THAT MAY BE MADE FROM TIME TO TIME BY OR ON BEHALF OF THE COMPANY.

PART I

Item 1. Business

Guaranty Federal Bancshares, Inc.

Guaranty Federal Bancshares, Inc. (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, 2014, the Company's consolidated assets were \$628.5 million, net loans were \$487.8 million, deposits were \$479.8 million and total stockholders' equity was \$61.5 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 "Regulation" in this report. The Bank is a member of the Federal Home Loan Bank of Des Moines (the "FHLB"), which is one of twelve regional Federal Home Loan Banks.

Information regarding (i) average balances related to interest earning assets and interest bearing liabilities and an analysis of net interest income for the last three fiscal years and (ii) changes in interest income and interest expense resulting from changes in average balances and average rates for the last two fiscal years is provided under the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operation – Average Balances, Interest and Averages Yields" of the 2014 Annual Report, which is incorporated herein by reference.

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 78% of our loan portfolio by value as of December 31, 2014. Set forth below is selected data relating to the composition of the Bank's loan portfolio at the dates indicated:

As of December 31,

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	2014		2013		2012		2011		2010	
	\$	%	\$	%	\$	%	\$	%	\$	%
(Dollars in Thousands)										
Mortgage loans (includes loans held for sale):										
One to four family	\$99,116	20 %	\$94,422	20 %	\$102,225	21 %	\$101,734	21 %	\$105,737	20 %
Multi-family	33,786	7 %	46,188	10 %	46,405	10 %	43,166	9 %	44,138	9 %
Construction	36,785	7 %	43,266	9 %	48,917	10 %	44,912	9 %	63,308	12 %
Commercial real estate	215,605	44 %	179,079	38 %	167,761	35 %	194,856	39 %	195,890	38 %
Total mortgage loans	385,292	78 %	362,955	77 %	365,308	77 %	384,668	78 %	409,073	79 %
Commercial business loans	92,114	19 %	92,722	20 %	95,227	20 %	88,089	18 %	85,428	16 %
Consumer loans	17,246	3 %	17,303	4 %	16,717	4 %	20,758	4 %	23,426	5 %
Total consumer and other loans	109,360	22 %	110,025	23 %	111,944	23 %	108,847	22 %	108,854	21 %
Total loans	494,652	100 %	472,980	100 %	477,252	100 %	493,515	100 %	517,927	100 %
Less:										
Deferred loan fees/costs, net	262		175		136		238		179	
Allowance for loan losses	6,589		7,802		8,740		10,613		13,083	
Total Loans, net	\$487,801		\$465,003		\$468,376		\$482,664		\$504,665	

The following table sets forth the maturity of the Bank's loan portfolio as of December 31, 2014. 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	\$19,104	\$41,193	\$38,819	\$99,116
Multi-family	2,292	26,798	4,696	33,786
Construction	29,330	7,383	72	36,785
Commercial real estate	38,000	100,628	76,977	215,605
Commercial loans	38,824	44,057	9,233	92,114
Consumer loans	4,231	8,745	4,270	17,246
Total loans (1)	\$131,781	\$228,804	\$134,067	\$494,652
Less:				
Deferred loan fees/costs				262
Allowance for loan losses				6,589
Loans receivable net				\$487,801
(1) Includes mortgage loans held for sale of \$1,215				

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, 2014 of all loans due after December 2015, which have pre-determined interest rates and which have adjustable interest rates.

	Fixed	Adjustable	Total	% Adjustable	
	Rates	Rates			
	(Dollars in Thousands)				
One to four family	\$39,480	\$40,532	\$80,012	51	%
Multi-family	28,135	3,359	31,494	11	%
Construction	4,432	3,023	7,455	41	%
Commercial real estate	93,628	83,977	177,605	47	%
Commercial loans	17,045	36,245	53,290	68	%
Consumer loans	2,376	10,639	13,015	82	%
Total loans (1)	\$185,096	\$177,775	\$362,871	49	%

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

Commercial Real Estate Loans. As of December 31, 2014, the Bank had commercial real estate loans totaling \$215.6 million or 44% 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 \$19.7 million as of December 31, 2014, 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, 2014, the Bank's commercial real estate loan portfolio included approximately \$10.2 million, or 2.1% 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, 2014, the Bank had commercial business loans totaling \$92.1 million or 19% 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, 2014, \$99.1 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, 2014, \$33.8 million or 7% 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, \$19.7 million as of December 31, 2014, 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, 2014, construction loans totaled \$36.8 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, 2014, the Bank has such loans totaling \$17.2 million or 3% 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, 2014, the Bank has two loans 90 days or more past due with a principal balance of \$506,380 and fourteen loans between 30 and 89 days past due with an aggregate principal balance of \$598,840. 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,
2014 2013 2012 2011 2010
(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	\$911	\$816	\$2,281	\$1,671	\$3,120
Multi-family	-	-	-	-	-
Construction	2,893	4,530	6,274	8,514	8,935
Commercial real estate	460	3,663	3,664	4,083	2,980
	4,264	9,009	12,219	14,268	15,035

Non-mortgage loans:

Commercial loans	1,027	6,776	2,793	2,377	7,743
Consumer and other loans	-	63	319	357	234
	1,027	6,839	3,112	2,734	7,977
Total non-accrual loans	5,291	15,848	15,331	17,002	23,012

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	\$5,291	\$15,848	\$15,331	\$17,002	\$23,012

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	1.08 %	3.41 %	3.27 %	3.52 %	4.55 %
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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	0.84 %	2.56 %	2.32 %	2.62 %	3.37 %
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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,				
	2014	2013	2012	2011	2010
	(Dollars in Thousands)				
Non-accrual loans:					
Mortgage loans:					
One to four family	\$911	\$816	\$2,281	\$1,671	\$3,120
Multi-family	-	-	-	-	-
Construction	2,893	4,530	6,274	8,514	8,935
Commercial real estate	460	3,663	3,664	4,083	2,980
	4,264	9,009	12,219	14,268	15,035
Non-mortgage loans:					
Commercial loans	1,027	6,776	2,793	2,377	7,743
Consumer and other loans	-	63	319	357	234
	1,027	6,839	3,112	2,734	7,977
Total non-accrual loans	5,291	15,848	15,331	17,002	23,012
Real estate and other assets acquired in settlement of loans	3,165	3,822	4,530	10,012	10,540
Total non-performing assets	\$8,456	\$19,670	\$19,861	\$27,014	\$33,552
Total non-accrual loans as a percentage of net loans	1.08 %	3.41 %	3.27 %	3.52 %	4.55 %
Total non-performing assets as a percentage of total assets	1.35 %	3.17 %	3.01 %	4.17 %	4.91 %
Impact on interest income for the period:					
Interest income that would have been recorded on non-accruing loans	\$337	\$572	\$484	\$243	\$855

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, 2014.

	Special Mention		Substandard		Doubtful		Total	
	Number	Amount (Dollars in Thousands)	Number	Amount	Number	Amount	Number	Amount
Loans:								
One to four family	15	\$2,501	15	\$1,271	-	\$ -	30	\$3,772
Multi-family	-	-	-	-	-	-	-	-
Construction	3	6,522	2	2,893	-	-	5	9,415
Commercial real estate	10	5,076	8	2,758	1	460	19	8,294
Commercial	18	10,273	12	3,644	-	-	30	13,917
Consumer and Other	-	-	4	231	-	-	4	231
Total loans	46	24,372	41	10,797	1	460	88	35,629
Foreclosed assets								
held-for-sale:								
One to four family	-	-	-	-	-	-	-	-
Land and other assets	-	-	9	3,165	-	-	9	3,165
Total foreclosed assets	-	-	9	3,165	-	-	9	3,165
Total	46	\$24,372	50	\$13,962	1	\$ 460	97	\$38,794

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, 2014, the Bank's total allowance for loan losses was \$6.6 million or 1.34% of gross loans outstanding (excluding mortgage loans held for sale), a decrease of \$1,213,000 from December 31, 2013. The Bank experienced loan charge offs in excess of recoveries as management charged off specific loans that had been identified and classified as impaired at December 31, 2013. 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 2014, 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,				
	2014	2013	2012	2011	2010
	(Dollars in Thousands)				
Beginning balance	\$7,802	\$8,740	\$10,613	\$13,083	\$14,076
Gross loan charge offs					
Mortgage Loans:					
One to four family	(127)	(139)	(265)	(966)	(906)
Multi-family	-	-	-	-	-
Construction	(411)	(879)	(1,335)	(2,381)	(3,893)
Commercial real estate	(9)	(277)	(985)	(2,744)	(373)
	(547)	(1,295)	(2,585)	(6,091)	(5,172)
Non-mortgage loans:					
Commercial loans	(2,018)	(1,268)	(5,547)	(1,362)	(1,847)
Consumer and other loans	(150)	(164)	(73)	(322)	(366)
	(2,168)	(1,432)	(5,620)	(1,684)	(2,213)
Total charge offs	(2,715)	(2,727)	(8,205)	(7,775)	(7,385)
Recoveries					
Mortgage Loans:					
One to four family	9	23	25	45	25
Multi-family	-	-	-	-	-
Construction	5	50	28	77	10
Commercial real estate	99	-	94	221	12
	113	73	147	343	47
Non-mortgage loans:					
Commercial loans	65	110	198	322	60
Consumer and other loans	49	56	37	1,290	1,085
	114	166	235	1,612	1,145
Total recoveries	227	239	382	1,955	1,192
Net loan charge-offs	(2,488)	(2,488)	(7,823)	(5,820)	(6,193)
Provision charged to expense	1,275	1,550	5,950	3,350	5,200
Ending balance	\$6,589	\$7,802	\$8,740	\$10,613	\$13,083
Net charge-offs as a percentage of average loans, net	0.53 %	0.53 %	1.68 %	1.19 %	1.25 %
Allowance for loan losses as a percentage of average loans, net	1.41 %	1.67 %	1.88 %	2.17 %	2.65 %
Allowance for loan losses as a percentage of total non-performing loans	125 %	49 %	57 %	62 %	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,		2013		2012		2011		2010	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Mortgage Loans	\$4,349	66 %	\$5,652	72 %	\$6,642	76 %	\$7,358	69 %	\$9,913	76 %
Non-Mortgage Loans	2,240	34 %	2,150	28 %	2,098	24 %	3,255	31 %	3,170	24 %
Total	\$6,589	100%	\$7,802	100%	\$8,740	100%	\$10,613	100%	\$13,083	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, 2014, the Company has investment securities with an amortized cost of \$87.2 million and an estimated fair value of \$86.5 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, \$86.5 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 2014, the Company sold \$41.8 million in securities and recognized \$34,163 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, 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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2012				
AVAILABLE-FOR-SALE SECURITIES:				
Equity Securities	\$ 102,212	\$ 306	\$(31,604)	\$ 70,914
Debt Securities:				
U. S. government agencies	38,188,554	202,213	(39,706)	38,351,061
Corporates	1,839,976	67,889	-	1,907,865
Municipals	10,212,376	250,269	(84,456)	10,378,189
Government sponsored mortgage-backed securities	50,366,374	1,304,242	(398,001)	51,272,615
HELD-TO-MATURITY SECURITIES:				
Government sponsored mortgage-backed securities	181,042	12,440	-	193,482
	\$ 100,890,534	\$ 1,837,359	\$(553,767)	\$ 102,174,126

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, 2014.

Investment Portfolio Maturities and Average Weighted Yields	Amortized Cost	Weighted Average Yield	Approximate Fair Value
Due in one to five years	\$ 6,508,809	1.59 %	\$ 6,415,929
Due in five to ten years	10,631,948	2.50 %	10,438,272
Due after ten years	8,861,614	3.89 %	8,992,462
Equity securities not due on a single maturity date	102,212	0.00 %	105,023
Government sponsored mortgage-backed securities and SBA loan pools not due on a single maturity date	61,136,174	3.88 %	60,578,918
	\$ 87,240,757	3.51 %	\$ 86,530,604

			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, 2014

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Equity Securities	\$-	\$-	\$-	\$-	\$ 105,023	\$ 105,023
Debt Securities:						
U. S. government agencies	5,400,735	4,856,038	-	-	-	10,256,773
Municipals	1,015,194	5,582,234	8,992,462	-	-	15,589,890
Government sponsored mortgage-backed securities and SBA loan pools	-	-	-	60,578,918	-	60,578,918
	\$6,415,929	\$10,438,272	\$8,992,462	\$60,578,918	\$ 105,023	\$86,530,604

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, 2014			As of December 31, 2013			As of December 31, 2012		
	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	0.34%	\$111,561	23 %	0.35%	\$86,601	18 %	0.41%	\$86,422	17 %
Savings	0.20%	23,619	5 %	0.21%	23,726	5 %	0.14%	23,660	5 %
Money Market	0.43%	171,948	36 %	0.47%	204,740	42 %	0.63%	191,055	38 %

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Non-interest bearing demand	0.00 %	51,708	11 %	0.00 %	48,678	10 %	0.00 %	48,863	10 %
Total		358,836	75 %		363,745	75 %		350,000	70 %
Certificates of Deposit: (fixed-rate, fixed-term)									
1-11 months	0.55 %	56,369	12 %	0.58 %	63,789	13 %	1.01 %	83,130	17 %
12-23 months	0.81 %	27,938	6 %	0.87 %	37,225	8 %	1.08 %	34,181	7 %
24-35 months	1.10 %	21,925	5 %	1.26 %	9,588	2 %	1.23 %	19,243	4 %
36-47 months	1.28 %	6,709	1 %	1.44 %	6,954	1 %	1.68 %	7,109	1 %
48-59 months	1.41 %	4,528	1 %	1.38 %	3,416	1 %	1.51 %	5,587	1 %
60-71 months	1.50 %	3,315	1 %	1.42 %	2,433	0 %	1.47 %	541	0 %
72-95 months	1.43 %	198	0 %	1.44 %	169	0 %	1.44 %	224	0 %
Total		120,982	25 %		123,574	25 %		150,015	30 %
Total Deposits		\$479,818	100 %		\$487,319	100 %		\$500,015	100 %

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

In 2014, 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, 2014.

	(Dollars in thousands) As of December 31, 2014
Three months or less	\$ 13,204
Over three through six months	4,083
Over six through twelve months	11,340
Over twelve months	36,141
Total	\$ 64,768

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,
2014 2013 2012
(Dollars in Thousands)

Remaining maturity:

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Less than one year	\$8,250	\$-	\$15,700
One to two years	-	250	-
Two to three years	-	-	250
Three to four years	-	-	-
Four to five years	50,000	50,000	-
Over five years	2,100	2,100	52,100
Total	\$60,350	\$52,350	\$68,050
Weighted average rate at end of period	2.00 %	2.26 %	2.23 %
For the period:			
Average outstanding balance	\$54,588	\$56,144	\$68,050
Weighted average interest rate	2.18 %	2.28 %	2.23 %
Maximum outstanding as of any month end	\$66,700	\$67,950	\$68,050

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,		
2014	2013	2012

(Dollars in Thousands)

Subordinated debentures	\$15,465	\$15,465	\$15,465
Weighted average interest rate of subordinated debentures	3.45 %	3.47 %	3.60 %

Federal Reserve Bank Borrowings

During 2008, the Bank established a borrowing line with Federal Reserve Bank. The Bank had the ability to borrow \$29.0 million as of December 31, 2014. 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, 2014. At December 31, 2013, the Bank had an outstanding balance of \$3.0 million.

Securities Sold Under Agreements to Repurchase

The Company borrowed \$30.0 million under three structured repurchase agreements in January 2008. Interest is 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., has the option to terminate the agreements on a quarterly basis until maturity. Prior to the stated maturity, the Company paid off one of these agreements in the amount of \$5.0 million in November 2011 and an additional \$15.0 million in May 2013.

The Company has pledged certain investment securities with a fair value of \$12.6 million and \$12.1 million as of December 31, 2014 and 2013, respectively, to these repurchase agreements.

Management monitors these transactions closely, and management has determined to keep them in place due to the net income relief these types of transactions provide in the low interest rate environment. The spread and interest rate risk on the transactions remain healthy.

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 consolidated financial statements in the 2014 Annual Report. This information is incorporated herein by reference.

Critical Accounting Policies

"Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Item 7 of this report is based upon the Company's consolidated financial statements and the notes thereto, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. On an on-going basis, management evaluates its estimates and judgments.

Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. There can be no assurance that actual results will not differ from those estimates. If actual results are different than management's judgments and estimates, the Company's financial results could change, and such change could be material to the Company.

Material estimates and judgments that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets held for sale, management obtains independent appraisals for significant properties.

The Company has identified the accounting policies for the allowance for loan losses and related significant estimates and judgments as critical to its business operations and the understanding of its results of operations. For a detailed discussion on the application of these significant estimates and judgments and our accounting policies, also see Note 1 to the Consolidated Financial Statements in the 2014 Annual 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, 2014		Year ended December 31, 2013		Year ended December 31, 2012	
Common Dividend Payout Ratio	11	%	0	%	0	%
Return on Average Assets	0.93	%	0.82	%	0.30	%
Return on Average Equity	9.67	%	10.34	%	3.67	%
Stockholders' Equity to Assets	9.78	%	8.12	%	7.70	%
EPS Diluted	\$ 1.33		\$ 1.58		\$ 0.30	
Dividends on Common Shares	\$ 0.15		\$ -		\$ -	

Employees

As of December 31, 2014, the Bank had 131 full-time employees and 34 part-time employees. As of December 31, 2014, 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

Financial institutions, their holding companies, and their affiliates are extensively regulated under federal and state law. As a result, our growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory authorities, including the Board of Governors of the Federal Reserve System (FRB), the MDF, the FDIC, and the Consumer Financial Protection Bureau (CFPB). Furthermore, 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 have an impact on our business. The effect of these statutes, regulations, regulatory policies, and accounting rules are significant to our operations and results, and the nature and extent of future legislative, regulatory, or other changes affecting financial institutions are impossible to predict with any certainty.

Set forth below is a brief description of certain laws which relate to the regulation of the Company and the Bank. These laws, and regulations adopted thereunder, are primarily intended for the protection of the Bank's customers and depositors and not for the benefit of the stockholders of the Company. The following description does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

Dodd-Frank Act

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law. The act's numerous provisions are scheduled to be implemented over a period of several years and are intended to decrease various risks in the U.S. financial system. The Dodd-Frank Act requires the federal banking agencies to issue numerous new rules that affect many aspects of the banking industry. Accordingly, full implementation of the Dodd-Frank Act will not be complete for some time and, as such an assessment of the Dodd-Frank Act's full effect on the Company and the Bank is not currently possible. However, certain provisions of the Dodd-Frank Act have impacted the Company's and the Bank's current and future operations, including but not limited to provisions that:

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

Increase the deposit insurance coverage limit.

Change the assessment base for calculating a bank's deposit insurance assessments.

Increase the minimum ratio of net worth to insured deposits of the Deposit Insurance Fund from 1.15% to 1.35% and require the FDIC to offset the effect of the increase on institutions with assets of less than \$10 billion.

Repeal the prohibition on payment of interest on demand deposits, thereby permitting banks to pay interest on business accounts.

Provide for new disclosures relating to executive compensation and corporate governance and prohibit compensation arrangements that encourage inappropriate risks or that could provide excessive compensation.

Require new capital rules and apply the same leverage and risk-based capital requirements that apply to most bank holding companies (see "New Capital Rules" below).

Enhance the authority of the Federal Reserve Board to examine the Company and its non-bank subsidiaries.

Require all bank holding companies to serve as a source of financial strength to their subsidiary banks in the event such subsidiaries suffer from financial distress.

The scope and impact of the Dodd-Frank Act's provisions will continue to be determined as final regulations are issued and implemented. The new rules that have become effective are still relatively new and being assessed. As a result, the Company cannot predict the ultimate impact of the Dodd-Frank Act on the Company or the Bank at this time. Certain rules that have been proposed or adopted under the Dodd-Frank Act are discussed throughout this section.

Emergency Economic Stabilization Act

In response to the financial crisis affecting the banking system and financial markets, the Emergency Economic Stabilization Act ("EESA") was signed into law on October 3, 2008 and authorized the U.S. Department of the Treasury (the "Treasury") to purchase from financial institutions and their holding companies up to \$700 billion in mortgage loans, mortgage-related securities and certain other financial instruments under the Troubled Asset Relief Program ("TARP"). As part of TARP, the Treasury established the Capital Purchase Program ("CPP") to provide up to \$250 billion of funding to eligible financial institutions through the purchase of debt or equity securities from participating institutions.

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

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

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

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

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

New Capital Rules

In December 2010, the internal Basel Committee on Bank Supervision (“Basel Committee”) released its final framework for strengthening international capital and liquidity regulation, now officially identified as “Basel III,” which, when fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital than currently required, with a greater emphasis on common equity. The Basel III capital framework, among other things:

Introduces as a new capital measure, Common Equity Tier 1 (“CET1”), more commonly known in the United States as “Tier 1 Common,” and defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and expands the scope of the adjustments as compared to existing regulations;

When fully phased in, requires banks to maintain: (i) a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer” (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7%); (ii) an additional “SIFI buffer” for those large institutions deemed to be systemically important, ranging from 1.0% to 2.5%, and up to 3.5% under certain conditions; (iii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation); (iv) a minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and (v) as a newly adopted international standard, a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (as the average for each quarter of the month-end ratios for the quarter); and

Includes an additional “countercyclical capital buffer,” generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be a CET1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented.

In July 2013, the U.S. banking agencies approved the U.S. version of Basel III. The federal bank regulatory agencies’ adopted version of Basel III revises the risk-based and leverage capital requirements and the method for calculating risk-weighted assets to make them consistent with Basel III and to meet the requirements of the Dodd-Frank Act. Although many of the requirements contained in the final rule are applicable only to large, internationally active banks, some of them will apply on a phased in basis to all banking organizations, including the Company and the Bank. Among other things, the final rule establishes a new minimum common equity Tier 1 ratio (4.5% of risk-weighted assets), a higher minimum Tier 1 risk-based capital requirement (6.0% of risk-weighted assets) and a minimum non-risk-based leverage ratio (4.00% eliminating a 3.00% exception for higher rated banks). The new additional capital conservation buffer of 2.5% of risk weighted assets over each of the required capital ratios will be phased in and must be met in order to avoid limitations on the ability of the Company and the Bank to pay dividends, repurchase shares or pay discretionary bonuses. The additional “countercyclical capital buffer” is also required for larger and more complex institutions. The new rule assigns higher risk weighting to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property. The rule also changes the permitted composition of Tier 1 capital to exclude trust preferred securities, mortgage servicing rights and certain deferred tax assets and includes unrealized

gains and losses on available for sale debt and equity securities (with a one-time opt out option for Standardized Banks (banks with less than \$250 billion of total consolidated assets and less than \$10 billion of foreign exposures) which the Company and the Bank intend to exercise). The final rule became effective for the Company on January 1, 2015. The requirements, including alternative requirements for smaller community financial institutions like the Company and the Bank, will be phased in through 2019.

The capital conservation buffer requirement is being phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective.

Regulation of the Bank

General. The Bank is regulated under Missouri state law and federal law. Its deposits are insured by the Depository Insurance Fund (“DIF”) of the FDIC, which was created in 2006 in the merger of the Bank Insurance Fund and the Savings Association Insurance Fund under the Federal Deposit Insurance Reform Act. Lending activities and other investments must comply with various federal statutory and regulatory requirements. 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 provide reports to the Bank's Board of Directors on any deficiencies that are found in the Bank's operations. The Bank's relationship with its depositors and borrowers is also regulated to a great extent by federal and state law, especially in such matters as the ownership of deposit accounts and the form and content of the Bank's loan documents.

The Bank must 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. This regulation and supervision establishes a comprehensive framework of activities in which the Bank can engage and is intended primarily for the protection of the DIF and depositors. Under this regulatory structure, the regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes.

Insurance of Deposit Accounts and Assessments. The deposit accounts held by the Bank are insured by the DIF (as defined by law and regulation). 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.

Effective April 1, 2011, the FDIC adopted rules in which insurance assessments will be based on the institution's average total assets less its average tangible equity, rather than total deposits which were previously used in the assessment calculation.

The FDIC may terminate a bank's insurance of deposits 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.

Prompt Corrective Action. The FDIC is required to take prompt corrective action if a depository institution for which it is the regulator, including the Bank, does not meet its minimum capital requirements. The FDIC establishes five capital tiers: “well capitalized”, “adequately capitalized”, “under capitalized”, “significantly under capitalized” and “critically under capitalized”. A depository institution’s capital tier depends upon where 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. A depository institution is considered to be significantly undercapitalized if it has a Total Capital Ratio of less than 6.0%; a Tier I Capital ratio of less than 3.0%; or a Leverage Ratio of less than 3.0%. An institution that has a tangible equity capital to assets ratio equal to or less than 2.0% is deemed to be critically undercapitalized. "Tangible equity" includes core capital elements counted as Tier 1 Capital for purposes of the risk-based capital standards, plus the amount of outstanding cumulative perpetual preferred stock (including related surplus), minus all intangible assets, with certain exceptions.

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 the 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.

As stated previously, the Company and the Bank met their minimum capital adequacy guidelines, and the Bank was categorized as well capitalized, as of December 31, 2014. Applicable capital and ratio information is contained under the section titled "Regulatory Matters" in Note 1 to the Consolidated Financial Statements in the 2014 Annual Report.

Safety and Soundness Standards. Federal bank regulators are required to prescribe standards, by regulations or guidelines, relating to the 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 such other operational and managerial standards as the agencies may deem appropriate. The federal bank regulatory agencies have adopted guidelines prescribing safety and soundness standards, which require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines.

Federal Home Loan Bank System. The Bank is a member of the FHLB, which is one of 12 regional Federal Home Loan Banks. As a member, the Bank is required to purchase and maintain stock in FHLB in an amount equal to 0.12% of assets plus 4.00% of Federal Home Loan Bank advances. At December 31, 2014, the Bank had \$3,156,900 in FHLB stock, which was in compliance with this requirement.

Dividend Limitations. The amount of dividends that the Bank may pay is subject to various regulatory limitations. In addition, under Missouri law dividends paid by banks 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 Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act) amends 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 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 goals against entities such as targeted foreign countries and terrorists. The Bank has established an AML program and has appropriate policies and

procedures in place.

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. Furthermore, the CFPB issued its final rule, effective January 10, 2014, implementing the ability-to-repay (ATR) and qualified mortgage (QM) provisions of the

Dodd-Frank Act, which requires creditors to make reasonable, good faith determinations, based on certain factors, that borrowers will have the ability to repay their mortgages. Loans that meet the definition

of “qualified mortgage” are generally entitled to a presumption that the lender satisfied the ATR requirements. The Bank has policies and procedures to comply with these consumer protection requirements.

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. . 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 of the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 ("BHCA").

Capital. The Dodd-Frank Act requires the FRB to revise its consolidated capital requirements for holding companies so that they are no less stringent, both quantitatively and in terms of components of capital, than those applicable to the subsidiary banks. As discussed above, the final capital rule implements these requirements effective January 1, 2015.

As of December 31, 2014, the Company met the applicable minimum capital adequacy guidelines. Additional capital and ratio information is contained under the section titled "Regulatory Matters" in Note 1 to the Consolidated Financial Statements in the 2014 Annual Report.

Dividend Restrictions and Share Repurchases. The Company's source of cash flow (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.

The amount of dividends that the Company may pay is subject to various regulatory limitations. Future dividends will depend primarily upon the level of earnings of the Bank. Banking regulators also have the authority to prohibit banks and bank holding companies from paying a dividend if they should deem such payment to be an unsafe or unsound practice.

Unless a bank holding company is well capitalized immediately before and after the repurchase of its equity securities, is well managed and is not subject to any unresolved supervisory issues, it must notify the FRB prior to the purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration (gross consideration paid minus the gross consideration received from the sale of equity securities) paid by the Company during the preceding twelve months, is equal to 10% or more of the Company's consolidated net worth. The FRB may disapprove of the purchase or redemption if it determines, among other things,

that the proposal would constitute an unsafe or unsound business practice.

Support of Banking Subsidiaries. Under FRB policy, the Company is expected to act as a source of financial strength to the Bank and, where required, to commit resources to support the Bank. Moreover, if the Bank should become undercapitalized, the Company would be required to guarantee the Bank's compliance with its capital restoration plan in order for such plan to be accepted by the FDIC.

Acquisitions. Under the BHCA, the Company must obtain the prior approval of the FRB before it may acquire all or substantially all of the assets of any bank, acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank, or merge or consolidate with any other bank holding company. The BHCA also restricts the Company's ability to acquire direct or indirect ownership or control of 5% or more of any class of voting shares of any nonbanking corporation. The FRB is required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. Consideration of financial resources generally focuses on capital adequacy. Consideration of convenience and needs issues includes the involved institutions' performance under the CRA.

Transactions With Affiliates. There are various legal restrictions on the extent to which a bank holding company may borrow or otherwise obtain credit from or sell assets or affiliate securities to its bank subsidiary. In general, covered transactions with a bank subsidiary must be on nonpreferential terms and cannot exceed, as to any one of the holding company or the holding company's nonbank subsidiaries, 10% of the bank's capital stock and surplus, and as to the holding company and all of its nonbank subsidiaries in the aggregate, 20% of such capital stock and surplus. Special collateral requirements also apply to covered extensions of credit.

Sarbanes-Oxley Act. The Sarbanes-Oxley Act of 2002 addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act, our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The SEC's rules regarding CEO and CFO certifications require these officers to certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal controls over financial reporting; they have made certain disclosures to our auditors and the audit committee of the board of directors about our internal controls over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal controls over financial reporting or in other factors that could materially affect internal control over financial reporting. We have prepared policies, procedures and systems designed to ensure compliance with these regulations.

Corporate Governance. The Dodd-Frank Act addresses many other investor protections, corporate governance, and executive compensation matters that will affect most U.S. publicly traded companies. For example, the Dodd-Frank Act increases stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments, and authorizes the SEC to promulgate rules that would allow stockholders to nominate and solicit voters for their own candidates using a company's proxy materials. The legislation also directs the FRB to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded.

Executive Officers of the Registrant

Set forth below is information concerning the executive officers of the Company. Each executive officer is annually elected to a one-year term by the Board of Directors of the Company.

Shaun A. Burke joined the Bank in March 2004 as President and Chief Executive Officer and was appointed President and Chief Executive Officer of the Company on February 28, 2005. He has over 30 years of banking experience. Mr. Burke received a Bachelor of Science Degree from Missouri State University and is a graduate of the Graduate School of Banking of Colorado. For the past three years, he was a Board Member of the Springfield Area Chamber of Commerce serving as Vice Chairman of Economic Development in 2014. From 2009 through 2014, he was a Board Member of the Springfield Business Development Corporation, the economic development subsidiary of the Springfield Area Chamber of Commerce serving as President in 2012. Mr. Burke served on the board of the Missouri Bankers Association and was Chairman of the Audit Committee and is currently the Vice Chairman of the Legislative Affairs Committee. In 2014, he was named to the Community Bankers Counsel of the American Bankers Association. He is also a past Member of the United Way Allocations and Agency Relations Executive Committee, Salvation Army Board, and Big Brothers Big Sisters Board.

Carter Peters is Executive Vice President and Chief Financial Officer of the Bank and the Company. He joined the Bank and the Company in August 2005. Mr. Peters has over 20 years of experience in the financial services and public accounting industries. He is a Certified Public Accountant with a Bachelor of Science Degree in Accounting from Missouri State University. He is a member of the American Institute of Certified Public Accountants and the Missouri Society of Certified Public Accountants. Mr. Peters has been recognized by the Springfield Business Journal as a “40 Under 40” honoree. He has served several not-for-profit organizations, including past Chairman of the Southwest Missouri Regional Board of the Make-A-Wish Foundation of Missouri.

H. Michael Mattson is Executive Vice President and Chief Lending Officer of the Bank. He joined the Bank in June 2006. Mr. Mattson has over 30 years of commercial banking experience. Mr. Mattson is currently a member of the Springfield Area Chamber of Commerce and has served on its board nominating committee and venture capital committee. He is on the board of directors of Ozarks Food Harvest, previously serving as its president and co-chair of their capital campaign. He is a member of Leadership Springfield Class XI and a graduate of Rockhurst University and the Graduate School of Banking of The South at Baton Rouge, LA.

Sheri Biser is Executive Vice President and Chief Credit Officer of the Bank. She joined the Bank in February 2009. Ms. Biser has 28 years of banking experience. Prior to joining the Bank, Ms. Biser served as Chief Credit Officer of Metropolitan National Bank for nearly eight years and worked in credit administration for fourteen years at another financial institution. She received a Bachelor of Science Degree in Accounting from Fort Hays State University.

Robin E. Robeson is Executive Vice President and Chief Operating Officer of the Bank. She joined the Bank in July 2012. Ms. Robeson has over 20 years of experience in the financial services industry and 3 years of executive management experience in the technology industry. She has a Bachelor of Art Degree in Communication from the University of Missouri-Columbia and a Master of Business Administration Degree from Drury University. In addition, Ms. Robeson was awarded the Certified Trust & Financial Advisor (CTFA) professional designation from the Institute of Certified Bankers. She served as a board Vice Chairman for City Utilities of Springfield, is Past President of the Big Brothers/Big Sisters of the Ozarks and Rotary Club of Springfield boards and as a member of the Ozarks Transportation Organization Board. She is a graduate of Leadership Springfield Class XIII, and has been recognized by the Springfield Business Journal as one of the “20 Most Influential Women in Business” and been named a “40 Under 40” honoree.

As of December 31, 2014, the age of these individuals was 51 for Mr. Burke, 45 for Mr. Peters, 61 for Mr. Mattson, 51 for Ms. Biser and 49 for Ms. Robeson.

Item 1A. Risk Factors

The Company's business and operations are subject to, and may be adversely affected by, certain risks and uncertainties. An investment in our common stock is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included and incorporated by reference in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations. The value or market price of our common stock could decline due to any of these identified or other risks, and you could lose all or part of your investment.

Our business may be adversely affected by conditions in the financial markets and economic conditions generally.

Negative developments in the capital markets in recent years resulted in uncertainty in the financial markets and an economic downturn. The housing market declined, resulting in decreasing home prices and increasing delinquencies and foreclosures. The credit performance of mortgage and construction loans resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. The declines in the performance and value of mortgage assets encompassed all mortgage and real estate asset types, leveraged bank loans and nearly all other asset classes, including equity securities. These write-downs have caused many financial institutions to seek additional capital or to merge with larger and stronger institutions. Some financial institutions have failed. Although improvements in the U.S. economy have occurred, housing prices are still depressed in some markets. While unemployment levels have improved, there are concerns over whether such improvements in the U.S. economy will continue. Moreover, the economy could be severely negatively affected by disagreements in the federal government with respect to the budget and the debt ceiling, and economic problems in Europe add to volatility in the U.S. capital markets.

Negative economic developments would likely adversely affect our business and results of operations, as well as those of our customers. As a result, we may experience increased foreclosures, delinquencies and customer bankruptcies, as well as decreased loan demand.

Our loan/lease portfolio is comprised in part of real estate loans, which involve risks specific to real estate values.

Real estate lending comprises a significant portion of our lending business. Real estate loans were \$385.3 million, or approximately 77.9% of our total loan/lease portfolio, as of December 31, 2014. The market value of real estate

securing our real estate loans can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located, and in the past several years our Market Areas has experienced a general weakening in real estate valuations. Continued adverse developments affecting real estate values in one or more of our markets could increase the credit risk associated with our loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties.

The problems that have occurred in the residential real estate and mortgage markets throughout much of the United States in recent years also affected the commercial real estate market. Our operations are heavily concentrated in Greene and Christian Counties, which are in the southwestern corner of Missouri, including the cities of Springfield, Nixa and Ozark, Missouri (previously defined as our “Market Area”). In our Market Area, we generally experienced a downturn in credit performance by our commercial real estate loan customers in recent years relative to historical norms. Despite recent improvements in certain aspects of the economy, a level of uncertainty continues to exist in the economy and credit markets nationally and in our Market Area, and there can be no guarantee that we will not experience further deterioration in the performance of commercial real estate and other real estate loans in the future. In such case, we may not be able to realize the amount of