



2012

ANNUAL REPORT



Guaranty
Federal

BANCSHARES

Strength. Growth. Vision.



President's Message

Dear Fellow Shareholders:

In an environment of unprecedented low interest rates, sluggish economic growth and significant new bank regulation, in 2012, Guaranty Federal Bancshares, Inc. remained focused on improving asset quality, growing our core deposits, expanding net interest margins and core operating income and ultimately creating increased value for our shareholders. Our management team's continued objective is to position our company to compete and grow in a consolidating banking sector.

Our regional and national economy continues to recover despite lack of substantive reform on long-term fiscal and entitlement issues, and more intrusive government regulation. Our relationship with regulators is excellent; however, more regulation and red tape adds costs to the banking industry, decreases innovation and may ultimately limit the availability of consumer credit. Pressure on industry earnings will continue in 2013 as we anticipate modest economic growth and the continuation of exceptionally low interest rates. Given these prolonged challenges, we are pleased with many of our company's achievements in 2012.

2012 PERFORMANCE HIGHLIGHTS

- *Asset Quality* - Improving asset quality was a top priority in 2012 and we were aggressive in our process of liquidating other real estate owned and working with our troubled borrowers to find resolution. Non-performing assets, comprised of non-accrual loans and other real estate owned, declined 26.3% dropping from \$27.0 million at December 31, 2011 to \$19.9 million at year end 2012. Non-accruals improved 9.8% dropping to \$15.3 million at year end and other real estate owned was reduced over 55% to \$4.5 million.
- *Deposit Growth* - For the year, deposits increased \$15.4 million, or 3%, to \$500.0 million as a result of our continuing efforts to expand relationships and build core deposits. During the year, core checking and savings accounts increased by \$20.8 million.
- *Profitability* - Net income before preferred stock dividends and accretion was \$1,944,000, a disappointing drop from the \$3,836,000 earned in 2011. The primary factors behind the decline in net income were increases in the allowance for loan losses and additional write-downs on foreclosed assets, both lingering issues from the recent downturn recession. During 2012, the provision for loan losses increased to \$5.95 million compared to \$3.35 million in 2011. Provisions for a single loan relationship accounted for \$5.46 million of the 2012 total. In addition, real estate values continued to decline resulting in an increase in loss of foreclosed assets of \$591,222 in 2012, a 74% increase over 2011. Targeted balance sheet initiatives and disciplined pricing resulted in an increase in our net interest margin from 3.29% in 2011 to 3.40% in 2012. In addition, the primary component of non-interest income was the gain on the sales of secondary market real estate loans which jumped 40% in 2012 to \$1,884,923. Historically, we have had favorable efficiency ratios and our dedication to strong expense control continued in 2012 with an efficiency ratio of 67.66% an improvement from 68.76% in 2011.

- *Capital* - The Company's book value per common share increased \$.27 to \$14.34 as of the end of 2012. Also, the Company continues to maintain capital ratios in excess of regulatory standards for well-capitalized institutions. At December 31, 2012, the Company's Tier 1 capital to average assets ratio was 9.9%, Tier 1 capital to risk-weighted assets ratio was 13.2% and total risk-based capital to risk-weighted assets was 14.5%. The \$17.0 million in capital we received under the TARP program has supported our lending efforts in serving small businesses and consumers. We were pleased to repay \$5.0 million of the TARP funds to the Treasury in June of 2012 and we continue to pursue strategies to eliminate Treasury's role in our preferred securities in the near future.

We are extremely proud that 2013 marks the 100th anniversary of Guaranty Bank's service to southwest Missouri. Our bank has always been a customer-focused organization with meaningful, long-term relationships. Our associates and clients appreciate the mutual understanding that we rely upon one another to succeed. We have endured significant challenges in the past few years and the community banking model is under siege by current monetary policies and regulations which have the potential to shrink the number of banks in our country. We firmly believe that a community banking company like ours will weather the present challenges and deliver sound results as our economy heals. We are blessed with a talented board and management team, solid capital and an efficient operating platform that is poised to take advantage of the rapidly changing environment. Based on these factors, I am confident that we will deliver growth in shareholder value in this continuously changing and challenging banking environment. Thank you to our employees, shareholders and customers for your continued loyalty and faith in Guaranty Bank.

Sincerely,

A handwritten signature in black ink, appearing to read "Shaun A. Burke". The signature is fluid and cursive, with the first name "Shaun" being the most prominent part.

Shaun A. Burke
President & Chief Executive Officer
Guaranty Federal Bancshares, Inc.

Guaranty Federal Bancshares, Inc.
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Investor Information

ANNUAL MEETING OF STOCKHOLDERS:

The Annual Meeting of Stockholders of the Company will be held Wednesday, May 22, 2013 at 6:00 p.m., local time, at the Guaranty Bank Operations Center, 1414 W. Elfindale, Springfield, Missouri.

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ANNUAL REPORT ON FORM 10-K:

Copies of the Company's Annual Report on Form 10-K, including the financial statements, filed with the Securities and Exchange Commission are available without charge upon written request to:

Vicki Lindsay, Secretary
Guaranty Federal Bancshares, Inc.,
1341 W. Battlefield St., Springfield, MO 65807-4181

TRANSFER AGENT:

Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016

STOCK TRADING INFORMATION:

Symbol: GFED

SPECIAL LEGAL COUNSEL:

Husch Blackwell LLP
901 St. Louis St., Suite 1900
Springfield, MO 65806

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM:

BKD, LLP
910 St. Louis St.
PO Box 1190
Springfield, MO 65801-1190

STOCKHOLDER AND FINANCIAL INFORMATION:

Carter Peters,
Executive Vice President, Chief Financial Officer
417-520-4333

COMMON STOCK PRICES & DIVIDENDS

The common stock of Guaranty Federal Bancshares, Inc. (the “Company”) is listed for trading on the NASDAQ Global Market under the symbol “GFED”. As of March 19, 2013, there were approximately 1,169 holders of shares of the Company’s common stock. At that date the Company had 6,781,803 shares of common stock issued and 2,741,517 shares of common stock outstanding.

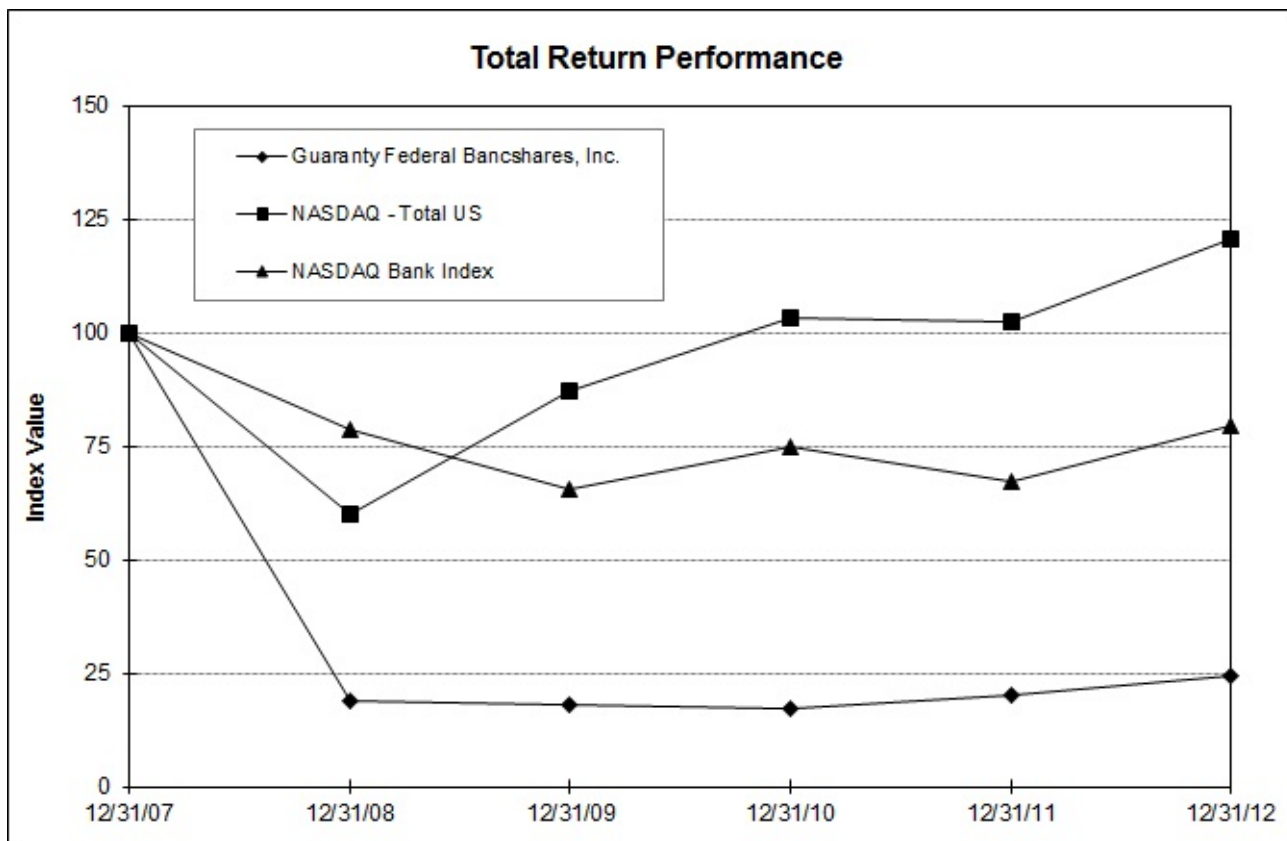
During the years ended December 31, 2012 and 2011, the Company did not declare a cash dividend on its shares of common stock. Any future dividends will be at the discretion of the Company’s Board of Directors and will depend on, among other things, the Company’s results of operations, cash requirements and surplus, financial condition, regulatory limitations and other factors that the Company’s Board of Directors may consider relevant.

The table below reflects the range of common stock high and low closing prices per the NASDAQ Global Market by quarter for the years ended December 31, 2012 and 2011.

Quarter ended:	Year ended		Year ended	
	December 31, 2012		December 31, 2011	
	High	Low	High	Low
March 31	\$ 9.20	\$ 5.83	\$ 6.85	\$ 4.60
June 30	9.05	7.05	6.83	4.97
September 30	8.40	6.57	5.42	4.50
December 31	7.90	6.47	6.40	4.20

Guaranty Federal Bancshares, Inc.
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Set forth below is a stock performance graph comparing the cumulative total shareholder return on the Common Stock with (a) the cumulative total stockholder return on stocks included in The Nasdaq – Total U.S. Index and (b) the cumulative total stockholder return on stocks included in The Nasdaq Bank Index. All three investment comparisons assume the investment of \$100 as of the close of business on December 31, 2007 and the hypothetical value of that investment as of the Company’s fiscal years ended December 31, 2008, 2009, 2010, 2011, and 2012, assuming that all dividends were reinvested. The graph reflects the historical performance of the Common Stock, and, as a result, may not be indicative of possible future performance of the Common Stock. The data used to compile this graph was obtained from NASDAQ.



<i>Index</i>	<i>Period Ending</i>					
	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12
Guaranty Federal Bancshares, Inc.	100.00	18.92	18.10	16.96	20.31	24.55
NASDAQ - Total US	100.00	60.02	87.24	103.08	102.26	120.42
NASDAQ Bank Index	100.00	78.46	65.67	74.97	67.10	79.64

Guaranty Federal Bancshares, Inc.
Selected Consolidated Financial and Other Data

The following tables include certain information concerning the financial position and results of operations of Guaranty Federal Bancshares, Inc. (including consolidated data from operations of Guaranty Bank) as of the dates indicated. Dollar amounts are expressed in thousands except per share data.

Summary Balance Sheets

	As of December 31,				
	2012	2011	2010	2009	2008
ASSETS					
Cash and cash equivalents	\$ 41,663	\$ 26,574	\$ 14,145	\$ 33,017	\$ 15,097
Investments and interest-bearing deposits	102,162	86,871	109,891	119,693	66,062
Loans receivable, net	468,376	482,664	504,665	528,503	558,327
Accrued interest receivable	2,055	2,139	2,670	2,671	2,632
Prepays and other assets	16,703	18,051	18,982	25,249	16,573
Foreclosed assets	4,530	10,012	10,540	6,760	5,655
Premises and equipment	11,286	11,424	11,325	11,818	11,324
Bank owned life insurance	13,657	10,771	10,450	10,069	-
	<u>\$ 660,432</u>	<u>\$ 648,506</u>	<u>\$ 682,668</u>	<u>\$ 737,780</u>	<u>\$ 675,670</u>
LIABILITIES					
Deposits	\$ 500,015	\$ 484,584	\$ 480,694	\$ 513,051	\$ 447,079
Federal Home Loan Bank advances	68,050	68,050	93,050	116,050	132,436
Securities sold under agreements to repurchase	25,000	25,000	39,750	39,750	39,750
Subordinated debentures	15,465	15,465	15,465	15,465	15,465
Other liabilities	1,034	1,172	1,668	2,053	3,627
	<u>609,564</u>	<u>594,271</u>	<u>630,627</u>	<u>686,369</u>	<u>638,357</u>
STOCKHOLDERS' EQUITY					
	50,868	54,235	52,041	51,411	37,313
	<u>\$ 660,432</u>	<u>\$ 648,506</u>	<u>\$ 682,668</u>	<u>\$ 737,780</u>	<u>\$ 675,670</u>

Supplemental Data

	As of December 31,				
	2012	2011	2010	2009	2008
Number of full-service offices	9	9	9	9	10
Cash dividends per common share	\$ -	\$ -	\$ -	\$ -	\$ 0.36

Summary Statements of Operations

	Years ended December 31,				
	2012	2011	2010	2009	2008
Interest income	\$ 27,606	\$ 30,376	\$ 32,331	\$ 33,873	\$ 36,363
Interest expense	6,858	9,611	14,806	20,527	19,524
Net interest income	20,748	20,765	17,525	13,346	16,839
Provision for loan losses	5,950	3,350	5,200	6,900	14,744
Net interest income after provision for loan losses	14,798	17,415	12,325	6,446	2,095
Noninterest income	3,256	4,485	4,279	4,240	2,316
Noninterest expense	16,241	17,361	15,530	15,161	12,760
Income (loss) before income taxes	1,813	4,539	1,074	(4,475)	(8,349)
Provision (credit) for income taxes	(131)	703	(57)	(2,134)	(2,989)
Net income (loss)	\$ 1,944	\$ 3,836	\$ 1,131	\$ (2,341)	\$ (5,360)
Preferred stock dividends and discount accretion	1,077	1,126	1,126	1,032	-
Net income (loss) available to common shareholders	<u>\$ 867</u>	<u>\$ 2,710</u>	<u>\$ 5</u>	<u>\$ (3,373)</u>	<u>\$ (5,360)</u>
Basic income (loss) per common share	<u>\$ 0.32</u>	<u>\$ 1.01</u>	<u>\$ -</u>	<u>\$ (1.29)</u>	<u>\$ (2.06)</u>
Diluted income (loss) per common share	<u>\$ 0.30</u>	<u>\$ 1.01</u>	<u>\$ -</u>	<u>\$ (1.29)</u>	<u>\$ (2.06)</u>

Guaranty Federal Bancshares, Inc.

Management's Discussion and Analysis of Financial Condition And Results of Operations

GENERAL

Guaranty Federal Bancshares, Inc. (the "Company") is a Delaware corporation organized on December 30, 1997 that operates as a one-bank holding company. Guaranty Bank (the "Bank") is a wholly-owned subsidiary of the Company.

The primary activity of the Company is to oversee its investment in the Bank. The Company engages in few other activities, and the Company has no significant assets other than its investment in the Bank. For this reason, unless otherwise specified, references to the Company include the operations of the Bank. The Company's principal business consists of attracting deposits from the general public and using such deposits to originate multi-family, construction and commercial real estate loans, mortgage loans secured by one- to four-family residences, and consumer and business loans. The Company also uses these funds to purchase government sponsored mortgage-backed securities, US government and agency obligations, and other permissible securities. When cash outflows exceed inflows, the Company uses borrowings and brokered deposits as additional financing sources.

The Company derives revenues principally from interest earned on loans and investments and, to a lesser extent, from fees charged for services. General economic conditions and policies of the financial institution regulatory agencies, including the Missouri Division of Finance and the Federal Deposit Insurance Corporation ("FDIC") significantly influence the Company's operations. Interest rates on competing investments and general market interest rates influence the Company's cost of funds. Lending activities are affected by the interest rates at which such financing may be offered. The Company intends to focus on commercial, one- to four-family residential and consumer lending throughout southwestern Missouri.

The Company has two wholly-owned subsidiaries other than the Bank, its principal subsidiary: (i) Guaranty Statutory Trust I, a Delaware statutory trust; and (ii) Guaranty Statutory Trust II, a Delaware statutory trust. These Trusts were formed in December 2005 for the exclusive purpose of issuing trust preferred securities to acquire junior subordinated debentures issued by the Company. The Company's banking operation conducted through the Bank is the Company's only reportable segment. See also the discussion contained in the section captioned "Segment Information" in Note 1 of the Notes to Consolidated Financial Statements in this report.

The discussion set forth below, and in any other portion of this report, may contain forward-looking statements. Such statements are based upon the information currently available to management of the Company and management's perception thereof as of the date of this report. When used in this document, words such as "anticipates," "estimates," "believes," "expects," and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Such statements are subject to risks and uncertainties. Actual results of the Company's operations could materially differ from those forward-looking comments. The differences could be caused by a number of factors or combination of factors including, but not limited to: changes in demand for banking services; changes in portfolio composition; changes in management strategy; increased competition from both bank and non-bank companies; changes in the general level of interest rates; and other factors set forth in reports and other documents filed by the Company with the Securities and Exchange Commission from time to time including the risk factors of the Company set forth in Item 1A. of the Company's Form 10-K.

FINANCIAL CONDITION

From December 31, 2011 to December 31, 2012, the Company's total assets increased \$11,926,360 (2%) to \$660,432,218, liabilities increased \$15,292,637 (3%) to \$609,563,648, and stockholders' equity decreased \$3,366,277 (6%) to \$50,868,570. The ratio of stockholders' equity to total assets decreased to 7.7% during this period, compared to 8.4% as of December 31, 2011.

From December 31, 2011 to December 31, 2012, cash and cash equivalents increased \$15,089,323 (57%) to \$41,663,405 and interest-bearing deposits decreased \$5,587,654 (100%) to \$0.

From December 31, 2011 to December 31, 2012, available-for-sale securities increased \$20,915,766 (26%), primarily due to purchases of \$80.4 million offset by sales, maturities and principal payments received of \$59.0 million.

Guaranty Federal Bancshares, Inc.

Management's Discussion and Analysis of Financial Condition And Results of Operations

From December 31, 2011 to December 31, 2012, held-to-maturity securities decreased \$37,529 (17%) to \$181,042 due to principal repayments received during the year.

Stock of the Federal Home Loan Bank of Des Moines ("FHLB") decreased by \$41,400 (1%) to \$3,805,500 due to lower stock requirements necessary from the reduction in FHLB advances.

From December 31, 2011 to December 31, 2012, net loans receivable decreased by \$13,428,763 (3%) to \$465,531,973 primarily due to declines in the commercial real estate portfolio. During the period, permanent loans secured by both owner and non-owner occupied one to four unit residential real estate increased \$1,351,216 (1%), multi-family permanent loans increased \$3,239,339 (8%), construction loans increased \$4,005,247 (9%), permanent loans secured by commercial real estate decreased \$27,095,524 (14%), commercial loans increased \$7,138,182 (8%), and installment loans decreased \$4,041,169 (19%). A portion of this decrease is due to certain payoffs and charge offs of various commercial and commercial real estate loans

As of December 31, 2012, management identified loans totaling \$17,277,000 as impaired with a related allowance for loan losses of \$1,367,000. Impaired loans decreased by \$1,777,000 during 2012, compared to the balance of \$19,054,000 at December 31, 2011.

From December 31, 2011 to December 31, 2012, the allowance for loan losses decreased \$1,872,820 to \$8,740,325. In addition to the provision for loan loss of \$5,950,000 recorded by the Company during the year ended December 31, 2012, loan charge-offs of specific loans (classified as nonperforming at December 31, 2011) exceeded recoveries by \$7,822,820 for the year ended December 31, 2012. Also, the Company experienced a decline in loan balances and a decline in impaired loans, nonaccrual loans and delinquent loans during fiscal year 2012 that has reduced allowance for loan loss reserve requirements. The allowance for loan losses as of December 31, 2012 and December 31, 2011 was 1.84% and 2.17% of gross loans outstanding (excluding mortgage loans held for sale), respectively. As of December 31, 2012, the allowance for loan losses was 51% of impaired loans versus 56% as of December 31, 2011. Management believes the allowance for loan losses is at a level to be sufficient in providing for potential loan losses in the Bank's existing loan portfolio.

From December 31, 2011 to December 31, 2012, the prepaid FDIC deposit insurance premiums decreased \$650,440 (31%) to \$1,438,636 due to the utilization of credits for 2012 assessments. The remaining balance consists of estimated insurance assessments to be incurred for fiscal years 2013 and 2014.

As of December 31, 2012, foreclosed assets held for sale consisted primarily of real estate related to single family residences, one commercial property located in Branson, Missouri of \$828,382, one commercial property located in Springfield, Missouri of \$759,000 and one commercial development in northwest Arkansas of \$2.2 million.

From December 31, 2011 to December 31, 2012, deposits increased \$15,431,050 (3%) to \$500,014,715. During this period, checking and savings accounts increased by \$20.8 million and certificates of deposit decreased by \$5.4 million. The increase in the checking and savings accounts was due to the Bank's significant efforts to increase core transaction deposits, both personal and commercial. At December 31, 2012, included in the deposit totals are \$49.1 million in deposits classified as "brokered", an increase of \$26.8 million from December 31, 2011.

From December 31, 2011 to December 31, 2012, stockholders' equity (including unrealized appreciation on available-for-sale securities, net of tax) decreased \$3,366,277 (6%) to \$50,868,570. In conjunction with the Series A Preferred Stock, the Company redeemed \$5 million in principal and recorded \$744,444 of dividends (5%) as of December 31, 2012. The Company earned net income for the year ended December 31, 2012 of \$1,943,859. On a per common share basis, stockholders' equity increased \$.27 from \$14.07 as of December 31, 2011 to \$14.34 as of December 31, 2012.

Guaranty Federal Bancshares, Inc.

Management's Discussion and Analysis of Financial Condition And Results of Operations

AVERAGE BALANCES, INTEREST AND AVERAGE YIELDS

The following table shows the balances as of December 31, 2012 of various categories of interest-earning assets and interest-bearing liabilities and the corresponding yields and costs, and, for the periods indicated: (1) the average balances of various categories of interest-earning assets and interest-bearing liabilities, (2) the total interest earned or paid thereon, and (3) the resulting weighted average yields and costs. In addition, the table shows the Company's rate spreads and net yields. Average balances are based on daily balances. Tax-free income is not material; accordingly, interest income and related average yields have not been calculated on a tax equivalent basis. Average loan balances include non-accrual loans. Dollar amounts are expressed in thousands.

	As of December 31, 2012		Year Ended December 31, 2012			Year Ended December 31, 2011			Year Ended December 31, 2010		
	Balance	Yield / Cost	Average Balance	Interest	Yield / Cost	Average Balance	Interest	Yield / Cost	Average Balance	Interest	Yield / Cost
ASSETS											
Interest-earning:											
Loans	\$ 477,116	5.89%	\$ 480,886	\$ 25,667	5.34%	\$ 506,323	\$ 27,424	5.42%	\$ 517,133	\$ 28,348	5.48%
Investment securities	102,162	1.69%	98,430	1,756	1.78%	91,114	2,637	2.89%	110,149	3,477	3.16%
Other assets	42,164	0.15%	31,272	183	0.59%	33,779	315	0.93%	48,054	506	1.05%
Total interest-earning	621,442	4.81%	610,588	27,606	4.52%	631,216	30,376	4.81%	675,336	32,331	4.79%
Noninterest-earning	38,990		41,158			47,031			48,148		
	<u>\$ 660,432</u>		<u>\$ 651,746</u>			<u>\$ 678,247</u>			<u>\$ 723,484</u>		
LIABILITIES AND STOCKHOLDERS' EQUITY											
Interest-bearing:											
Savings accounts	\$ 23,659	0.29%	\$ 22,317	\$ 81	0.36%	\$ 20,480	\$ 118	0.58%	\$ 17,322	\$ 140	0.81%
Transaction accounts	277,477	0.51%	274,703	2,012	0.73%	252,915	2,580	1.02%	257,629	3,968	1.54%
Certificates of deposit	150,015	1.14%	151,765	1,983	1.31%	165,376	3,080	1.86%	201,090	5,520	2.75%
FHLB advances	68,050	2.23%	68,055	1,544	2.27%	85,516	2,164	2.53%	110,613	2,989	2.70%
Subordinated debentures	15,465	3.56%	15,465	556	3.60%	15,465	611	3.95%	15,465	1,024	6.62%
Repurchase agreements	25,000	2.60%	25,000	682	2.73%	37,726	1,058	2.80%	39,750	1,166	2.93%
Total interest-bearing	559,666	1.06%	557,305	6,858	1.23%	577,478	9,611	1.66%	641,869	14,807	2.31%
Noninterest-bearing	49,898		41,356			46,602			28,302		
Total liabilities	609,564		598,661			624,080			670,171		
Stockholders' equity	50,868		53,085			54,167			53,313		
	<u>\$ 660,432</u>		<u>\$ 651,746</u>			<u>\$ 678,247</u>			<u>\$ 723,484</u>		
Net earning balance	<u>\$ 61,776</u>		<u>\$ 53,283</u>			<u>\$ 53,738</u>			<u>\$ 33,467</u>		
Earning yield less costing rate		<u>3.75%</u>			<u>3.29%</u>			<u>3.15%</u>			<u>2.48%</u>
Net interest income, and net yield spread on interest-earning assets				<u>\$ 20,748</u>	<u>3.40%</u>		<u>\$ 20,765</u>	<u>3.29%</u>		<u>\$ 17,524</u>	<u>2.59%</u>
Ratio of interest-earning assets to interest-bearing liabilities	<u>111%</u>		<u>110%</u>			<u>109%</u>			<u>105%</u>		

Guaranty Federal Bancshares, Inc.

Management's Discussion and Analysis of Financial Condition And Results of Operations

The following table sets forth information regarding changes in interest income and interest expense for the periods indicated resulting from changes in average balances and average rates shown in the previous table. For each category of interest-earning assets and interest-bearing liabilities information is provided with respect to changes attributable to: (i) changes in balance (change in balance multiplied by the old rate), (ii) changes in interest rates (change in rate multiplied by the old balance); and (iii) the combined effect of changes in balance and interest rates (change in balance multiplied by change in rate). Dollar amounts are expressed in thousands.

	Year ended				Year ended			
	December 31, 2012 versus				December 31, 2011 versus			
	December 31, 2011				December 31, 2010			
	Average Balance	Interest Rate	Rate & Balance	Total	Average Balance	Interest Rate	Rate & Balance	Total
Interest income:								
Loans	\$ (1,378)	\$ (399)	\$ 20	\$ (1,757)	\$ (593)	\$ (338)	\$ 7	\$ (924)
Investment securities	212	(1,012)	(81)	(881)	(601)	(289)	50	(840)
Other assets	(24)	(117)	9	(132)	(150)	(58)	17	(191)
Net change in interest income	(1,190)	(1,528)	(52)	(2,770)	(1,344)	(685)	74	(1,955)
Interest expense:								
Savings accounts	11	(44)	(4)	(37)	25	(40)	(7)	(22)
Transaction accounts	222	(728)	(63)	(569)	(73)	(1,340)	25	(1,388)
Certificates of deposit	(253)	(919)	76	(1,096)	(980)	(1,775)	315	(2,440)
FHLB advances	(442)	(224)	46	(620)	(678)	(190)	43	(825)
Subordinated debentures	-	(55)	-	(55)	-	(413)	-	(413)
Repurchase agreements	(357)	(29)	10	(376)	(59)	(51)	2	(108)
Net change in interest expense	(819)	(1,999)	65	(2,753)	(1,765)	(3,809)	378	(5,196)
Change in net interest income	\$ (371)	\$ 471	\$ (117)	\$ (17)	\$ 421	\$ 3,124	\$ (304)	\$ 3,241

RESULTS OF OPERATIONS - COMPARISON OF YEAR ENDED DECEMBER 31, 2012 AND DECEMBER 31, 2011

	Average for the Year Shown		
	Prime	Ten-Year Treasury	One-Year Treasury
December 31, 2011	3.25%	1.80%	0.17%
December 31, 2010	3.25%	2.78%	0.18%
Change in rates	0.00%	-0.98%	-0.01%

Interest Rates. The Bank charges borrowers and pays depositors interest rates that are largely a function of the general level of interest rates. The above table sets forth the weekly average interest rates for the 52 weeks ending December 31, 2012 and December 31, 2011 as reported by the Federal Reserve. The Bank typically indexes its adjustable rate commercial loans to prime and its adjustable rate mortgage loans to the one-year treasury rate. The ten-year treasury rate is a proxy for 30-year fixed rate home mortgage loans.

Rates were steady and remained low for 2012 as the Federal Reserve Open Market Committee ("FOMC") left the discount rate at 25 basis points. As of December 31, 2012, the prime rate was 3.25% and unchanged from December 31, 2011.

Interest Income. Total interest income decreased \$2,770,138 (9%). The average balance of interest-earning assets decreased \$20,628,000 (3%) while the yield on average interest earning assets decreased 29 basis points to 4.52%.

Guaranty Federal Bancshares, Inc.

Management's Discussion and Analysis of Financial Condition And Results of Operations

Interest on loans decreased \$1,757,289 (6%) and the average loan receivable balance decreased \$25,437,000 (5%) while the average yield decreased 8 basis points to 5.34%. The Company's yield on loans was negatively impacted due to the higher level of nonaccrual loans during 2012 and declining loan balances. The Company's nonaccrual loans have decreased to \$15.3 million as of December 31, 2012, as compared to \$17.0 million as of December 31, 2011. Another factor that has negatively impacted the Company's yield on interest earning assets was the average yield on investments which decreased 111 basis points to 1.78%. This was primarily due to a series of investment transactions in the fourth quarter of 2011 to sell certain investment securities in order to prepay \$14.75 million of repurchase agreements. The securities carried a weighted average yield of 5.00% at the time of sale.

Interest Expense. Total interest expense decreased \$2,752,953 (29%) as the average balance of interest-bearing liabilities decreased \$20,173,000 (3%) while the average cost of interest-bearing liabilities decreased 43 basis points to 1.23%.

Interest expense on deposits decreased \$1,702,069 (29%) during 2012 as the average balance of interest bearing deposits decreased \$10,014,000 (2%) and the average interest rate paid to depositors decreased 41 basis points to 0.91%. The primary reason for the significant decrease in the average cost of interest bearing deposits was the continued decline in higher cost certificates of deposits as well as reductions in the average rate paid on transaction deposit balances. Also, the Company reduced FHLB advances and securities sold under agreements to repurchase during the latter half of 2011. As a result, interest expense on these borrowings decreased \$996,114 (31%).

Net Interest Income. The Company's net interest income decreased \$17,185 (0%). During the year ended December 31, 2012, the average balance of interest-earning assets exceeded the average balance of interest-bearing liabilities by \$53,283,000, resulting in a decrease in the average net earning balance of \$455,000 (1%). In addition, the Company's spread between the average yield on interest-earning assets and the average cost of interest-bearing liabilities increased by 14 basis points from 3.15% to 3.29%.

Provision for Loan Losses. Provisions for loan losses are charged or credited to earnings to bring the total allowance for loan losses to a level considered adequate by the Company to provide for potential loan losses in the existing loan portfolio. When making its assessment, the Company considers prior loss experience, volume and type of lending, local banking trends and impaired and past due loans in the Company's loan portfolio. In addition, the Company considers general economic conditions and other factors related to collectability of the Company's loan portfolio.

Based on its internal analysis and methodology, management recorded a provision for loan losses of \$5,950,000 and \$3,350,000 for the years ended December 31, 2012 and 2011, respectively. Provisions recorded in 2012 are due to the Bank's charge-offs during the year, continuing concerns over the local and national economy and over certain specific borrowers.

The Bank will continue to monitor its allowance for loan losses and make future additions based on economic and regulatory conditions. Management of the Company anticipates the need to continue increasing the allowance for loan losses through charges to the provision for loan losses if growth in the Bank's loan portfolio is experienced or other circumstances warrant. Although the Bank maintains its allowance for loan losses at a level which it considers to be sufficient to provide for potential loan losses in its existing loan portfolio, there can be no assurance that future loan losses will not exceed internal estimates. In addition, the amount of the allowance for loan losses is subject to review by regulatory agencies which can order the establishment of additional loan loss provisions.

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Non-Interest Income. Non-interest income decreased \$1,229,558 (27%). The gain on sale of loans of \$1,884,923 for 2012, compared to \$1,345,334 for 2011 was due to an increase in volume associated with the Bank's selling of fixed rate mortgage loans. Gains on sales of investment securities for the year ended December 31, 2012 were \$168,306 compared to \$1,505,915 for the year ended December 31, 2011. The gains in fiscal 2011 were primarily the result of the sale of \$28.1 million of available-for-sale securities to prepay two repurchase agreements totaling \$14.75 million during the fourth quarter of 2011. Deposit service charges decreased \$195,763 (15%) due primarily to declines in overdraft charges, which is partially due to the adoption of Regulation E. Regulation E has negatively impacted overdraft income due to new requirements on debit card and ATM transactions. The long-term impact cannot be fully determined. Loss on foreclosed assets increased \$591,222 (74%) in 2012. The Company sold two properties for a combined loss of \$350,000 and recognized write-downs on three existing foreclosed properties for \$670,000 based on current estimated fair value. The Company also sold certain state low-income housing tax credits on two projects recognizing \$282,000 gain on sale during 2012. The Company did not sell any tax credit assets in 2011.

Non-Interest Expense. Non-interest expense decreased \$1,120,520 (6%). This decrease was primarily due to the prepayment penalty on repurchase agreements of \$1,531,000 which occurred in 2011.

Salaries and employee benefits increased \$361,199 (4%). The increase in compensation was due to additions of associates throughout 2011 in the areas of human resources, information systems and risk management, as well as normal pay increases. The overall staff decreased from 176 full-time equivalent employees as of December 31, 2011 to 173 full-time equivalent employees as of December 31, 2012.

FDIC deposit insurance premiums decreased \$253,293 (27%). This decrease in FDIC deposit insurance premiums was primarily due to the change in the Company's assessment base and rate structure that went into effect in 2012.

The Company also recognized expenses of \$221,000 during the third quarter of 2012 in connection with a Registration Statement on Form S-1 filed with the Securities and Exchange Commission. The purpose of the filing had been to register the offering by the United States Treasury ("Treasury") in an auction of \$12.0 million of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Shares"). The Company had originally issued and sold to Treasury all of its authorized Series A shares for an aggregate purchase price of \$17.0 million (along with a warrant to purchase 459,459 shares of the Company's Common Stock) in January 2009 as part of Treasury's Troubled Asset Relief Program's Capital Purchase Program. The Company redeemed at 100% of their liquidation value \$5.0 million Series A Shares during the second quarter of 2012. Pursuant to the agreement under which the Series A Shares had been sold to Treasury, Treasury had the right to compel the Company to register the sale by Treasury of all or any portion of the Series A Shares. After the auction terminated in accordance with its terms, Treasury decided not to accept the two bids submitted offering to purchase a portion of the Series A Shares for 92% of their liquidation value. Accordingly, Treasury continues to own all of the \$12.0 million Series A Shares issued and outstanding and the warrant.

Income Taxes. The decrease in income tax expense is a direct result of the Company's decrease in taxable income for the year ended December 31, 2012 compared to the year ended December 31, 2011.

Cash Dividends Paid. The Company did not pay dividends on its common shares during 2012 and 2011. During 2012 and 2011, the Company paid \$744,444 and \$850,000, respectively, in dividends on its preferred stock.

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RESULTS OF OPERATIONS - COMPARISON OF YEAR ENDED DECEMBER 31, 2011 AND DECEMBER 31, 2010

	Average for the Year Shown		
	Prime	Ten-Year Treasury	One-Year Treasury
December 31, 2011	3.25%	2.78%	0.18%
December 31, 2010	3.25%	3.22%	0.32%
Change in rates	0.00%	-0.44%	-0.14%

Interest Rates. The Bank charges borrowers and pays depositors interest rates that are largely a function of the general level of interest rates. The above table sets forth the weekly average interest rates for the 52 weeks ending December 31, 2011 and December 31, 2010 as reported by the Federal Reserve. The Bank typically indexes its adjustable rate commercial loans to prime and its adjustable rate mortgage loans to the one-year treasury rate. The ten-year treasury rate is a proxy for 30-year fixed rate home mortgage loans.

Rates were steady and remained low for 2011 as the FOMC left the discount rate at 25 basis points. As of December 31, 2011, the prime rate was 3.25% and unchanged from December 31, 2010.

Interest Income. Total interest income decreased \$1,955,538 (6%). The average balance of interest-earning assets decreased \$44,120,000 (7%) while the yield on average interest earning assets increased 2 basis points to 4.81%.

Interest on loans decreased \$924,105 (3%) and the average loan receivable balance decreased \$10,810,000 (2%) while the average yield decreased 6 basis points to 5.42%. The Company's yield on loans was negatively impacted due to the expiration of interest income being recognized on a matured interest rate swap as of June 30, 2010. The income recognized for the year ending December 31, 2010 was approximately \$509,000. Another factor that has negatively impacted the Company's yield on loans is the high level of nonaccrual loans which has decreased to \$17.0 million as of December 31, 2011, as compared to \$23.0 million as of December 31, 2010.

Interest Expense. Total interest expense decreased \$5,195,911 (35%) as the average balance of interest-bearing liabilities decreased \$64,391,000 (10%) while the average cost of interest-bearing liabilities decreased 65 basis points to 1.66%.

Interest expense on deposits decreased \$3,849,870 (40%) during 2011 as the average balance of interest bearing deposits decreased \$37,270,000 (1%) and the average interest rate paid to depositors decreased 70 basis points to 1.32%. The primary reason for the significant decrease in the average cost of interest bearing deposits was the continued reduction throughout 2011 in the cost of money market deposits generated through an aggressive deposit campaign in the first quarter of 2009 as well as higher cost certificates of deposit maturing throughout 2011.

The average balance of FHLB advances decreased \$25,097,000 (23%) while the average cost of those advances decreased 17 basis points to 2.53%. As a result, interest expense on these advances decreased \$824,289 (28%). As of December 31, 2011, FHLB advances were 10% of total assets, compared to 14% of total assets as of December 31, 2010.

Net Interest Income. The Company's net interest income increased \$3,240,373 (18%). During the year ended December 31, 2011, the average balance of interest-earning assets exceeded the average balance of interest-bearing liabilities by \$53,738,000, resulting in an increase in the average net earning balance of \$20,271,000 (61%), a result of management's intent to roll off certain high priced deposits with low yielding assets. In addition, the Company's spread between the average yield on interest-earning assets and the average cost of interest-bearing liabilities increased by 67 basis points from 2.48% to 3.15%.

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Provision for Loan Losses. Provisions for loan losses are charged or credited to earnings to bring the total allowance for loan losses to a level considered adequate by the Company to provide for potential loan losses in the existing loan portfolio. When making its assessment, the Company considers prior loss experience, volume and type of lending, local banking trends and impaired and past due loans in the Company's loan portfolio. In addition, the Company considers general economic conditions and other factors related to collectability of the Company's loan portfolio.

Based on its internal analysis and methodology, management recorded a provision for loan losses of \$3,350,000 and \$5,200,000 for the years ended December 31, 2011 and 2010, respectively. Provisions recorded in 2011 are due to the Bank's charge-offs during the year, continuing concerns over the local and national economy and over certain specific borrowers.

The Bank will continue to monitor its allowance for loan losses and make future additions based on economic and regulatory conditions. Management of the Company anticipates the need to continue increasing the allowance for loan losses through charges to the provision for loan losses if growth in the Bank's loan portfolio is experienced or other circumstances warrant. Although the Bank maintains its allowance for loan losses at a level which it considers to be sufficient to provide for potential loan losses in its existing loan portfolio, there can be no assurance that future loan losses will not exceed internal estimates. In addition, the amount of the allowance for loan losses is subject to review by regulatory agencies which can order the establishment of additional loan loss provisions.

Non-Interest Income. Non-interest income increased \$205,876 (5%). The gain on sale of loans of \$1,345,334 for 2011, compared to \$1,749,857 for 2010 was due to a decline in volume associated with the Bank's selling of fixed rate mortgage loans. Gains on investment securities for the year ended December 31, 2011 were \$1,505,915 compared to \$275,125 for the year ended December 31, 2010. The gains in fiscal 2011 were primarily the result of the sale of \$28.1 million of available-for-sale securities to prepay two repurchase agreements totaling \$14.75 million during the fourth quarter of 2011. Deposit service charges decreased \$237,290 (15%) due primarily to declines in overdraft charges, which is partially due to the adoption of Regulation E. Regulation E has negatively impacted overdraft income due to new requirements on debit card and ATM transactions. The long-term impact cannot be fully determined. Loss on foreclosed assets increased \$307,708 (62%) in 2011. The Company continues to experience declines in real estate values on foreclosed properties held or sold by the Company.

Non-Interest Expense. Non-interest expense increased \$1,831,528 (12%). This increase was primarily due to the prepayment penalty on repurchase agreements of \$1,531,000. Also, salaries and employee benefits increased \$250,198 (3%) offsetting the decrease in FDIC deposit insurance premiums of \$278,533 (23%).

The increase in compensation was due to normal salary and benefits increases for the Bank's employees. The overall staff increased from 170 full-time equivalent employees as of December 31, 2010 to 176 full-time equivalent employees as of December 31, 2011.

The decreases in FDIC deposit insurance premiums were driven primarily by the change in the FDIC's assessment base rate structure that went into effect in the second quarter of 2011.

Income Taxes. The increase in income tax expense is a direct result of the Company's increase in taxable income for the year ended December 31, 2011 compared to the year ended December 31, 2010.

Cash Dividends Paid. The Company did not pay dividends on its common shares during 2011. During 2011, the Company paid \$850,000 in dividends on its preferred stock.

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ASSET / LIABILITY MANAGEMENT

The responsibility of managing and executing the Bank's Asset Liability Policy falls to the Bank's Asset/Liability Committee (ALCO.) ALCO seeks to manage interest rate risk so as to capture the highest net interest income, and to stabilize that net interest income, through changing interest rate environments. Management attempts to position the Bank's instrument repricing characteristics in line with probable rate movements in order to minimize the impact of changing interest rates on the Bank's net interest income. Since the relative spread between financial assets and liabilities is constantly changing, the Bank's current net interest income may not be an indication of future net interest income.

The Bank has continued to emphasize the origination of commercial business, home equity, consumer and adjustable-rate, one- to four-family residential loans while originating fixed-rate, one- to four-family residential loans primarily for immediate resale in the secondary market. Management continually monitors the loan portfolio for the purpose of product diversification and over concentration.

The Bank constantly monitors its deposits in an effort to prohibit them from adversely impacting the Bank's interest rate sensitivity. Rates of interest paid on deposits at the Bank are priced competitively in order to meet the Bank's asset/liability management objectives and spread requirements. As of December 31, 2012 and 2011, the Bank's savings accounts, checking accounts, and money market deposit accounts totaled \$349,999,523 or 70% of its total deposits and \$329,174,830 or 68% of total deposits, respectively. The weighted average rate paid on these accounts decreased 2 basis points from 0.56% on December 31, 2011 to 0.54% on December 31, 2012 primarily due to the Bank's efforts to reprice its retail and business accounts during 2012.

INTEREST RATE SENSITIVITY ANALYSIS

The following table sets forth as of December 31, 2012 and 2011, management's estimates of the projected changes in Economic Value of Equity ("EVE") in the event of instantaneous and permanent increases and decreases in market interest rates. Dollar amounts are expressed in thousands.

<u>12/31/2012</u> BP Change in Rates	Estimated Net Portfolio Value			NPV as % of PV of Assets	
	\$ Amount	\$ Change	% Change	NPV Ratio	Change
+200	\$ 60,800	\$ 3,405	6%	9.30%	0.75%
+100	58,682	1,286	2%	8.87%	0.32%
NC	57,396	-	0%	8.56%	0.00%
-100	59,119	1,723	3%	8.66%	0.10%
-200	67,900	10,505	18%	9.78%	1.22%

<u>12/31/2011</u> BP Change in Rates	Estimated Net Portfolio Value			NPV as % of PV of Assets	
	\$ Amount	\$ Change	% Change	NPV Ratio	Change
+300	\$ 62,123	\$ (4,101)	-6%	9.71%	-0.35%
+200	63,408	(2,816)	-4%	9.82%	-0.24%
+100	64,769	(1,455)	-2%	9.94%	-0.12%
NC	66,224	-	0%	10.06%	0.00%
-100	67,870	1,646	2%	10.21%	0.15%
-200	72,049	5,825	9%	10.74%	0.68%

Computations of prospective effects of hypothetical interest rate changes are based on an internally generated model using actual maturity and repricing schedules for the Bank's loans and deposits, and are based on numerous assumptions, including relative levels of market interest rates, loan repayments and deposit run-offs, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the Bank may undertake in response to changes in interest rates. All EVE and earnings projections are based on a point in time static balance sheet.

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

The Bank's Board of Directors is responsible for reviewing the Bank's asset and liability policies. The Bank's management is responsible for administering the policies and determinations of the Board of Directors with respect to the Bank's asset and liability goals and strategies. Management expects that the Bank's asset and liability policies and strategies will continue as described above so long as competitive and regulatory conditions in the financial institution industry and market interest rates continue as they have in recent years.

LIQUIDITY AND CAPITAL RESOURCES

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

The Company's most liquid assets are cash and cash equivalents, which are cash on hand, amounts due from financial institutions, and certificates of deposit with other financial institutions that have an original maturity of three months or less. The levels of such assets are dependent on the Bank's operating, financing, and investment activities at any given time. The Company's cash and cash equivalents totaled \$41,663,405 as of December 31, 2012 and \$26,574,082 as of December 31, 2011, representing an increase of \$15,089,323. The Company's interest-bearing deposits totaled \$0 as of December 31, 2012 and \$5,587,654 as of December 31, 2011. The variations in levels of cash and cash equivalents are influenced by deposit flows and anticipated future deposit flows, which are subject to, and influenced by, many factors. The Bank has \$90,458,398 in certificates of deposit that are scheduled to mature in one year or less. Management anticipates that the majority of these certificates will renew in the normal course of operations. Based on existing collateral as well as the FHLB's limitation of advances to 25% of assets, the Bank has the ability to borrow an additional \$64.6 million from the FHLB, as of December 31, 2012. Based on existing collateral, the Bank has the ability to borrow \$30.9 million from the Federal Reserve Bank as of December 31, 2012. The Bank plans to maintain its FHLB and Federal Reserve Bank borrowings to a level that will provide a borrowing capacity sufficient to provide for contingencies. Management has many policies and controls in place to attempt to manage the appropriate level of liquidity.

The Company's Tier 1 capital position of \$65,047,000 is 9.9% of average assets as of December 31, 2012. The Company has an excess of \$38,791,000, \$45,405,000, and \$31,917,000 of required regulatory levels of tangible, core, and risk-based capital, respectively. In addition, under current regulatory guidelines, the Bank is classified as well capitalized. See also additional information provided under the caption "Regulatory Matters" in Note 1 of the Notes to Consolidated Financial Statements.

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With regards to the securities sold to the Treasury under the Capital Purchase Program on June 13, 2012, the Company used \$5,019,444 of its available cash to redeem 5,000 shares of the Company's Series A Preferred Stock held by the Treasury which included accrued and unpaid dividends of \$19,444. The Company filed a Registration Statement on Form S-1 with the Securities and Exchange Commission in August of 2012. The purpose of the filing had been to register the offering by the Treasury in an auction the remaining \$12.0 million of the Company's Series A Preferred Stock. Pursuant to the agreement under which the Series A Preferred Stock had been sold to Treasury, Treasury had the right to compel the Company to register the sale by Treasury of all or any portion of the shares of Series A Preferred Stock held by Treasury. After the auction terminated in accordance with its terms, Treasury decided not to accept the two bids submitted offering to purchase a portion of the Series A Preferred Stock for 92% of their liquidation value. Accordingly, Treasury continues to own all of the \$12.0 million of Series A Preferred Stock issued and outstanding and the warrant. If the Company is unable to redeem the Series A Preferred Stock within five years of its issuance, the cost of capital to the Company will increase significantly from 5% per annum (\$600,000 annually) to 9% per annum (\$1,080,000 annually). Depending on the Company's financial condition at the time, the increase in the annual dividend rate on the Series A Preferred Stock could have a material adverse effect on the Company's liquidity and net income available to common stockholders.

OFF-BALANCE SHEET ARRANGEMENTS

Various commitments and contingent liabilities arise in the normal course of business, which are not required to be recorded on the balance sheet. The most significant of these are loan commitments, lines of credit and standby letters of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. As of December 31, 2012 and 2011, the Bank had outstanding commitments to originate loans of approximately \$9,217,000 and \$10,955,000, respectively. Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. As of December 31, 2012 and 2011, unused lines of credit to borrowers aggregated approximately \$33,897,000 and \$36,931,000 for commercial lines and \$15,306,000 and \$17,625,000 for open-end consumer lines. Since a portion of the loan commitment and line of credit may expire without being drawn upon, the total unused commitments and lines do not necessarily represent future cash requirements.

Standby letters of credit are irrevocable conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. The Bank had total outstanding standby letters of credit amounting to \$13,930,000 and \$14,233,000 as of December 31, 2012 and 2011, respectively. The commitments extend over varying periods of time.

In connection with the Company's issuance of the Trust Preferred Securities and 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.

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AGGREGATE CONTRACTUAL OBLIGATIONS

The following table summarizes the Company's fixed and determinable contractual obligations by payment date as of December 31, 2012. Dollar amounts are expressed in thousands.

Contractual Obligations	Payments Due By Period				
	Total	One Year or less	One to Three Years	Three to Five Years	More than Five Years
Deposits without stated maturity	\$ 350,000	\$ 350,000	\$ -	\$ -	\$ -
Time and brokered certificates of deposit	150,015	90,458	46,788	12,260	509
Other borrowings	25,000	-	-	-	25,000
Federal Home Loan Bank advances	68,050	15,700	250	-	52,100
Subordinated debentures	15,465	-	-	-	15,465
Operating leases	389	149	169	61	11
Purchase obligations	64	64	-	-	-
Other long term obligations	284	284	-	-	-
Total	<u>\$ 609,267</u>	<u>\$ 456,655</u>	<u>\$ 47,207</u>	<u>\$ 12,321</u>	<u>\$ 93,085</u>

IMPACT OF INFLATION AND CHANGING PRICES

The Company prepared the consolidated financial statements and related data presented herein in accordance with accounting principles generally accepted in the United States of America which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most companies, the assets and liabilities of a financial institution are primarily monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the price of goods and services, since such prices are affected by inflation. In the current interest rate environment, liquidity and the maturity structure of the Bank's assets and liabilities are critical to the maintenance of acceptable performance levels.

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations 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.

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Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans and fair values. 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 of the notes to consolidated financial statements in this report.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

In December 2011, ASU No. 2011-12 “Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05” was issued. The purpose of ASU 2011-05 was to improve the comparability, consistency and transparency of financial reporting related to other comprehensive income as part of the statement of stockholder’s equity. In order to defer only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in ASU 2011-12 supersede certain pending paragraphs in ASU 2011-05. The amendments were made to allow the Financial Accounting Standards Board time to re-deliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the Financial Accounting Standards Board is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities are required to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by ASU 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The provisions of ASU 2011-12 have no impact on our consolidated financial statements.

In January 2013, FASB issued ASU No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The Update clarifies the scope of transactions that are subject to the disclosures about offsetting. The Update clarifies that ordinary trade receivables and receivables are not in the scope of Accounting Standards Update No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. Specifically, Update 2011-11 applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in FASB Accounting Standards Codification or subject to a master netting arrangement or similar agreement. The Update will be effective for the Company January 1, 2013, and is not expected to have a material impact on the Company’s financial position or results of operations.

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. The amendments in the Update do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this Update requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP. The new amendments will require an organization to present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income—but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. Or, the organization may cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. The Update will be effective for the Company January 1, 2013, and is not expected to have a material impact on the Company’s financial position or results of operations.

Guaranty Federal Bancshares, Inc.**Management's Discussion and Analysis of Financial Condition And Results of Operations****SUMMARY OF UNAUDITED QUARTERLY OPERATING RESULTS**

	Year Ended December 31, 2012, Quarter ended			
	Mar-12	Jun-12	Sep-12	Dec-12
Interest income	\$ 6,865,922	\$ 6,846,359	\$ 6,846,504	\$ 7,047,015
Interest expense	1,850,150	1,732,250	1,703,184	1,572,431
Net interest income	5,015,772	5,114,109	5,143,320	5,474,584
Provision for loan losses	900,000	2,100,000	2,600,000	350,000
Gain on loans and investment securities	399,883	544,631	537,203	571,512
Other noninterest income, net	447,129	495,917	(160,740)	420,136
Noninterest expense	4,047,508	3,902,852	4,102,979	4,187,596
Income before income taxes	915,276	151,805	(1,183,196)	1,928,636
Provision for income taxes (credits)	80,554	(192,316)	(466,108)	446,532
Net income (loss)	834,722	344,121	(717,088)	1,482,104
Preferred stock dividends and discount accretion	281,391	397,910	198,630	198,630
Net income (loss) available to common shareholders	\$ 553,331	\$ (53,789)	\$ (915,718)	\$ 1,283,474
Basic income per common share	\$ 0.20	\$ (0.02)	\$ (0.34)	\$ 0.47
Diluted income per common share	\$ 0.20	\$ (0.02)	\$ (0.34)	\$ 0.45

	Year Ended December 31, 2011, Quarter ended			
	Mar-11	Jun-11	Sep-11	Dec-11
Interest income	\$ 7,530,118	\$ 7,641,494	\$ 7,729,579	\$ 7,474,747
Interest expense	2,686,311	2,540,220	2,398,198	1,986,239
Net interest income	4,843,807	5,101,274	5,331,381	5,488,508
Provision for loan losses	900,000	1,000,000	900,000	550,000
Gain on loans and investment securities	281,904	364,229	452,552	1,752,564
Other noninterest income, net	475,995	350,970	543,668	263,347
Noninterest expense	4,152,224	3,918,807	3,884,544	5,405,880
Income before income taxes	549,482	897,666	1,543,057	1,548,539
Provision for income taxes	26,520	108,124	327,427	241,034
Net income	522,962	789,542	1,215,630	1,307,505
Preferred stock dividends and discount accretion	281,391	281,390	281,391	281,391
Net income available to common shareholders	\$ 241,571	\$ 508,152	\$ 934,239	\$ 1,026,114
Basic income per common share	\$ 0.09	\$ 0.19	\$ 0.35	\$ 0.38
Diluted income per common share	\$ 0.09	\$ 0.19	\$ 0.35	\$ 0.38

Guaranty Federal Bancshares, Inc.
Consolidated Balance Sheets
December 31, 2012 and 2011

	December 31, 2012	December 31, 2011
ASSETS		
Cash and due from banks	\$ 3,360,102	\$ 7,200,969
Interest-bearing deposits in other financial institutions	38,303,303	19,373,113
Cash and cash equivalents	41,663,405	26,574,082
Interest-bearing deposits	-	5,587,654
Available-for-sale securities	101,980,644	81,064,878
Held-to-maturity securities	181,042	218,571
Stock in Federal Home Loan Bank, at cost	3,805,500	3,846,900
Mortgage loans held for sale	2,843,757	3,702,849
Loans receivable, net of allowance for loan losses of December 31, 2012 and 2011 - \$8,740,325 and \$10,613,145, respectively	465,531,973	478,960,736
Accrued interest receivable:		
Loans	1,674,814	1,752,786
Investments and interest-bearing deposits	380,555	386,534
Prepaid expenses and other assets	6,228,173	7,116,067
Prepaid FDIC deposit insurance premiums	1,438,636	2,089,076
Foreclosed assets held for sale	4,529,727	10,012,035
Premises and equipment	11,286,410	11,423,822
Bank owned life insurance	13,657,480	10,770,887
Income taxes receivable	910,174	512,666
Deferred income taxes	4,319,928	4,486,315
	<u>\$ 660,432,218</u>	<u>\$ 648,505,858</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	\$ 500,014,715	\$ 484,583,665
Federal Home Loan Bank advances	68,050,000	68,050,000
Securities sold under agreements to repurchase	25,000,000	25,000,000
Subordinated debentures	15,465,000	15,465,000
Advances from borrowers for taxes and insurance	152,867	156,509
Accrued expenses and other liabilities	481,382	496,956
Accrued interest payable	399,684	518,881
	<u>609,563,648</u>	<u>594,271,011</u>
COMMITMENTS AND CONTINGENCIES		
	-	-
STOCKHOLDERS' EQUITY		
Capital Stock:		
Series A preferred stock, \$0.01 par value; authorized 2,000,000 shares; issued and outstanding		
December 31, 2012 and 2011 - 12,000 and 17,000 shares, respectively	11,789,276	16,425,912
Common stock, \$0.10 par value; authorized 10,000,000 shares; issued December 31, 2012 and 2011 - 6,781,803 and 6,779,800 shares, respectively	678,180	677,980
Common stock warrants; December 31, 2012 and 2011 - 459,459 shares	1,377,811	1,377,811
Additional paid-in capital	58,267,529	58,333,614
Unearned ESOP shares	-	(204,930)
Retained earnings, substantially restricted	39,324,292	38,456,991
Accumulated other comprehensive income		
Unrealized appreciation on available-for-sale securities, net of income taxes; December 31, 2012 and 2011 - \$470,326 and \$464,723, respectively	800,826	791,285
	<u>112,237,914</u>	<u>115,858,663</u>
Treasury stock, at cost; December 31, 2012 and December 31, 2011 - 4,056,862 and 4,072,156 shares, respectively	<u>(61,369,344)</u>	<u>(61,623,816)</u>
	<u>50,868,570</u>	<u>54,234,847</u>
	<u>\$ 660,432,218</u>	<u>\$ 648,505,858</u>

See Notes to Consolidated Financial Statements

Guaranty Federal Bancshares, Inc.
Consolidated Statements of Income
Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
Interest Income			
Loans	\$ 25,666,608	\$ 27,423,897	\$ 28,348,002
Investment securities	1,755,804	2,636,799	3,476,721
Other	183,388	315,242	506,753
	<u>27,605,800</u>	<u>30,375,938</u>	<u>32,331,476</u>
Interest Expense			
Deposits	4,076,194	5,778,263	9,628,133
Federal Home Loan Bank advances	1,543,493	2,164,259	2,988,548
Subordinated debentures	556,159	610,929	1,023,783
Securities sold under agreements to repurchase	682,169	1,057,517	1,166,415
	<u>6,858,015</u>	<u>9,610,968</u>	<u>14,806,879</u>
Net Interest Income	<u>20,747,785</u>	<u>20,764,970</u>	<u>17,524,597</u>
Provision for Loan Losses	<u>5,950,000</u>	<u>3,350,000</u>	<u>5,200,000</u>
Net Interest Income After Provision for Loan Losses	<u>14,797,785</u>	<u>17,414,970</u>	<u>12,324,597</u>
Noninterest Income			
Service charges	1,119,570	1,315,333	1,552,623
Gain on sale of investment securities	168,306	1,505,915	275,125
Gain on sale of loans	1,884,923	1,345,334	1,749,857
Loss on foreclosed assets	(1,391,472)	(800,250)	(492,542)
Other income	1,474,344	1,118,897	1,194,290
	<u>3,255,671</u>	<u>4,485,229</u>	<u>4,279,353</u>
Noninterest Expense			
Salaries and employee benefits	9,247,912	8,886,713	8,636,515
Occupancy	1,629,566	1,660,802	1,704,790
FDIC deposit insurance premiums	688,763	942,056	1,220,589
Data processing	566,652	529,940	454,611
Advertising	300,000	300,000	300,000
Prepayment penalty on repurchase agreements	-	1,531,000	-
Other expense	3,808,042	3,510,944	3,213,422
	<u>16,240,935</u>	<u>17,361,455</u>	<u>15,529,927</u>
Income Before Income Taxes	<u>1,812,521</u>	<u>4,538,744</u>	<u>1,074,023</u>
Provision (Credit) for Income Taxes	<u>(131,338)</u>	<u>703,105</u>	<u>(56,748)</u>
Net Income	<u>\$ 1,943,859</u>	<u>\$ 3,835,639</u>	<u>\$ 1,130,771</u>
Preferred Stock Dividends and Discount Accretion	<u>1,076,561</u>	<u>1,125,563</u>	<u>1,125,563</u>
Net Income Available to Common Shareholders	<u>\$ 867,298</u>	<u>\$ 2,710,076</u>	<u>\$ 5,208</u>
Basic Income Per Common Share	<u>\$ 0.32</u>	<u>\$ 1.01</u>	<u>\$ -</u>
Diluted Income Per Common Share	<u>\$ 0.30</u>	<u>\$ 1.01</u>	<u>\$ -</u>

See Notes to Consolidated Financial Statements

Guaranty Federal Bancshares, Inc.
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
NET INCOME	<u>\$ 1,943,859</u>	<u>\$ 3,835,639</u>	<u>\$ 1,130,771</u>
OTHER ITEMS OF COMPREHENSIVE INCOME (LOSS):			
Change in unrealized gain on investment securities available-for-sale and interest rate swaps, before income taxes	183,449	(163,480)	507,668
Less: Reclassification adjustment for realized gains on investment securities included in net income, before income taxes	<u>(168,306)</u>	<u>(1,505,915)</u>	<u>(275,125)</u>
Total other items in comprehensive income	15,143	(1,669,395)	232,543
Income tax expense (credit) related to other items of comprehensive income	<u>5,602</u>	<u>(617,676)</u>	<u>86,041</u>
Other comprehensive income (loss)	<u>9,541</u>	<u>(1,051,719)</u>	<u>146,502</u>
TOTAL COMPREHENSIVE INCOME	<u><u>\$ 1,953,400</u></u>	<u><u>\$ 2,783,920</u></u>	<u><u>\$ 1,277,273</u></u>

See Notes to Consolidated Financial Statements

Guaranty Federal Bancshares, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 1,943,859	\$ 3,835,639	\$ 1,130,771
Items not requiring (providing) cash:			
Deferred income taxes	160,784	949,122	(217,737)
Depreciation	747,368	717,222	826,440
Provision for loan losses	5,950,000	3,350,000	5,200,000
Gain on sale of loans and investment securities	(2,053,229)	(2,851,249)	(2,024,982)
Loss on sale of foreclosed assets	1,356,464	520,255	341,376
Gain on sale of state low-income housing tax credits	(281,561)	-	-
Accretion of gain on termination of interest rate swaps	-	-	(508,746)
Amortization of deferred income, premiums and discounts, net	548,635	529,016	587,769
Stock award plans	253,017	186,654	109,386
Origination of loans held for sale	(80,713,138)	(58,776,634)	(81,958,753)
Proceeds from sale of loans held for sale	83,457,153	59,104,282	84,488,527
Release of ESOP shares	153,848	126,737	100,014
Increase in cash surrender value of bank owned life insurance	(386,593)	(321,257)	(380,090)
Changes in:			
Prepaid FDIC deposit insurance premiums	650,440	888,280	1,158,519
Accrued interest receivable	83,951	530,954	1,289
Prepaid expenses and other assets	887,894	(4,120)	569,548
Accrued expenses and other liabilities	(103,521)	(349,891)	(551,779)
Income taxes payable	(397,508)	(681,017)	3,887,321
Net cash provided by operating activities	<u>12,257,863</u>	<u>7,753,993</u>	<u>12,758,873</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net change in loans	6,478,698	14,093,653	7,493,436
Principal payments on held-to-maturity securities	37,530	42,385	211,827
Principal payments on available-for-sale securities	8,123,388	15,633,730	13,855,527
Purchase of available-for-sale securities	(80,356,225)	(73,537,207)	(55,262,990)
Proceeds from sales of available-for-sale securities	31,688,102	46,274,707	17,516,564
Proceeds from maturities of available-for-sale securities	19,162,654	26,775,000	28,956,500
Purchase of premises and equipment	(609,956)	(816,359)	(333,609)
Purchase of tax credit investments	-	(950,086)	-
Proceeds from sale of state low-income housing tax credits	281,561	-	-
Proceeds from maturities of interest bearing deposits	5,587,654	7,197,346	5,000,000
Purchase of bank owned life insurance	(2,500,000)	-	-
Redemption of Federal Home Loan Bank stock	41,400	1,178,300	951,400
Capitalized costs on foreclosed assets held for sale	-	(102,804)	(737,336)
Insurance proceeds on foreclosed assets held for sale	-	-	637,427
Proceeds from sale of foreclosed assets held for sale	5,227,038	5,627,426	6,295,990
Net cash provided by (used in) investing activities	<u>(6,838,156)</u>	<u>41,416,091</u>	<u>24,584,736</u>

See Notes to Consolidated Financial Statements

Guaranty Federal Bancshares, Inc.
Consolidated Statements of Cash Flows (continued)
Years Ended December 31, 2012, 2011 and 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in demand deposits, NOW accounts and savings accounts	\$ 20,824,692	\$ 24,675,024	\$ 5,504,374
Net decrease in certificates of deposit	(5,393,642)	(20,785,632)	(37,861,203)
Net decrease in securities sold under agreements to repurchase	-	(14,750,000)	-
Repayments of FHLB advances	-	(25,000,000)	(23,000,000)
Advances from borrowers for taxes and insurance	(3,642)	22,507	(1,608)
Redemption of preferred stock	(5,000,000)	-	-
Stock options exercised	12,388	-	-
Common and preferred cash dividends paid	(744,444)	(850,000)	(850,000)
Treasury stock purchased	(25,736)	(53,230)	(6,540)
Net cash provided by (used in) financing activities	<u>9,669,616</u>	<u>(36,741,331)</u>	<u>(56,214,977)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,089,323	12,428,753	(18,871,368)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>26,574,082</u>	<u>14,145,329</u>	<u>33,016,697</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 41,663,405</u>	<u>\$ 26,574,082</u>	<u>\$ 14,145,329</u>
Supplemental Cash Flows Information			
Real estate acquired in settlement of loans	\$ 1,101,193	\$ 5,517,045	\$ 17,564,615
Interest paid	\$ 6,977,212	\$ 9,970,762	\$ 15,326,326
Income taxes paid, net of (refunds)	\$ 195,000	\$ 435,000	\$ (3,726,331)
Sale and financing of foreclosed assets held for sale	\$ 1,795,070	\$ 1,461,378	\$ 7,246,939

See Notes to Consolidated Financial Statements

Guaranty Federal Bancshares, Inc.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2012, 2011 and 2010

	Preferred Stock	Common Stock	Common Stock Warrants	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2010	\$ 15,874,788	\$ 677,980	\$ 1,377,811	\$ 58,523,646	\$ (660,930)	\$(61,820,869)	\$ 35,741,705	\$ 1,696,502	\$51,410,633
Net income	-	-	-	-	-	-	1,130,771	-	1,130,771
Change in unrealized appreciation on available-for-sale securities and interest rate swaps, net of income taxes of \$86,041	-	-	-	-	-	-	-	146,502	146,502
Preferred stock discount accretion	275,562	-	-	-	-	-	(275,562)	-	-
Preferred stock dividends	-	-	-	-	-	-	(850,000)	-	(850,000)
Stock award plans	-	-	-	109,386	-	-	-	-	109,386
Release of ESOP shares	-	-	-	(127,986)	228,000	-	-	-	100,014
Treasury stock purchased	-	-	-	-	-	(6,540)	-	-	(6,540)
Balance, December 31, 2010	16,150,350	677,980	1,377,811	58,505,046	(432,930)	(61,827,409)	35,746,914	1,843,004	52,040,766
Net income	-	-	-	-	-	-	3,835,639	-	3,835,639
Change in unrealized appreciation on available-for-sale securities, net of income taxes of \$617,676	-	-	-	-	-	-	-	(1,051,719)	(1,051,719)
Preferred stock discount accretion	275,562	-	-	-	-	-	(275,562)	-	-
Preferred stock dividends (5%)	-	-	-	-	-	-	(850,000)	-	(850,000)
Stock award plans	-	-	-	(70,169)	-	256,823	-	-	186,654
Release of ESOP shares	-	-	-	(101,263)	228,000	-	-	-	126,737
Treasury stock purchased	-	-	-	-	-	(53,230)	-	-	(53,230)
Balance, December 31, 2011	16,425,912	677,980	1,377,811	58,333,614	(204,930)	(61,623,816)	38,456,991	791,285	54,234,847
Net income	-	-	-	-	-	-	1,943,859	-	1,943,859
Change in unrealized appreciation on available-for-sale securities, net of income taxes of \$5,603	-	-	-	-	-	-	-	9,541	9,541
Preferred stock redeemed	(5,000,000)	-	-	-	-	-	-	-	(5,000,000)
Preferred stock discount accretion	363,364	-	-	-	-	-	(363,364)	-	-
Preferred stock dividends (5%)	-	-	-	-	-	-	(713,194)	-	(713,194)
Stock award plans	-	-	-	(27,191)	-	280,208	-	-	253,017
Stock options exercised	-	200	-	12,188	-	-	-	-	12,388
Release of ESOP shares	-	-	-	(51,082)	204,930	-	-	-	153,848
Treasury stock purchased	-	-	-	-	-	(25,736)	-	-	(25,736)
Balance, December 31, 2012	\$ 11,789,276	\$ 678,180	\$ 1,377,811	\$ 58,267,529	\$ -	\$(61,369,344)	\$ 39,324,292	\$ 800,826	\$50,868,570

See Notes to Consolidated Financial Statements

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Company operates as a one-bank holding company. The Bank is primarily engaged in providing a full range of banking and mortgage services to individual and corporate customers in southwest Missouri. The Bank is subject to competition from other financial institutions. The Company and the Bank are also subject to the regulation of certain federal and state agencies and receive periodic examinations by those regulatory authorities.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, the Bank. All significant intercompany profits, transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans and fair values. 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.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity are classified as “available-for-sale” and are carried at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below carrying value when the Company does not intend to sell a debt security, and it is more likely than not, the Company will not have to sell the security before a recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

The Company’s consolidated statements of income reflect the full impairment (that is, the difference between the security’s amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale and held-to-maturity debt securities that management has no intent to sell and believes that it more likely than not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the noncredit loss is recognized in accumulated other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

Mortgage Loans Held for Sale

Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Write-downs to fair value are recognized as a charge to earnings at the time a decline in value occurs. Forward commitments to sell mortgage loans are sometimes acquired to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amounts of the loans sold, and are recorded in noninterest income. Direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

Loans

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees net of certain direct origination costs, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

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

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

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

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

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

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

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line and accelerated methods over the estimated useful lives of the assets. The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements (years)	35 - 40
Furniture and fixtures and vehicles (years)	3 - 10

Bank Owned Life Insurance

Bank owned life insurance policies are carried at their cash surrender value. The Company recognizes tax-free income from the periodic increases in cash surrender value of these policies and from death benefits.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiary. With a few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2009.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2012 and 2011, the Company had no cash equivalents.

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the \$250,000 limit on FDIC insurance per covered institution.

Restriction on Cash and Due From Banks

The Company is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required on December 31, 2012 and 2011, was \$6,645,000 and \$7,899,000, respectively.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized appreciation (depreciation) on available-for-sale securities, unrealized appreciation (depreciation) on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income, unrealized appreciation (depreciation) on held-to-maturity securities for which a portion of an other-than-temporary impairment has been recognized in income, and unrealized gains on interest rate swaps.

Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct and material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Company's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below). Management believes, as of December 31, 2012 and 2011, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2012, the most recent notification from the Missouri Division of Finance and the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Company's or the Bank's category.

The Company's and the Bank's actual capital amounts and ratios are also presented in the table. No amount was deducted from capital for interest-rate risk. Dollar amounts are expressed in thousands.

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2012						
Tier 1 (core) capital, and ratio to adjusted total assets						
Company	\$ 65,047	9.9%	\$ 26,256	4.0%	n/a	n/a
Bank	\$ 63,249	9.7%	\$ 26,193	4.0%	\$ 32,742	5.0%
Tier 1 (core) capital, and ratio to risk-weighted assets						
Company	\$ 65,047	13.2%	\$ 19,642	4.0%	n/a	n/a
Bank	\$ 63,249	12.9%	\$ 19,601	4.0%	\$ 29,402	6.0%
Total risk-based capital, and ratio to risk-weighted assets						
Company	\$ 71,201	14.5%	\$ 39,284	8.0%	n/a	n/a
Bank	\$ 69,407	14.2%	\$ 39,202	8.0%	\$ 49,003	10.0%

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2011						
Tier 1 (core) capital, and ratio to adjusted total assets						
Company	\$ 68,419	10.4%	\$ 26,256	4.0%	n/a	n/a
Bank	\$ 66,834	10.2%	\$ 26,249	4.0%	\$ 32,811	5.0%
Tier 1 (core) capital, and ratio to risk-weighted assets						
Company	\$ 68,419	13.2%	\$ 20,755	4.0%	n/a	n/a
Bank	\$ 66,834	12.9%	\$ 20,730	4.0%	\$ 31,095	6.0%
Total risk-based capital, and ratio to risk-weighted assets						
Company	\$ 74,948	14.4%	\$ 41,511	8.0%	n/a	n/a
Bank	\$ 73,363	14.2%	\$ 41,460	8.0%	\$ 51,825	10.0%

The amount of dividends that the Company and Bank may pay is subject to various regulatory limitations. As of December 31, 2012 and 2011 the Company and Bank exceeded their minimum capital requirements. The Bank may not pay dividends which would reduce capital below the minimum requirements shown above.

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

Segment Information

The principal business of the Company is overseeing the business of the Bank. The Company has no significant assets other than its investment in the Bank. The banking operation is the Company's only reportable segment. The banking segment is principally engaged in the business of originating mortgage loans secured by one-to-four family residences, multi-family, construction, commercial and consumer loans. These loans are funded primarily through the attraction of deposits from the general public, borrowings from the Federal Home Loan Bank and brokered deposits. Selected information is not presented separately for the Company's reportable segment, as there is no material difference between that information and the corresponding information in the consolidated financial statements.

General Litigation

The Company and the Bank, from time to time, may be parties to ordinary routine litigation, which arises in the normal course of business, such as claims to enforce liens, and condemnation proceedings, on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans, and other issues incident to the business of the Company and the Bank. After reviewing pending and threatened litigation with legal counsel, management believes that as of December 31, 2012, the outcome of any such litigation will not have a material adverse effect on the Company's results of operations.

Earnings Per Common Share

The computation for earnings per common share for the years ended December 31, 2012, 2011 and 2010 is as follows:

	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010
Net income available to common shareholders	\$ 867,298	\$ 2,710,076	\$ 5,208
Average common shares outstanding	2,715,186	2,675,654	2,644,355
Effect of dilutive securities	144,743	826	-
Average diluted shares outstanding	2,859,929	2,676,480	2,644,355
Basic income per common share	\$ 0.32	\$ 1.01	\$ 0.00
Diluted income per common share	\$ 0.30	\$ 1.01	\$ 0.00

Stock options to purchase 201,500, 351,500 and 365,579 shares of common stock were outstanding during the years ended December 31, 2012, 2011 and 2010, respectively, but were not included in the computation of diluted income per common share because their exercise price was greater than the average market price of the common shares.

Stock warrants to purchase 459,459 shares of common stock were outstanding during the years ended December 31, 2012 and 2011 and were included in the computation of diluted income per common share because their exercise price was less than the average market price of the common shares during the period. These warrants were also outstanding during 2010 but were not included in the computation of diluted income per common share because their exercise price was greater than the average market price of the common shares.

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

NOTE 2: SECURITIES

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities classified as available-for-sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2012				
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
Municipals	10,212,376	250,269	(84,456)	10,378,189
Corporates	1,839,976	67,889	-	1,907,865
Government sponsored mortgage-backed securities	50,366,374	1,304,242	(398,001)	51,272,615
	<u>\$ 100,709,492</u>	<u>\$ 1,824,919</u>	<u>\$ (553,767)</u>	<u>\$ 101,980,644</u>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2011				
Equity Securities	\$ 102,212	\$ -	\$ (39,950)	\$ 62,262
Debt Securities:				
U. S. government agencies	34,668,833	122,093	(64,264)	34,726,662
U. S. treasuries	2,037,168	5,469	-	2,042,637
Municipals	4,049,701	138,736	(44,038)	4,144,399
Government sponsored mortgage-backed securities	38,950,955	1,148,789	(10,826)	40,088,918
	<u>\$ 79,808,869</u>	<u>\$ 1,415,087</u>	<u>\$ (159,078)</u>	<u>\$ 81,064,878</u>

Maturities of available-for-sale debt securities as of December 31, 2012:

	Amortized Cost	Approximate Fair Value
Within one year	\$ 500,000	\$ 500,675
1-5 years	12,082,163	12,224,858
5-10 years	30,436,756	30,567,166
After ten years	7,221,987	7,344,416
Government sponsored mortgage-backed securities not due on a single maturity date	50,366,374	51,272,615
	<u>\$100,607,280</u>	<u>\$101,909,730</u>

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities classified as held to maturity are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2012				
Debt Securities:				
Government sponsored mortgage-backed securities	\$ 181,042	\$ 12,440	\$ -	\$ 193,482

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2011				
Debt Securities:				
Government sponsored mortgage-backed securities	\$ 218,571	\$ 17,003	\$ -	\$ 235,574

Maturities of held-to-maturity securities as of December 31, 2012:

	Amortized Cost	Approximate Fair Value
Government sponsored mortgage-backed securities not due on a single maturity date	\$ 181,042	\$ 193,482

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$57,378,710 and \$60,222,048 as of December 31, 2012 and 2011, respectively.

Gross gains of \$168,306, \$1,505,915 and \$275,125 and gross losses of \$0, \$0 and \$0 resulting from sale of available-for-sale securities were realized for the years ended December 31, 2012, 2011 and 2010, respectively. The tax effect of these net gains was \$62,273, \$557,188 and \$101,796 in 2012, 2011 and 2010, respectively.

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

No securities were written down for other-than-temporary impairment during the years ended December 31, 2012, 2011 and 2010.

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

Certain other investments in debt and equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2012 and 2011, was \$30,121,495 and \$29,766,876, respectively, which is approximately 29% and 37% of the Company's investment portfolio. These declines primarily resulted from changes in market interest rates and failure of certain investments to meet projected earnings targets.

The following table shows gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2012 and 2011.

December 31, 2012						
Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity Securities	\$ -	\$ -	\$ 39,930	\$ (31,604)	\$ 39,930	\$ (31,604)
U. S. government agencies	7,298,687	(39,706)	-	-	7,298,687	(39,706)
Municipals	2,648,047	(76,318)	538,300	(8,138)	3,186,347	(84,456)
Government sponsored mortgage-backed securities	19,596,531	(398,001)	-	-	19,596,531	(398,001)
	<u>\$29,543,265</u>	<u>\$ (514,025)</u>	<u>\$ 578,230</u>	<u>\$ (39,742)</u>	<u>\$30,121,495</u>	<u>\$ (553,767)</u>
December 31, 2011						
Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity Securities	\$ 26,316	\$ (4,361)	\$ 35,946	\$ (35,589)	\$ 62,262	\$ (39,950)
U. S. government agencies	21,351,961	(64,264)	-	-	21,351,961	(64,264)
Municipals	1,045,521	(44,038)	-	-	1,045,521	(44,038)
Government sponsored mortgage-backed securities	7,307,132	(10,826)	-	-	7,307,132	(10,826)
	<u>\$29,730,930</u>	<u>\$ (123,489)</u>	<u>\$ 35,946</u>	<u>\$ (35,589)</u>	<u>\$29,766,876</u>	<u>\$ (159,078)</u>

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Categories of loans at December 31, 2012 and 2011 include:

	December 31,	
	2012	2011
Real estate - residential mortgage:		
One to four family units	\$ 99,381,934	\$ 98,030,718
Multi-family	46,405,034	43,165,695
Real estate - construction	48,917,296	44,912,049
Real estate - commercial	167,760,850	194,856,374
Commercial loans	95,226,762	88,088,580
Consumer and other loans	16,716,858	20,758,027
Total loans	<u>474,408,734</u>	<u>489,811,443</u>
Less:		
Allowance for loan losses	(8,740,325)	(10,613,145)
Deferred loan fees/costs, net	(136,436)	(237,562)
Net loans	<u>\$ 465,531,973</u>	<u>\$ 478,960,736</u>

Classes of loans by aging at December 31, 2012 and 2011 were as follows:

As of December 31, 2012

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
<i>(In Thousands)</i>							
Real estate - residential mortgage:							
One to four family units	\$ 52	\$ 4	\$ -	\$ 56	\$ 99,326	\$ 99,382	\$ -
Multi-family	-	-	-	-	46,405	46,405	-
Real estate - construction	22	28	640	690	48,227	48,917	-
Real estate - commercial	-	352	-	352	167,409	167,761	-
Commercial loans	10	610	785	1,405	93,822	95,227	-
Consumer and other loans	57	-	-	57	16,660	16,717	-
Total	<u>\$ 141</u>	<u>\$ 994</u>	<u>\$ 1,425</u>	<u>\$ 2,560</u>	<u>\$ 471,849</u>	<u>\$ 474,409</u>	<u>\$ -</u>

As of December 31, 2011

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
<i>(In Thousands)</i>							
Real estate - residential mortgage:							
One to four family units	\$ 5	\$ 206	\$ 33	\$ 244	\$ 97,787	\$ 98,031	\$ -
Multi-family	-	-	-	-	43,166	43,166	-
Real estate - construction	728	-	157	885	44,027	44,912	-
Real estate - commercial	167	-	1,193	1,360	193,496	194,856	-
Commercial loans	32	-	548	580	87,508	88,088	-
Consumer and other loans	14	18	20	52	20,706	20,758	-
Total	<u>\$ 946</u>	<u>\$ 224</u>	<u>\$ 1,951</u>	<u>\$ 3,121</u>	<u>\$ 486,690</u>	<u>\$ 489,811</u>	<u>\$ -</u>

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

Nonaccruing loans are summarized as follows:

	December 31,	
	2012	2011
Real estate - residential mortgage:		
One to four family units	\$ 2,280,856	\$ 1,671,245
Multi-family	-	-
Real estate - construction	6,274,241	8,514,187
Real estate - commercial	3,663,771	4,082,416
Commercial loans	2,793,457	2,377,081
Consumer and other loans	318,963	357,060
Total	<u>\$ 15,331,288</u>	<u>\$ 17,001,989</u>

The following tables present the activity in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of and for the years ended December 31, 2012, 2011 and 2010:

As of December 31, 2012

	Construction	Commercial Real Estate	One to four family	Multi- family	Commercial	Consumer and Other	Unallocated	Total
Allowance for loan losses:	<i>(In Thousands)</i>							
Balance, beginning of year	\$ 2,508	\$ 2,725	\$ 1,735	\$ 390	\$ 1,948	\$ 372	\$ 935	\$ 10,613
Provision charged to expense	1,324	683	(179)	(106)	5,090	(81)	(781)	\$ 5,950
Losses charged off	(1,335)	(985)	(265)	-	(5,547)	(73)	-	\$ (8,205)
Recoveries	28	94	25	-	198	37	-	\$ 382
Balance, end of year	<u>\$ 2,525</u>	<u>\$ 2,517</u>	<u>\$ 1,316</u>	<u>\$ 284</u>	<u>\$ 1,689</u>	<u>\$ 255</u>	<u>\$ 154</u>	<u>\$ 8,740</u>
Ending balance: individually evaluated for impairment	<u>\$ 608</u>	<u>\$ 180</u>	<u>\$ 90</u>	<u>\$ -</u>	<u>\$ 441</u>	<u>\$ 48</u>	<u>\$ -</u>	<u>\$ 1,367</u>
Ending balance: collectively evaluated for impairment	<u>\$ 2,087</u>	<u>\$ 2,167</u>	<u>\$ 1,226</u>	<u>\$ 284</u>	<u>\$ 1,248</u>	<u>\$ 207</u>	<u>\$ 154</u>	<u>\$ 7,373</u>
Loans:								
Ending balance: individually evaluated for impairment	<u>\$ 6,275</u>	<u>\$ 5,673</u>	<u>\$ 2,360</u>	<u>\$ -</u>	<u>\$ 2,555</u>	<u>\$ 414</u>	<u>\$ -</u>	<u>\$ 17,277</u>
Ending balance: collectively evaluated for impairment	<u>\$ 42,642</u>	<u>\$ 162,088</u>	<u>\$ 97,022</u>	<u>\$ 46,405</u>	<u>\$ 92,672</u>	<u>\$ 16,303</u>	<u>\$ -</u>	<u>\$ 457,132</u>

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

As of December 31, 2011

	Construction	Commercial Real Estate	One to four family	Multi- family	Commercial	Consumer and Other	Unallocated	Total
Allowance for loan losses:								
<i>(In Thousands)</i>								
Balance, beginning of year	\$ 4,547	\$ 3,125	\$ 1,713	\$ 528	\$ 2,483	\$ 687	\$ -	\$ 13,083
Provision charged to expense	265	2,123	943	(138)	505	(1,283)	935	\$ 3,350
Losses charged off	(2,381)	(2,744)	(966)	-	(1,362)	(322)	-	\$ (7,775)
Recoveries	77	221	45	-	322	1,290	-	\$ 1,955
Balance, end of year	<u>\$ 2,508</u>	<u>\$ 2,725</u>	<u>\$ 1,735</u>	<u>\$ 390</u>	<u>\$ 1,948</u>	<u>\$ 372</u>	<u>\$ 935</u>	<u>\$ 10,613</u>
Ending balance: individually evaluated for impairment	<u>\$ 1,355</u>	<u>\$ 659</u>	<u>\$ 127</u>	<u>\$ -</u>	<u>\$ 399</u>	<u>\$ 72</u>	<u>\$ -</u>	<u>\$ 2,612</u>
Ending balance: collectively evaluated for impairment	<u>\$ 1,153</u>	<u>\$ 2,066</u>	<u>\$ 1,608</u>	<u>\$ 390</u>	<u>\$ 1,549</u>	<u>\$ 300</u>	<u>\$ 935</u>	<u>\$ 8,001</u>
Loans:								
Ending balance: individually evaluated for impairment	<u>\$ 8,515</u>	<u>\$ 5,019</u>	<u>\$ 1,819</u>	<u>\$ -</u>	<u>\$ 3,048</u>	<u>\$ 653</u>	<u>\$ -</u>	<u>\$ 19,054</u>
Ending balance: collectively evaluated for impairment	<u>\$ 36,397</u>	<u>\$ 189,837</u>	<u>\$ 96,212</u>	<u>\$ 43,166</u>	<u>\$ 85,040</u>	<u>\$ 20,105</u>	<u>\$ -</u>	<u>\$ 470,757</u>

As of December 31, 2010

	Construction	Commercial Real Estate	One to four family	Multi- family	Commercial	Consumer and Other	Unallocated	Total
Allowance for loan losses:								
<i>(In Thousands)</i>								
Balance, beginning of year	\$ 2,810	\$ 2,923	\$ 1,646	\$ 393	\$ 3,554	\$ 2,750	\$ -	\$ 14,076
Provision charged to expense	5,620	563	948	135	716	(2,782)	-	\$ 5,200
Losses charged off	(3,893)	(373)	(906)	-	(1,847)	(366)	-	\$ (7,385)
Recoveries	10	12	25	-	60	1,085	-	\$ 1,192
Balance, end of year	<u>\$ 4,547</u>	<u>\$ 3,125</u>	<u>\$ 1,713</u>	<u>\$ 528</u>	<u>\$ 2,483</u>	<u>\$ 687</u>	<u>\$ -</u>	<u>\$ 13,083</u>
Ending balance: individually evaluated for impairment	<u>\$ 3,134</u>	<u>\$ 1,384</u>	<u>\$ 149</u>	<u>\$ -</u>	<u>\$ 1,052</u>	<u>\$ 307</u>	<u>\$ -</u>	<u>\$ 6,026</u>
Ending balance: collectively evaluated for impairment	<u>\$ 1,413</u>	<u>\$ 1,741</u>	<u>\$ 1,564</u>	<u>\$ 528</u>	<u>\$ 1,431</u>	<u>\$ 380</u>	<u>\$ -</u>	<u>\$ 7,057</u>
Loans:								
Ending balance: individually evaluated for impairment	<u>\$ 9,281</u>	<u>\$ 5,150</u>	<u>\$ 3,363</u>	<u>\$ -</u>	<u>\$ 8,409</u>	<u>\$ 1,008</u>	<u>\$ -</u>	<u>\$ 27,211</u>
Ending balance: collectively evaluated for impairment	<u>\$ 54,027</u>	<u>\$ 190,740</u>	<u>\$ 99,689</u>	<u>\$ 44,138</u>	<u>\$ 77,019</u>	<u>\$ 22,418</u>	<u>\$ -</u>	<u>\$ 488,031</u>

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC-310-10-35-16), when based on current information and events, it is probable the Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

The following summarizes impaired loans as of and for the years ended December 31, 2012 and 2011:

As of December 31, 2012

	<u>Recorded Balance</u>	<u>Unpaid Principal Balance</u>	<u>Specific Allowance</u> <i>(In Thousands)</i>	<u>Average Investment in Impaired Loans</u>	<u>Interest Income Recognized</u>
Loans without a specific valuation allowance					
Real estate - residential mortgage:					
One to four family units	\$ 2,245	\$ 2,271	\$ -	\$ 1,961	\$ 20
Multi-family	-	-	-	-	-
Real estate - construction	5,015	5,575	-	3,528	-
Real estate - commercial	2,430	2,755	-	4,054	65
Commercial loans	318	689	-	1,831	17
Consumer and other loans	103	103	-	266	11
Loans with a specific valuation allowance					
Real estate - residential mortgage:					
One to four family units	\$ 115	\$ 130	\$ 90	\$ 315	\$ -
Multi-family	-	-	-	-	-
Real estate - construction	1,260	1,260	608	3,316	-
Real estate - commercial	3,243	3,243	180	6,913	-
Commercial loans	2,237	2,237	441	3,408	-
Consumer and other loans	311	311	48	307	-
Total					
Real estate - residential mortgage:					
One to four family units	\$ 2,360	\$ 2,401	\$ 90	\$ 2,276	\$ 20
Multi-family	-	-	-	-	-
Real estate - construction	6,275	6,835	608	6,844	-
Real estate - commercial	5,673	5,998	180	10,967	65
Commercial loans	2,555	2,926	441	5,239	17
Consumer and other loans	414	414	48	573	11
Total	<u>\$ 17,277</u>	<u>\$ 18,574</u>	<u>\$ 1,367</u>	<u>\$ 25,899</u>	<u>\$ 113</u>

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As of December 31, 2011

	Recorded Balance	Unpaid Principal Balance	Specific Allowance <i>(In Thousands)</i>	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance					
Real estate - residential mortgage:					
One to four family units	\$ 1,424	\$ 1,424	\$ -	\$ 2,373	\$ 50
Multi-family	-	-	-	-	-
Real estate - construction	1,181	1,181	-	3,705	-
Real estate - commercial	4,646	5,985	-	4,609	57
Commercial loans	1,148	1,459	-	1,573	55
Consumer and other loans	376	376	-	458	37
Loans with a specific valuation allowance					
Real estate - residential mortgage:					
One to four family units	\$ 395	\$ 421	\$ 127	\$ 1,396	\$ -
Multi-family	-	-	-	-	-
Real estate - construction	7,334	7,854	1,355	7,697	-
Real estate - commercial	373	373	659	2,189	-
Commercial loans	1,900	1,900	399	2,790	-
Consumer and other loans	277	277	72	381	-
Total					
Real estate - residential mortgage:					
One to four family units	\$ 1,819	\$ 1,845	\$ 127	\$ 3,769	\$ 50
Multi-family	-	-	-	-	-
Real estate - construction	8,515	9,035	1,355	11,402	-
Real estate - commercial	5,019	6,358	659	6,798	57
Commercial loans	3,048	3,359	399	4,363	55
Consumer and other loans	653	653	72	839	37
Total	<u>\$ 19,054</u>	<u>\$ 21,250</u>	<u>\$ 2,612</u>	<u>\$ 27,171</u>	<u>\$ 199</u>

Interest of approximately \$358,000 was recognized on average impaired loans of \$28,996,000 for the year ended December 31, 2010.

At December 31, 2012, the Bank's impaired loans shown in the table above included loans that were classified as troubled debt restructurings (TDR). The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

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

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

The following summarizes information regarding new troubled debt restructurings by class:

	December 31, 2012		
	Number of Loans	Pre- Modification Outstanding Recorded Balance	Post- Modification Outstanding Recorded Balance
Real estate - residential mortgage:			
One to four family units	3	\$ 1,317,070	\$ 1,689,268
Multi-family	-	-	-
Real estate - construction	3	7,626,970	8,193,713
Real estate - commercial	2	2,316,745	2,316,745
Commercial loans	2	2,270,030	1,844,113
Consumer and other loans	-	-	-
Total	<u>10</u>	<u>\$ 13,530,815</u>	<u>\$ 14,043,839</u>

	December 31, 2011		
	Number of Loans	Pre- Modification Outstanding Recorded Balance	Post- Modification Outstanding Recorded Balance
Real estate - residential mortgage:			
One to four family units	-	-	-
Multi-family	-	-	-
Real estate - construction	3	8,526,970	8,925,340
Real estate - commercial	3	6,526,382	4,591,406
Commercial loans	-	-	-
Consumer and other loans	-	-	-
Total	<u>6</u>	<u>\$ 15,053,352</u>	<u>\$ 13,516,746</u>

The troubled debt restructurings described above increased the allowance for loan losses by \$723,359 and resulted in charge offs of \$26,173 during the year ended December 31, 2012.

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The following presents the troubled debt restructurings by type of modification:

	December 31, 2012			Total Modification
	Interest Rate	Term	Combination	
Real estate - residential mortgage:				
One to four family units	\$ 305,600	\$ 1,383,668	\$ -	\$ 1,689,268
Multi-family	-	-	-	-
Real estate - construction	6,884,800	1,308,913	-	8,193,713
Real estate - commercial	-	391,745	1,925,000	2,316,745
Commercial loans	-	1,844,113	-	1,844,113
Consumer and other loans	-	-	-	-
Total	<u>\$ 7,190,400</u>	<u>\$ 4,928,439</u>	<u>\$ 1,925,000</u>	<u>\$ 14,043,839</u>

	December 31, 2011			Total Modification
	Interest Rate	Term	Combination	
Real estate - residential mortgage:				
One to four family units	\$ -	\$ -	\$ -	\$ -
Multi-family	-	-	-	-
Real estate - construction	6,884,800	2,040,540	-	8,925,340
Real estate - commercial	-	-	4,591,406	4,591,406
Commercial loans	-	-	-	-
Consumer and other loans	-	-	-	-
Total	<u>\$ 6,884,800</u>	<u>\$ 2,040,540</u>	<u>\$ 4,591,406</u>	<u>\$ 13,516,746</u>

As part of the on-going monitoring of the credit quality of the Bank's loan portfolio, management tracks loans by an internal rating system. All loans are assigned an internal credit quality rating based on an analysis of the borrower's financial condition. The criteria used to assign quality ratings to extensions of credit that exhibit potential problems or well-defined weaknesses are primarily based upon the degree of risk and the likelihood of orderly repayment, and their effect on the Bank's safety and soundness. The following are the internally assigned ratings:

Pass-This rating represents loans that have strong asset quality and liquidity along with a multi-year track record of profitability.

Special mention-This rating represents loans that are currently protected but are potentially weak. The credit risk may be relatively minor, yet constitute an increased risk in light of the circumstances surrounding a specific loan.

Substandard-This rating represents loans that show signs of continuing negative financial trends and unprofitability and therefore, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.

Doubtful-This rating represents loans that have all the weaknesses of substandard classified loans with the additional characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Risk characteristics applicable to each segment of the loan portfolio are described as follows.

Real estate-Residential 1-4 family: The residential 1-4 family real estate loans are generally secured by owner-occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Bank's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Guaranty Federal Bancshares, Inc.
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Real estate-Construction: Construction and land development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Bank until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Bank's market areas.

Real estate-Commercial: Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Bank's market areas.

Commercial: The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Consumer: The consumer loan portfolio consists of various term and line of credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Bank's market area) and the creditworthiness of a borrower.

The following table provides information about the credit quality of the loan portfolio using the Bank's internal rating system as of December 31, 2012 and 2011:

As of December 31, 2012

	<u>Construction</u>	<u>Commercial Real Estate</u>	<u>One to four family</u>	<u>Multi- family</u>	<u>Commercial</u>	<u>Consumer and Other</u>	<u>Total</u>
	<i>(In Thousands)</i>						
Rating:							
Pass	\$ 35,775	\$ 156,448	\$ 94,209	\$ 45,133	\$ 88,230	\$ 15,840	\$ 435,635
Special Mention	6,868	4,976	1,636	1,272	2,255	93	17,100
Substandard	5,581	6,337	3,507	-	4,742	784	20,951
Doubtful	693	-	30	-	-	-	723
Total	<u>\$ 48,917</u>	<u>\$ 167,761</u>	<u>\$ 99,382</u>	<u>\$ 46,405</u>	<u>\$ 95,227</u>	<u>\$ 16,717</u>	<u>\$ 474,409</u>

As of December 31, 2011

	<u>Construction</u>	<u>Commercial Real Estate</u>	<u>One to four family</u>	<u>Multi- family</u>	<u>Commercial</u>	<u>Consumer and Other</u>	<u>Total</u>
	<i>(In Thousands)</i>						
Rating:							
Pass	\$ 27,646	\$ 162,019	\$ 91,503	\$ 42,668	\$ 80,529	\$ 19,522	\$ 423,887
Special Mention	6,372	20,406	3,214	498	2,183	309	32,982
Substandard	10,894	12,431	3,314	-	5,376	927	32,942
Total	<u>\$ 44,912</u>	<u>\$ 194,856</u>	<u>\$ 98,031</u>	<u>\$ 43,166</u>	<u>\$ 88,088</u>	<u>\$ 20,758</u>	<u>\$ 489,811</u>

The weighted average interest rate on loans as of December 31, 2012 and 2011 was 5.89% and 5.82%, respectively.

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

The Bank serviced mortgage loans for others amounting to \$184,045 and \$199,256 as of December 31, 2012 and 2011, respectively. The Bank serviced commercial loans for others amounting to \$2,046,506 and \$4,143,374 as of December 31, 2012 and 2011, respectively.

NOTE 4: PREMISES AND EQUIPMENT

Major classifications of premises and equipment, stated at cost, are as follows:

	December 31, 2012	December 31, 2011
Land	\$ 2,250,789	\$ 2,250,789
Buildings and improvements	11,812,386	11,860,040
Automobile	16,479	16,479
Furniture, fixtures and equipment	9,000,767	8,343,157
Leasehold improvements	271,799	271,799
	<u>23,352,220</u>	<u>22,742,264</u>
Less accumulated depreciation	(12,065,810)	(11,318,442)
Net premises and equipment	<u>\$ 11,286,410</u>	<u>\$ 11,423,822</u>

Depreciation expense was \$747,368, \$717,222 and \$826,440 for the years ended December 31, 2012, 2011, and 2010, respectively.

NOTE 5: BANK OWNED LIFE INSURANCE

In October 2009 and February 2012, the Company purchased Bank owned life insurance on certain key members of management, in the amounts of \$10 million and \$2.5 million, respectively. Such policies are recorded at their cash surrender value, or the amount that can be realized. The increase in cash surrender value in excess of the single premium paid is reported as other noninterest income. The balance at December 31, 2012 and 2011 was \$13,657,480 and \$10,770,887, respectively.

NOTE 6: INVESTMENTS IN AFFORDABLE HOUSING PARTNERSHIPS

The Company has purchased investments in limited partnerships that were formed to operate low-income housing apartment complexes and single-family housing units throughout Missouri. The investments are accounted for under the cost method as the Company does not have the ability to exert significant influence over the partnerships. For a minimum 15 year compliance period, each partnership must adhere to affordable housing regulatory requirements in order to maintain the utilization of the tax credits. At December 31, 2012 and 2011, the net carrying values of the Company's investments in these entities was \$5,355,254 and \$6,249,021, respectively, and are included in other assets on the Company's Consolidated Balance Sheets.

The Company received federal tax credits of \$839,532, \$806,324 and \$551,000 during 2012, 2011 and 2010, respectively. Amortization of the investment costs was \$885,478, \$676,700 and \$480,322 during 2012, 2011 and 2010, respectively.

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

NOTE 7: DEPOSITS

Deposits are comprised of the following at December 31, 2012 and 2011:

	December 31, 2012			December 31, 2011		
	Weighted Average Rate	Balance	Percentage of Deposits	Weighted Average Rate	Balance	Percentage of Deposits
Demand	0.00%	\$ 48,862,874	9.8%	0.00%	\$ 56,315,467	11.6%
NOW	0.41%	86,422,323	17.3%	0.56%	81,804,342	16.9%
Money market	0.63%	191,054,957	38.2%	0.77%	169,759,166	35.0%
Savings	0.14%	23,659,368	4.7%	0.44%	21,295,855	4.4%
	0.45%	<u>349,999,522</u>	<u>70.0%</u>	0.56%	<u>329,174,830</u>	<u>67.9%</u>
Certificates:						
0% - 1.99%	0.93%	139,257,653	27.9%	1.08%	127,813,801	26.4%
2.00% - 3.99%	2.59%	7,049,432	1.4%	2.88%	15,059,924	3.1%
4.00% - 6.00%	5.03%	3,708,108	0.7%	5.05%	12,535,110	2.6%
	1.11%	<u>150,015,193</u>	<u>30.0%</u>	1.57%	<u>155,408,835</u>	<u>32.1%</u>
Total Deposits	0.65%	<u>\$500,014,715</u>	<u>100.0%</u>	0.89%	<u>\$484,583,665</u>	<u>100.0%</u>

The aggregate amount of certificates of deposit with a minimum balance of \$100,000 was approximately \$71,780,000 and \$63,823,000, as of December 31, 2012 and 2011, respectively.

A summary of certificates of deposit by maturity as of December 31, 2012, is as follows:

2013	\$ 90,458,398
2014	32,391,050
2015	14,397,163
2016	7,192,495
2017	5,067,428
Thereafter	508,659
	<u>\$150,015,193</u>

A summary of interest expense on deposits is as follows:

	Years ended		
	2012	December 31, 2011	2010
NOW and Money Market accounts	\$ 2,011,796	\$ 2,580,341	\$ 3,968,205
Savings accounts	80,968	118,432	140,382
Certificate accounts	1,999,060	3,099,265	5,536,701
Early withdrawal penalties	(15,630)	(19,775)	(17,155)
	<u>\$ 4,076,194</u>	<u>\$ 5,778,263</u>	<u>\$ 9,628,133</u>

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Notes to Consolidated Financial Statements

The Bank utilizes brokered deposits as an additional funding source. The aggregate amount of brokered deposits was approximately \$49,072,000 and \$22,229,000 as of December 31, 2012 and 2011, respectively.

NOTE 8: BORROWINGS

Federal Home Loan Bank Advances

Federal Home Loan Bank advances consist of the following:

Maturity Date	December 31, 2012		December 31, 2011	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
2013	15,700,000	2.14%	15,700,000	2.14%
2015	250,000	4.66%	250,000	4.66%
2018	50,000,000	2.14%	50,000,000	2.14%
2019	2,100,000	4.87%	2,100,000	4.87%
	<u>\$ 68,050,000</u>	2.23%	<u>\$ 68,050,000</u>	2.23%

The FHLB requires the Bank to maintain collateral in relation to outstanding balances of advances. For collateral purposes, the FHLB values mortgage loans free of other pledges, liens and encumbrances at 80% of their fair value, and investment securities free of other pledges, liens and encumbrances at 95% of their fair value. Based on existing collateral as well as the FHLB's limitation of advances to 25% of assets, the Bank has the ability to borrow an additional \$64.6 million from the FHLB, as of December 31, 2012.

Federal Reserve Bank Borrowings

During 2008, the Bank established a borrowing line with the Federal Reserve Bank. The Bank has the ability to borrow \$30.9 million as of December 31, 2012. The Federal Reserve Bank requires the Bank to maintain collateral in relation to borrowings outstanding. The Bank had no borrowings outstanding on this line as of December 31, 2012 and 2011.

Securities Sold Under Agreements to Repurchase

The Company borrowed \$9.8 million under a structured repurchase agreement in September 2007. Effective in September 2009, interest was based on a fixed rate of 3.56% until maturity in September 2014. The counterparty, Barclay's Capital, Inc., had the option to terminate the agreement on a quarterly basis until maturity date. Prior to the stated maturity date, the Company paid off this agreement in November 2011.

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 date, the Company paid off one of these agreements in the amount of \$5.0 million in November 2011.

The Company has pledged certain investment securities with a fair value of \$29.9 million and \$32.2 million as of December 31, 2012 and 2011, respectively, to these repurchase agreements.

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Notes to Consolidated Financial Statements

NOTE 9: SUBORDINATED DEBENTURES

During 2005, the Company formed two wholly owned grantor trust subsidiaries, Guaranty Statutory Trust I and Guaranty Statutory Trust II, to issue preferred securities representing undivided beneficial interests in the assets of the trusts and to invest the gross proceeds of the preferred securities in notes of the Company. Trust I issued \$5,000,000 of preferred securities and Trust II issued \$10,000,000 of preferred securities. The sole assets of Trust I were originally \$5,155,000 aggregate principal amount of the Company's fixed rate subordinated debenture notes due 2036, which are redeemable beginning in 2011. The sole assets of Trust II were originally \$10,310,000 aggregate principal amount of the Company's fixed/variable rate subordinated debenture notes due 2036, which are redeemable beginning in 2011. Trust II subordinated debenture notes bear interest at a fixed rate for five years and thereafter at a floating rate based on LIBOR. The preferred securities qualify as either Tier I or Tier II capital for regulatory purposes, subject to certain limitations.

NOTE 10: INCOME TAXES

As of December 31, 2012 and 2011, retained earnings included approximately \$5,075,000 for which no deferred income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which would be subject to the then current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately \$1,878,000 as of both December 31, 2012 and 2011.

The provision (credit) for income taxes consists of:

	Years Ended December 31,		
	2012	2011	2010
Taxes currently payable	\$ (292,122)	\$ (246,017)	\$ 160,989
Deferred income taxes	160,784	949,122	(217,737)
	<u>\$ (131,338)</u>	<u>\$ 703,105</u>	<u>\$ (56,748)</u>

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

The tax effects of temporary differences related to deferred taxes shown on the December 31, 2012 and 2011 balance sheets are:

	December 31, 2012	December 31, 2011
Deferred tax assets:		
Allowances for loan losses	\$ 3,233,920	\$ 3,926,864
Writedowns on foreclosed assets held for sale	897,297	589,773
State low income housing tax credits	1,645,379	1,708,621
Federal low income housing tax and other credits	740,276	478,223
Deferred loan fees/costs	50,481	87,898
Other	241,658	241,658
	<u>6,809,011</u>	<u>7,033,037</u>
Deferred tax liabilities:		
FHLB stock dividends	(120,632)	(120,632)
Unrealized appreciation on available-for-sale securities	(470,326)	(473,711)
Accumulated depreciation	(175,448)	(175,448)
Other	(77,298)	(68,310)
	<u>(843,704)</u>	<u>(838,101)</u>
Deferred tax asset before valuation allowance	5,965,307	6,194,936
Valuation allowance:		
Beginning balance	(1,708,621)	(1,476,757)
Decrease from sale of state low income housing tax credits	375,415	-
Increase for state low income housing tax credits generated	(312,173)	(231,864)
Ending balance	<u>(1,645,379)</u>	<u>(1,708,621)</u>
Net deferred tax asset	<u>\$ 4,319,928</u>	<u>\$ 4,486,315</u>

A reconciliation of income tax expense at the statutory rate to income tax expense at the Company's effective rate is shown below:

	Years ended December 31,		
	2012	2011	2010
Computed at statutory rate	34.0%	34.0%	34.0%
Increase (reduction) in taxes resulting from:			
State financial institution tax and credits	(33.1%)	(17.8%)	(83.7%)
ESOP	(3.3%)	(5.6%)	(4.4%)
Cash surrender value of life insurance	(7.9%)	(7.1%)	(8.0%)
Valuation allowance	(3.5%)	5.1%	64.3%
Other	6.6%	6.9%	(7.5%)
Actual tax provision (credit)	<u>(7.2%)</u>	<u>15.5%</u>	<u>(5.3%)</u>

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NOTE 11: DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

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

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

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

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

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

Available-for-sale securities: Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. government agencies and government sponsored mortgage-backed securities. The Company has no Level 3 securities.

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2012 and 2011 (dollar amounts in thousands):

As of December 31, 2012

Financial assets:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities:				
Other	\$ 71	\$ -	\$ -	\$ 71
Debt securities:				
U.S. government agencies	-	38,351	-	38,351
U.S. corporate	-	1,908	-	1,908
Municipals	-	10,378	-	10,378
Government sponsored mortgage-backed securities	-	51,273	-	51,273
Available-for-sale securities	<u>\$ 71</u>	<u>\$ 101,910</u>	<u>\$ -</u>	<u>\$ 101,981</u>

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As of December 31, 2011

Financial assets:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
Equity securities:				
Other	\$ 62	\$ -	\$ -	\$ 62
Debt securities:				
U.S. government agencies	-	34,727	-	34,727
U. S. treasuries	2,043	-	-	2,043
Municipals	-	4,144	-	4,144
Government sponsored mortgage-backed securities	-	40,089	-	40,089
Available-for-sale securities	<u>\$ 2,105</u>	<u>\$ 78,960</u>	<u>\$ -</u>	<u>\$ 81,065</u>

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

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

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

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

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2012 and 2011 (dollar amounts in thousands):

Impaired loans:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
December 31, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,557</u>	<u>\$ 10,557</u>
December 31, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,243</u>	<u>\$ 11,243</u>

Foreclosed assets held for sale:

	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total fair value
December 31, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,883</u>	<u>\$ 3,883</u>
December 31, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,626</u>	<u>\$ 3,626</u>

There were no transfers between valuation levels for any asset during the years ended December 31, 2012 or 2011. If valuation techniques are deemed necessary, the Company considers those transfers to occur at the end of the period when the assets are valued.

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

The following table presents quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements (dollar amounts in thousands):

	Fair Value December 31, 2012	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans (collateral dependent)	\$ 9,022	Market Comparable	Discount to reflect realizable value	0% - 100% (5%)
Impaired loans	\$ 1,535	Discounted cash flow	Discount rate	0% - 17% (17%)
Foreclosed assets held for sale	\$ 3,883	Market Comparable	Discount to reflect realizable value	0% - 44% (15%)

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

Cash and cash equivalents, interest-bearing deposits and Federal Home Loan Bank stock

The carrying amounts reported in the balance sheets approximate those assets' fair value.

Held-to-maturity securities

Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans

The fair value of loans is estimated by discounting the future cash flows using the market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

Deposits

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using rates currently offered for deposits of similar remaining maturities.

Federal Home Loan Bank advances and securities sold under agreements to repurchase

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

Subordinated debentures and notes payable

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

Interest payable

The carrying amount approximates fair value.

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

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

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

The following table presents estimated fair values of the Company's financial instruments at December 31, 2012 and 2011.

	December 31, 2012			December 31, 2011		
	Carrying Amount	Fair Value	Hierarchy Level	Carrying Amount	Fair Value	Hierarchy Level
Financial assets:						
Cash and cash equivalents	\$ 41,663,405	\$ 41,663,405	1	\$ 26,574,082	\$ 26,574,082	1
Interest-bearing deposits	-	-	-	5,587,654	5,587,654	2
Held-to-maturity securities	181,042	193,482	2	218,571	235,574	2
Federal Home Loan Bank stock	3,805,500	3,805,500	2	3,846,900	3,846,900	2
Mortgage loans held for sale	2,843,757	2,843,757	2	3,702,849	3,702,849	2
Loans, net	465,531,973	475,374,676	3	478,960,736	485,714,408	3
Interest receivable	2,055,369	2,055,369	2	2,139,320	2,139,320	2
Financial liabilities:						
Deposits	500,014,715	500,580,070	2	484,583,665	485,803,947	2
Federal Home Loan Bank advances	68,050,000	72,035,160	2	68,050,000	70,815,606	2
Securities sold under agreements to repurchase	25,000,000	25,114,464	2	25,000,000	25,025,344	2
Subordinated debentures	15,465,000	15,465,000	3	15,465,000	15,465,000	3
Interest payable	399,684	399,684	2	518,881	518,881	2
Unrecognized financial instruments (net of contractual value):						
Commitments to extend credit	-	-	-	-	-	-
Unused lines of credit	-	-	-	-	-	-

NOTE 12: SIGNIFICANT ESTIMATES AND CONCENTRATIONS

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote regarding loans.

The current protracted economic decline continues to present financial institutions with circumstances and challenges which in some cases have resulted in large declines in the fair values of investments and other assets, constraints on liquidity and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The financial statements have been prepared using the values and information currently available to the Company.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses, or capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity. Furthermore, the Company's regulators could require material adjustments to asset values or the allowance for loan losses for regulatory capital purposes that could affect the Company's measurement of regulatory capital and compliance with the capital adequacy guidelines under the regulatory framework for prompt corrective action.

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

NOTE 13: EMPLOYEE BENEFIT PLANS

Equity Plans

On May 26, 2010, the Company's stockholders voted to approve the Guaranty Federal Bancshares, Inc. 2010 Equity Plan (the "Plan"). The Plan provides for the grant of up to 200,000 shares of Common Stock under equity awards including stock options, stock awards, restricted stock, stock appreciation rights, performance units, or other equity-based awards payable in cash or stock to key employees and directors of the Company and the Bank. As of December 31, 2012, non-incentive stock options for 25,000 shares and restricted stock for 62,785 shares of Common Stock have been granted under the Plan.

In addition, the Company established four stock option plans for the benefit of certain directors, officers and employees of the Company and its subsidiary. A committee of the Company's Board of Directors administers the plans. The stock options under these plans may be either incentive stock options or nonqualified stock options. Incentive stock options can be granted only to participants who are employees of the Company or its subsidiary. The option price must not be less than the market value of the Company stock on the date of grant. All options expire no later than ten years from the date of grant. The options vest at the rate of 20% per year over a five-year period.

The table below summarizes transactions under the Company's stock option plans:

	Number of shares		Weighted Average Exercise Price
	Incentive Stock Option	Non-Incentive Stock Option	
Balance outstanding as of January 1, 2010	148,750	136,704	\$ 19.40
Granted	46,000	45,000	5.24
Exercised	-	-	-
Forfeited	-	(10,875)	10.50
Balance outstanding as of December 31, 2010	194,750	170,829	16.14
Granted	-	-	-
Exercised	-	-	-
Forfeited	(10,250)	(3,829)	17.51
Balance outstanding as of December 31, 2011	184,500	167,000	16.09
Granted	-	-	-
Exercised	(2,003)	-	6.18
Forfeited	(7,997)	-	6.18
Balance outstanding as of December 31, 2012	174,500	167,000	\$ 16.38
Options exercisable as of December 31, 2012	130,900	131,000	\$ 18.95

As of December 31, 2012, total outstanding stock options of 341,500 had a remaining contractual life of 3.55 years.

The total intrinsic value of outstanding stock options was \$0 at both December 31, 2012 and 2011 and the total intrinsic value of outstanding exercisable stock options was \$0 at both December 31, 2012 and 2011. The total fair value of share awards vested was \$306,950 and \$237,525 during 2012 and 2011, respectively.

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

There were no options granted during the years ended December 31, 2012 and 2011. The fair value of each option granted is estimated on the date of the grant using the Black-Scholes pricing model with the following weighted-average assumptions for 2010.

	December 31, 2010
Dividends per share	\$ -
Risk-free interest rate	2.15%
Expected life of options (years)	5
Weighted-average volatility	42.62%
Weighted-average fair value of options granted during year	\$ 2.04

In January 2012 and 2011, the Company granted restricted stock to directors that was fully vested and thus, expensed in full during the year ended December 31, 2012 and 2011, respectively. The amount expensed of \$110,009 and \$100,017 for 2012 and 2011, respectively, represents 18,520 and 16,952 shares of common stock at a market price of \$5.94 and \$5.90, respectively, at the date of grant.

During 2012, the Company granted 27,313 shares of restricted stock to officers that have a cliff vesting at the end of two years, except for the CEO, who has a three year cliff vesting. The expense is being recognized over the applicable vesting period. The amount expensed during 2012 was \$79,330.

Total stock-based compensation expense is comprised of expense for restricted stock awards and stock options. Expense recognized for the years ended December 31, 2012, 2011 and 2010 was \$253,017, \$186,654 and \$109,386, respectively. As of December 31, 2012, there was \$82,892 of unrecognized compensation expense related to nonvested stock options and \$119,951 of unrecognized compensation expense related to nonvested restricted stock awards, which will be recognized over the remaining vesting periods.

Employee Stock Ownership Plan

The Bank sponsors an internally-leveraged Employee Stock Ownership Plan (ESOP). All employees are eligible to participate after they attain age twenty-one and complete twelve consecutive months of service during which they work at least 1,000 hours. The ESOP borrowed \$3,444,540 from the Company and purchased 344,454 shares of the common stock of the Company. The ESOP debt is secured by shares of the Company. The loan will be repaid from contributions to the ESOP as approved annually by the Bank's Board of Directors. As the debt is repaid, shares are released from collateral and allocated to employees' accounts. The shares pledged as collateral are reported as unearned ESOP shares in the consolidated balance sheets. When shares are committed for release, the shares become outstanding for earnings per share computations. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings and may be paid directly to participants or credited to their account; dividends are not paid on unallocated ESOP shares. Compensation expense is recognized ratably based on the average fair value of shares committed to be released. Compensation expense attributed to the ESOP was \$153,848, \$126,737 and \$100,014 for the years ended December 31, 2012, 2011 and 2010, respectively.

The following is a summary of ESOP shares as of December 31, 2012:

Beginning ESOP shares	344,454
Released shares	(321,836)
Shares committed for release	(22,618)
Unreleased shares	<u>-</u>
Fair value of unreleased shares	<u>-</u>

Effective December 31, 2012, the Company's Board of Directors approved to terminate the ESOP after all shares had been allocated to employees. Subject to approval from the Internal Revenue Service, the plan will be terminated, all employee accounts will become fully vested and the plan shares will be distributed.

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

NOTE 14: DERIVATIVE FINANCIAL INSTRUMENTS

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

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

On November 7, 2008, the Company elected to terminate three interest rate swap agreements with a total notional value of \$90 million. At termination, the swaps had a market value (gain) of approximately \$1.7 million. The gain was deferred and was accreted into income. The Company recognized \$508,746 of this gain in 2010. As of June 30, 2010, the original gain at termination was fully accreted into income in accordance with the stated maturity date of the original agreement.

NOTE 15: PREFERRED STOCK AND COMMON STOCK WARRANTS

On January 30, 2009, as part of the U.S. Department of the Treasury's Troubled Asset Relief Program's Capital Purchase Program ("CPP"), the Company entered into a Securities Purchase Agreement - Standard Terms with the United States Department of the Treasury (the "Treasury") pursuant to which the Company sold to the Treasury 17,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") and issued a ten year warrant (the "Warrant") to purchase 459,459 shares of the Company's common stock (the "Common Stock") for \$5.55 per share (the "Warrant Shares") for a total purchase price of \$17.0 million (the "Transaction").

The Series A Preferred Stock qualifies as Tier 1 capital and is entitled to cumulative preferred dividends at a rate of 5% per year for the first five years, payable quarterly, and 9% thereafter. The Series A Preferred Stock has a liquidation preference of \$1,000 per share, plus accrued and unpaid dividends. The failure by the Company to pay a total of six quarterly dividends, whether or not consecutive, gives the holders of the Series A Preferred Stock the right to elect two directors to the Company's Board of Directors.

On June 13, 2012, with regulatory approval, the Company redeemed \$5 million of the Series A Preferred Stock, including accrued and unpaid dividends of \$19,444. The Company may redeem additional shares of the Series A Preferred Stock for \$1,000 per share, plus accrued and unpaid dividends, in whole or in part, subject to regulatory approval.

The Company filed a Registration Statement on Form S-1 with the Securities and Exchange Commission during the third quarter of 2012. The purpose of the filing had been to register the offering by Treasury in an auction of the remaining \$12.0 million of the Series A Preferred Stock following the June redemption. Pursuant to the agreement under which the Series A Preferred Stock had been sold to Treasury, Treasury had the right to compel the Company to register the sale by Treasury of all or any portion of the Series A Preferred Stock. After the auction terminated in accordance with its terms, Treasury decided not to accept the two bids submitted offering to purchase a portion of the Series A Preferred Stock for 92% of their liquidation value. Accordingly, Treasury continues to own all of the issued and outstanding \$12.0 million of Series A Preferred Stock and the Warrant.

The Warrant is exercisable immediately upon issuance and expires in ten years. The Warrant has anti-dilution protections and certain other protections for the holder of the Warrant, as well as potential registration rights upon written request from the Treasury. The Treasury has agreed not to exercise voting rights with respect to the Warrant Shares that it may acquire upon exercise of the Warrant. If the Series A Preferred Stock is redeemed in whole, the Company has the right to purchase any shares of the Common Stock held by the Treasury at their fair market value at that time.

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

The Company is subject to certain contractual restrictions under the CPP and the Certificate of Designations for the Series A Preferred Stock that could prohibit the Company from declaring or paying dividends on its common stock or the Series A Preferred Stock.

The proceeds from the CPP were allocated between the Series A Preferred Stock and the Warrant based on a fair value assigned using a discounted cash flow model. This resulted in an initial value of \$15,622,189 for the Series A Preferred Stock and \$1,377,811 for the Warrants. The discount of approximately \$1.4 million on the Series A Preferred Stock is being accreted over the straight-line method (which approximates the level-yield method) over five years ending February 28, 2014.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (the “ARRA”) was signed into law. The ARRA imposes certain additional executive compensation and corporate expenditure limits on all current and future CPP recipients. These limits are in addition to those previously imposed by the Treasury under the Emergency Economic Stabilization Act of 2008 (the “EESA”). The Treasury released an interim final rule (the “IFR”) on TARP standards for compensation and corporate governance on June 10, 2009, which implemented and further expanded the limitations and restrictions imposed by EESA and ARRA. The IFR applies to the Company as of the date of publication in the Federal Register on June 15, 2009, but was subject to comment which ended on August 14, 2009. The Treasury has not yet published a final version of the IFR.

As a result of the Company’s participation in the CPP, the restrictions and standards established under EESA and ARRA are applicable to the Company. Neither the ARRA nor the EESA restrictions shall apply to any CPP recipient, including the Company, at such time that the federal government no longer holds any of the Company’s Series A Preferred Stock.

NOTE 16: OTHER EXPENSES

Other expenses for the years ended December 31, 2012, 2011 and 2010 were as follows:

	December 31, 2012	December 31, 2011	December 31, 2010
Directors compensation	\$ 235,478	\$ 215,980	\$ 178,376
Outside services	62,675	55,000	55,000
Legal expense	471,363	628,444	444,904
Deposit expense	219,778	73,712	44,864
Office supplies	81,814	94,002	109,424
Telephone	114,182	116,826	107,738
Postage	157,986	165,837	172,792
Insurance	87,436	74,287	68,628
Supervisory exam	57,109	58,609	60,115
Accounting	256,850	149,475	165,000
Organization dues	118,653	118,568	114,037
Loan expense	239,701	307,021	427,775
Mortgage buyback	147,119	-	-
Contributions	40,000	40,118	40,140
ATM expense	231,893	219,329	200,224
Federal and state tax credits amortization	885,478	676,700	480,322
Other operating	400,527	517,036	544,083
	<u>\$ 3,808,042</u>	<u>\$ 3,510,944</u>	<u>\$ 3,213,422</u>

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

NOTE 17: RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to executive officers and directors and their affiliates. Annual activity consisted of the following:

	Year ended December 31,		
	2012	2011	2010
Balance, beginning of year	\$ 5,794,896	\$ 5,982,120	\$ 6,829,498
New Loans	464,400	650,095	-
Repayments	(164,288)	(837,319)	(847,378)
Balance, end of year	<u>\$ 6,095,008</u>	<u>\$ 5,794,896</u>	<u>\$ 5,982,120</u>

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

NOTE 18: COMMITMENTS AND CREDIT RISK

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, commercial real estate and residential real estate.

As of December 31, 2012 and 2011, the Bank had outstanding commitments to originate fixed-rate mortgage loans of approximately \$9,217,000 and \$10,955,000, respectively. The commitments extend over varying periods of time with the majority being disbursed within a thirty-day period.

Standby letters of credit are irrevocable conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Fees for letters of credit are initially recorded by the Bank as deferred revenue and are included in earnings at the termination of the respective agreements. Should the Bank be obligated to perform under the standby letters of credit, the Bank may seek recourse from the customer for reimbursement of amounts paid.

The Bank had total outstanding standby letters of credit amounting to \$13,930,000 and \$14,233,000 as of December 31, 2012 and 2011, respectively, with terms ranging from 1 year to 5 years.

The Bank has confirming letters of credit from the FHLB issued to enhance Bank issued letters of credit granted to various customers for industrial revenue bond issues. As of December 31, 2012 and 2011, these letters of credit aggregated approximately \$9,934,000 and \$10,656,000.

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's credit worthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on balance sheet instruments.

As of December 31, 2012 and 2011, unused lines of credit to borrowers aggregated approximately \$33,897,000 and \$36,931,000, respectively, for commercial lines and \$15,306,000 and \$17,625,000, respectively, for open-end consumer lines.

NOTE 19: CONDENSED PARENT COMPANY STATEMENTS

The condensed balance sheets as of December 31, 2012 and 2011, and statements of income and cash flows for the years ended December 31, 2012, 2011 and 2010 for the parent company, Guaranty Federal Bancshares, Inc., are as follows:

Balance Sheets

	December 31,	
	2012	2011
Assets		
Cash	\$ 681,509	\$ 781,432
Available-for-sale securities	70,914	62,262
Due from subsidiary	20,795	21,295
Investment in subsidiary	64,069,125	67,649,693
Investment in Capital Trust I & II	465,000	465,000
Prepaid expenses and other assets	35,579	183,508
Refundable income taxes	1,152,319	717,319
Deferred income taxes	2,592	5,793
	<u>\$ 66,497,833</u>	<u>\$ 69,886,302</u>
Liabilities		
Subordinated debentures	\$ 15,465,000	\$ 15,465,000
Accrued expenses and other liabilities	164,263	186,455
Stockholders' equity		
Series A preferred stock	11,789,276	16,425,912
Common stock	678,180	677,980
Common stock warrants	1,377,811	1,377,811
Additional paid-in capital	58,267,529	58,333,614
Unearned ESOP shares	-	(204,930)
Retained earnings	39,324,292	38,456,991
Unrealized appreciation on available-for-sale securities, net	800,826	791,285
Treasury stock	(61,369,344)	(61,623,816)
	<u>\$ 66,497,833</u>	<u>\$ 69,886,302</u>

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

Statements of Income

	Years ended December 31,		
	2012	2011	2010
Income			
Dividends from subsidiary bank	\$ 6,500,000	\$ 1,000,000	\$ -
Interest income:			
Related party	8,471	14,753	25,933
Other	19,510	18,369	30,783
	<u>6,527,981</u>	<u>1,033,122</u>	<u>56,716</u>
Expense			
Interest expense:			
Related party	556,159	610,929	1,023,783
Other	878,305	462,971	463,502
	<u>1,434,464</u>	<u>1,073,900</u>	<u>1,487,285</u>
Income (loss) before income taxes and equity in undistributed income (loss) of subsidiaries	5,093,517	(40,778)	(1,430,569)
Credit for income taxes	<u>(435,000)</u>	<u>(349,000)</u>	<u>(480,000)</u>
Income (loss) before equity in undistributed earnings of subsidiaries	5,528,517	308,222	(950,569)
Equity in undistributed income (distribution in excess of income) of subsidiaries	<u>(3,584,658)</u>	<u>3,527,417</u>	<u>2,081,340</u>
Net income	<u>\$ 1,943,859</u>	<u>\$ 3,835,639</u>	<u>\$ 1,130,771</u>

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

Statements of Cash Flows

	Years ended December 31,		
	2012	2011	2010
Cash Flows From Operating Activities			
Net income	\$ 1,943,859	\$ 3,835,639	\$ 1,130,771
Items not requiring (providing) cash:			
(Equity in undistributed income) distributions in excess of income of subsidiaries	3,584,658	(3,527,417)	(2,081,340)
Deferred income taxes	-	38,834	-
Release of ESOP shares	153,848	126,737	100,014
Stock award plan expense	253,017	186,654	109,386
Changes in:			
Prepaid expenses and other assets	147,929	104,176	103,787
Income taxes payable/refundable	(435,000)	(217,833)	(104,143)
Accrued expenses	9,058	(59,682)	(18,376)
Net cash provided by (used in) operating activities	<u>5,657,369</u>	<u>487,108</u>	<u>(759,901)</u>
Cash Flows From Financing Activities			
Stock options exercised	12,388	-	-
Cash dividends paid on common and preferred stock	(744,444)	(850,000)	(850,000)
Treasury stock purchased	(25,736)	(53,230)	(6,540)
Repayment of advances from subsidiary	500	-	900
Redemption of preferred stock	(5,000,000)	-	-
Net cash used in financing activities	<u>(5,757,292)</u>	<u>(903,230)</u>	<u>(855,640)</u>
Decrease in cash	(99,923)	(416,122)	(1,615,541)
Cash, beginning of year	<u>781,432</u>	<u>1,197,553</u>	<u>2,813,094</u>
Cash, end of year	<u>\$ 681,509</u>	<u>\$ 781,431</u>	<u>\$ 1,197,553</u>

Guaranty Federal Bancshares, Inc.
Notes to Consolidated Financial Statements

Statements of Comprehensive Income

	Years ended December 31,		
	2012	2011	2010
NET INCOME	\$ 1,943,859	\$ 3,835,639	\$ 1,130,771
OTHER ITEMS OF COMPREHENSIVE INCOME (LOSS):			
Change in unrealized gain on investment securities available- for-sale, before income taxes	8,652	(15,658)	12,872
Income tax expense (credit) related to other items of comprehensive income	3,200	(5,794)	4,763
Other comprehensive income (loss)	5,452	(9,864)	8,109
Comprehensive income (loss) of Bank	4,089	(1,041,855)	138,393
TOTAL COMPREHENSIVE INCOME	<u>\$ 1,953,400</u>	<u>\$ 2,783,920</u>	<u>\$ 1,277,273</u>

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders
Guaranty Federal Bancshares, Inc.
Springfield, Missouri

We have audited the accompanying consolidated balance sheets of Guaranty Federal Bancshares, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2012. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Guaranty Federal Bancshares, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

BKD, LLP

Springfield, Missouri
March 28, 2013

**Guaranty Federal Bancshares, Inc.
2012 Annual Report**

**Board of Directors
Guaranty Federal Bancshares, Inc.
and Guaranty Bank**

Don M. Gibson
Chairman of the Board
Guaranty Federal Bancshares and
Guaranty Bank

Jack L. Barham
Vice Chairman of the Board
Guaranty Federal Bancshares

Shaun A. Burke
President and CEO
Guaranty Federal Bancshares and
Guaranty Bank

James R. Batten, CPA
Executive Vice President
Convoy of Hope

Kurt D. Hellweg
Chairman and CEO
International Dehydrated Foods, Inc. and
American Dehydrated Foods,

Gregory V. Ostergren
Chairman, President and CEO
American National Property and Casualty
Insurance Companies

Tim Rosenbury, AIA
Executive Vice President and Chairman
Butler, Rosenbury and Partners, Inc.

James L. Sivils, III, JD
CEO, Environmental Works, Inc.
Partner, Morelock Ross Companies

John F. Griesemer
Executive Vice President and COO
Springfield Underground, Inc.

**Executive Officers
Guaranty Federal Bancshares, Inc.
and Guaranty Bank**

Shaun A. Burke
President,
Chief Executive Officer

Carter M. Peters
Executive Vice President,
Financial Officer

H. Michael Mattson
Executive Vice President,
Chief Lending Officer

Sheri Biser
Executive Vice President,
Chief Credit Officer

Robin Robeson
Executive Vice President,
Chief Operating Officer

Vicki Lindsay
Corporate Secretary

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1341 West Battlefield • 2109 North Glenstone • 4343 South National
1905 West Kearney • 1510 East Sunshine • 2155 West Republic

Nixa:

709 West Mount Vernon • 291 East Hwy CC


Ozark:

1701 West State Hwy J

Loan Production Offices:

1015 West Highway 248, Suite J, Branson
1100 Spur Drive, Suite 15, Marshfield

417.520.4333

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