



# 2014



# ANNUAL REPORT



## *President's Message*

Dear Fellow Shareholders:

2014 was a very good year for us despite continued headwinds as the economy showed little improvement until late in the year and interest rates remained at historic lows. We reported net income of \$5.43 million, up 22 percent from the \$4.44 million earned in 2013. Our return on average assets improved from .82 percent in 2013 to .93 percent in 2014. We grew loans by \$22.8 million, improved our efficiency ratio to 65.6%, and strengthened our capital position.

In March 2014, in an underwritten offering of our common stock we raised approximately \$17.2 million in gross proceeds by selling 1,499,999 shares of treasury stock. The new equity allowed us to redeem all our remaining preferred stock and was a key factor in our tangible common equity ratio improving to 9.78 percent at year end, up significantly from 6.19 percent in 2013. Despite stronger earnings, these new shares resulted in return on equity falling to 9.67 percent in 2014 versus 10.34 percent in the prior year. Net income per diluted common share also fell slightly, from \$1.58 in 2013 to \$1.33. The enhanced capital position will allow us to remain focused on strategic organic growth initiatives and potential acquisitions in our region.

In 2014, we grew tangible book value, an important estimate of shareholder value, to \$14.30. At \$13.17, Guaranty Federal's stock finished the year 19 percent higher than the close of 2013. In the past two years GFED is up over 91% and hit a new 52-week high of \$15.50 on January 27, 2015.

To continue to build shareholder value and fund our growth we must remain focused on our key strategy of growing low-cost, core deposits. Reducing price sensitive deposits was a primary driver in the improvement in our net interest margin from 3.44 percent in 2013 to 3.51 percent in 2014. For us to continue to attract high quality deposits and grow our customer base, we must remain competitive from a product and service standpoint. Several enhancements have begun and are focused on redefining the retail banking experience and building a stronger mortgage business. These include the new senior position of Director of Consumer Sales and Customer Experience; upgrades to our website, online and mobile channels, including the addition of Mobile Check Deposit; offering consumer lending in all banking centers with a new consumer lending platform; and, regaining direct FHA lending authority and adding an additional direct endorser underwriter to our mortgage team. These efforts are aimed at creating new and enhanced touch points with customers to ensure a long relationship with the bank.

In an industry built around products that are largely the same from one provider to the next, we aim to differentiate ourselves from the competition by continuing to improve the way we engage with our customers. Customers have nearly unlimited options when it comes to choosing a bank, so it is more important than ever that we deliver an unparalleled experience with exceptional service every time, across every channel when a customer chooses Guaranty Bank.

Overall, we had a successful year in 2014. In spite of challenges that include aggressive competition, a slow economy and increasing regulatory burden, we are excited about the opportunities in front of us and how we are positioned as we enter 2015. We have a terrific team of employees committed to delivering a superior banking experience for every customer and focused on creating long-term value for our shareholders.

On behalf of our associates I would like to thank our excellent board of directors for their engagement, dedication and leadership. In May 2015, we welcomed David Moore to our board of directors. David is President, Chief

Executive Officer, and member of the board of directors of Paul Mueller Company, a publicly held manufacturer of milk cooling and processing equipment. He brings significant experience in public company management, corporate governance, business acquisition, and information and technology development. David is a member of our Audit and Compensation committees.

Finally, I would like to thank you, our shareholders, for your confidence and continued support as we work to deliver superior value for all our stakeholders.

Sincerely,

A handwritten signature in black ink, appearing to read "Shaun A. Burke". The signature is written in a cursive style with a large initial "S" and "B".

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

**INVESTOR INFORMATION**

**ANNUAL MEETING OF STOCKHOLDERS:**

The Annual Meeting of Stockholders of the Company will be held Wednesday, May 27, 2015 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:**

Computershare Investor Services  
P.O. Box 43078  
Providence, RI 02940-3078

**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 18, 2015, there were approximately 1,413 holders of shares of the Company’s common stock. At that date the Company had 6,844,503 shares of common stock issued and 4,375,969 shares of common stock outstanding.

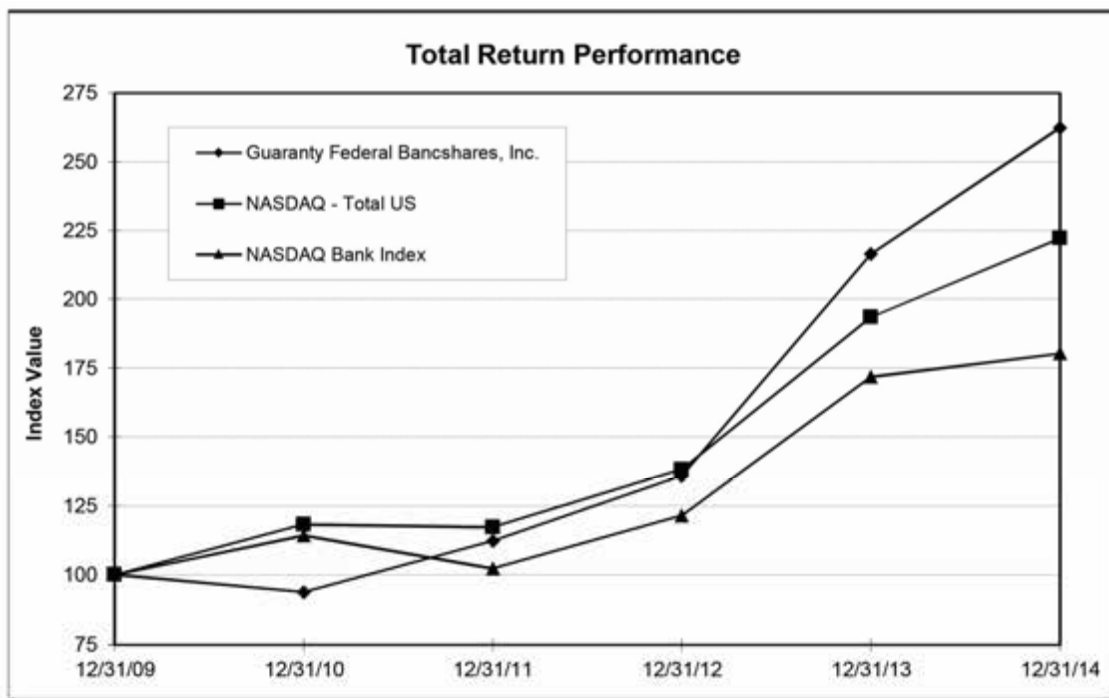
During the year ended December 31, 2014, the Company paid dividends of (i) \$0.05 per share on July 18, 2014 to stockholders of record as of July 7, 2014, and (ii) \$0.05 per share on October 17, 2014, to stockholders of record as of October 6, 2014, and also declared a cash dividend of \$0.05 per share on December 18, 2014, which was paid on January 16, 2015, to stockholders of record on January 5, 2015. During the year ended December 31, 2013, 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 sale prices per the NASDAQ Global Market by quarter for the years ended December 31, 2014 and 2013.

Quarter ended:	Year ended		Year ended	
	December 31, 2014		December 31, 2013	
	High	Low	High	Low
March 31 .....	\$ 13.12	\$ 10.70	\$ 10.61	\$ 6.97
June 30 .....	12.99	12.17	10.25	9.30
September 30.....	12.76	12.20	14.50	10.21
December 31 .....	13.40	12.14	12.12	10.42

**Guaranty Federal Bancshares, Inc.  
2014 Annual Report**

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, 2009 and the hypothetical value of that investment as of the Company’s fiscal years ended December 31, 2010, 2011, 2012, 2013, and 2014, 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>					
	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
Guaranty Federal Bancshares, Inc.	100.00	93.70	112.20	135.63	216.52	262.34
NASDAQ - Total US .....	100.00	118.15	117.22	138.02	193.47	222.16
NASDAQ Bank Index.....	100.00	114.16	102.17	121.26	171.86	180.31

As a result of a change in the total return data made available to us through our vendor provider, our performance graphs going forward will be using an index provided by NASDAQ OMX Global Indexes which is comparable to the NASDAQ Bank Stock Index. Please note, information for the NASDAQ Bank Stock Index is provided only from December 31, 2009 through December 31, 2014, the last day this data was available by our third-party provider.

**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**

	<b>As of December 31,</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>					
Cash and cash equivalents .....	\$ 12,494	\$ 12,303	\$ 41,663	\$ 26,574	\$ 14,145
Investments and interest-bearing deposits .....	86,529	97,772	102,162	86,871	109,891
Loans receivable, net .....	487,801	465,003	468,376	482,664	504,665
Accrued interest receivable .....	2,030	1,853	2,055	2,139	2,670
Prepays and other assets .....	11,421	14,204	16,703	18,051	18,982
Foreclosed assets .....	3,165	3,822	4,530	10,012	10,540
Premises and equipment, net .....	10,603	10,887	11,286	11,424	11,325
Bank owned life insurance .....	14,417	14,044	13,657	10,771	10,450
	<u>\$ 628,460</u>	<u>\$ 619,888</u>	<u>\$ 660,432</u>	<u>\$ 648,506</u>	<u>\$ 682,668</u>
<b>LIABILITIES</b>					
Deposits .....	\$ 479,818	\$ 487,319	\$ 500,015	\$ 484,584	\$ 480,694
Federal Home Loan Bank and Federal Reserve					
Bank advances .....	60,350	55,350	68,050	68,050	93,050
Securities sold under agreements to repurchase .....	10,000	10,000	25,000	25,000	39,750
Subordinated debentures .....	15,465	15,465	15,465	15,465	15,465
Other liabilities .....	1,350	1,399	1,034	1,172	1,668
	<u>566,983</u>	<u>569,533</u>	<u>609,564</u>	<u>594,271</u>	<u>630,627</u>
STOCKHOLDERS' EQUITY .....	61,477	50,355	50,868	54,235	52,041
	<u>\$ 628,460</u>	<u>\$ 619,888</u>	<u>\$ 660,432</u>	<u>\$ 648,506</u>	<u>\$ 682,668</u>

**Supplemental Data**

	<b>As of December 31,</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Number of full-service offices .....	9	9	9	9	9
Cash dividends per common share .....	\$ 0.15	\$ -	\$ -	\$ -	\$ -

**Summary Statements of Income**

	<b>Years ended December 31,</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Interest income .....	\$ 25,014	\$ 25,855	\$ 27,606	\$ 30,376	\$ 32,331
Interest expense .....	4,329	5,097	6,858	9,611	14,806
Net interest income .....	20,685	20,758	20,748	20,765	17,525
Provision for loan losses .....	1,275	1,550	5,950	3,350	5,200
Net interest income after provision for loan losses ..	19,410	19,208	14,798	17,415	12,325
Noninterest income .....	3,418	5,319	3,256	4,485	4,279
Noninterest expense .....	15,819	17,657	16,241	17,361	15,530
Income before income taxes .....	7,009	6,870	1,813	4,539	1,074
Provision (credit) for income taxes .....	1,227	1,630	(131)	703	(57)
Net income .....	\$ 5,782	\$ 5,240	\$ 1,944	\$ 3,836	\$ 1,131
Preferred stock dividends and discount accretion ...	357	795	1,077	1,126	1,126
Net income available to common shareholders .....	<u>\$ 5,425</u>	<u>\$ 4,445</u>	<u>\$ 867</u>	<u>\$ 2,710</u>	<u>\$ 5</u>
Basic income per common share .....	\$ 1.35	\$ 1.63	\$ 0.32	\$ 1.01	\$ -
Diluted income per common share .....	\$ 1.33	\$ 1.58	\$ 0.30	\$ 1.01	\$ -

**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 active 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 and a third inactive subsidiary. 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 third subsidiary is a service corporation which has been inactive since February 1, 2003.

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 Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

**FINANCIAL CONDITION**

From December 31, 2013 to December 31, 2014, the Company's total assets increased \$8,571,509 (1%) to \$628,459,644, liabilities decreased \$2,550,105 (less than 1%) to \$566,982,797, and stockholders' equity increased \$11,121,614 (22%) to \$61,476,847. The ratio of stockholders' equity to total assets increased to 9.8% during this period, compared to 8.1% as of December 31, 2013.

From December 31, 2013 to December 31, 2014, available-for-sale securities decreased \$11,224,700 (11%), primarily due to purchases of \$40,823,180 offset by sales, maturities and principal payments received of \$54,608,993. The Company's unrealized loss decreased from \$3,978,171 at December 31, 2013 to \$711,779 at December 31, 2014.

Stock of the Federal Home Loan Bank of Des Moines ("FHLB") increased by \$271,800 (9%) to \$3,156,900 due to the purchase of stock necessary to meet the FHLB borrowing requirements.



## **Guaranty Federal Bancshares, Inc.**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

From December 31, 2013 to December 31, 2014, net loans receivable increased by \$22,206,782 (5%) to \$486,586,696. Permanent loans secured by commercial real estate increased \$36,525,621 (20%) primarily secured by owner occupied retail and low-income housing projects. Construction loans decreased \$6,481,546 (15%) due to a few larger credits being completed and transferred to the commercial real estate category. Permanent multi-family loans decreased \$12,402,475 (27%) due primarily to the expected payoff of one large credit. Also, commercial loans decreased \$607,567 (1%) which was due to various expected payoffs and principal reductions. Loans secured by both owner and non-owner occupied one to four unit residential real estate increased \$4,103,164 (4%) and installment loans decreased \$56,955 (less than 1%).

As of December 31, 2014, management identified loans totaling \$5,381,000 as impaired with a related allowance for loan losses of \$784,000. Impaired loans decreased by \$10,790,000 during 2014, compared to the balance of \$16,171,000 at December 31, 2013.

From December 31, 2013 to December 31, 2014, the allowance for loan losses decreased \$1,213,003 to \$6,588,597. In addition to the provision for loan loss of \$1,275,000 recorded by the Company during the year ended December 31, 2014, loan charge-offs of specific loans (classified as nonperforming at December 31, 2013) exceeded recoveries by \$2,488,003 for the year ended December 31, 2014. The Company's increase in overall loan balances during 2014 has increased the general component of the allowance for loan loss reserve requirements. However, the overall reserve decreased as a result of charge-offs of specific reserves established on nonperforming loans. The allowance for loan losses, as a percentage of gross loans outstanding (excluding mortgage loans held for sale), as of December 31, 2014 and December 31, 2013 was 1.34% and 1.65%, respectively. The allowance for loan losses, as a percentage of nonperforming loans outstanding, as of December 31, 2014 and December 31, 2013 was 124.5% and 49.2%, respectively. 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.

As of December 31, 2014, foreclosed assets held for sale consisted primarily of one commercial development in northwest Arkansas of \$1.6 million and one commercial property located in Springfield, Missouri of \$759,000.

From December 31, 2013 to December 31, 2014, deposits decreased \$7,500,657 (2%) to \$479,818,282. During this period, checking and savings transaction balances decreased by \$4,908,937 and certificates of deposit declined \$2,591,720. The decline in transactional balances is primarily due to the temporary reduction in the balance of one commercial depositor offset by significant growth in retail checking and public fund deposits. The Company has continued its strong efforts to grow core transaction deposits, both retail and commercial.

Federal Home Loan Bank and Federal Reserve Bank advances increased \$5,000,000 (9%) from \$55,350,000 as of December 31, 2013 to \$60,350,000 as of December 31, 2014. During 2014, the Company utilized Federal Home Loan Bank advances to fund a portion of its loan growth due to the cost effectiveness of those borrowings. Going forward, the Company will continue to utilize advances to fund a portion of its organic loan growth.

From December 31, 2013 to December 31, 2014, stockholders' equity (including unrealized depreciation on available-for-sale securities, net of tax) increased \$11,121,614 (22%) to \$61,476,847. This increase was due to several factors. First, in an underwritten offering of its common stock, the Company raised approximately \$17,200,000 in gross proceeds by selling 1,499,999 shares of its treasury stock. The Company utilized approximately \$12.0 million of the net proceeds to redeem the remaining 12,000 shares of its Series A Preferred Stock on May 7, 2014. Second, equity increased due to the Company's net income after preferred stock dividends and accretion of \$5,425,486 and the elimination of such dividend obligations after May 7. Finally, as a result of changes in market interest rates, the Company experienced an improvement in the value of its investment portfolio. The equity portion of the Company's unrealized losses on available-for-sale securities improved by \$2,057,827 during 2014. On a per common share basis, stockholders' equity increased from \$14.04 as of December 31, 2013 to \$14.30 as of December 31, 2014.

**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, 2014 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, 2014		Year Ended December 31, 2014			Year Ended December 31, 2013			Year Ended December 31, 2012		
	Balance	Yield / Cost	Average Balance	Interest	Yield / Cost	Average Balance	Interest	Yield / Cost	Average Balance	Interest	Yield / Cost
<b>ASSETS</b>											
Interest-earning:											
Loans .....	\$ 494,390	5.09%	\$ 465,874	\$ 23,255	4.99%	\$ 465,796	\$ 23,885	5.13%	\$ 479,699	\$ 25,667	5.35%
Investment securities .....	86,529	1.64%	99,887	1,627	1.63%	107,706	1,795	1.67%	97,230	1,756	1.81%
Other assets .....	12,105	0.12%	23,487	132	0.56%	30,556	175	0.57%	30,832	183	0.59%
Total interest-earning .....	593,024	4.48%	589,248	25,014	4.25%	604,058	25,855	4.28%	607,761	27,606	4.54%
Noninterest-earning .....	35,436		36,036			37,730			43,985		
	<u>\$ 628,460</u>		<u>\$ 625,284</u>			<u>\$ 641,788</u>			<u>\$ 651,746</u>		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>											
Interest-bearing:											
Savings accounts .....	\$ 23,619	0.20%	\$ 24,366	\$ 49	0.20%	\$ 24,022	\$ 54	0.22%	\$ 22,317	\$ 81	0.36%
Transaction accounts .....	283,509	0.40%	289,175	1,242	0.43%	296,019	1,521	0.51%	274,703	2,012	0.73%
Certificates of deposit .....	120,982	0.91%	121,344	1,038	0.86%	135,871	1,284	0.95%	151,765	1,983	1.31%
FHLB and Federal Reserve advances .....	60,350	1.99%	53,865	1,202	2.23%	56,168	1,295	2.31%	68,055	1,544	2.27%
Subordinated debentures .....	15,465	3.43%	15,465	533	3.45%	15,465	537	3.47%	15,465	556	3.60%
Repurchase agreements .....	10,000	2.61%	10,000	265	2.65%	15,301	406	2.65%	25,000	682	2.73%
Total interest-bearing .....	513,925	0.83%	514,215	4,329	0.84%	542,846	5,097	0.94%	557,305	6,858	1.23%
Noninterest-bearing .....	53,058		51,277			48,280			41,356		
Total liabilities .....	566,983		565,492			591,126			598,661		
Stockholders' equity .....	61,477		59,792			50,662			53,085		
	<u>\$ 628,460</u>		<u>\$ 625,284</u>			<u>\$ 641,788</u>			<u>\$ 651,746</u>		
Net earning balance .....	<u>\$ 79,099</u>		<u>\$ 75,033</u>			<u>\$ 61,212</u>			<u>\$ 50,456</u>		
Earning yield less costing rate .....		<u>3.65%</u>			<u>3.40%</u>			<u>3.34%</u>			<u>3.31%</u>
Net interest income, and net yield spread on interest-earning assets				<u>\$ 20,685</u>	<u>3.51%</u>		<u>\$ 20,758</u>	<u>3.44%</u>		<u>\$ 20,748</u>	<u>3.41%</u>
Ratio of interest-earning assets to interest- bearing liabilities .....	<u>115%</u>		<u>115%</u>			<u>111%</u>			<u>109%</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, 2014 versus December 31, 2013				December 31, 2013 versus December 31, 2012			
	Average Balance	Interest Rate	Rate & Balance	Total	Average Balance	Interest Rate	Rate & Balance	Total
<b>Interest income:</b>								
Loans .....	\$ 4	\$ (634)	\$ -	\$ (630)	\$ (744)	\$ (1,069)	\$ 31	\$ (1,782)
Investment securities ....	(130)	(41)	3	(168)	189	(135)	(15)	39
Other assets .....	(41)	(3)	1	(43)	(1)	(6)	-	(7)
Net change in interest income .....	(167)	(678)	4	(841)	(556)	(1,210)	16	(1,750)
<b>Interest expense:</b>								
Savings accounts .....	1	(6)	-	(5)	6	(31)	(2)	(27)
Transaction accounts ....	(35)	(249)	6	(278)	156	(601)	(47)	(492)
Certificates of deposit ...	(137)	(122)	13	(246)	(208)	(549)	57	(700)
FHLB advances .....	(53)	(41)	2	(92)	(270)	27	(4)	(247)
Subordinated debentures .....	-	(4)	-	(4)	-	(19)	-	(19)
Repurchase agreements	(141)	(1)	-	(142)	(264)	(20)	8	(276)
Net change in interest expense .....	(365)	(423)	21	(767)	(580)	(1,193)	12	(1,761)
Change in net interest income .....	\$ 198	\$ (255)	\$ (17)	\$ (74)	\$ 24	\$ (17)	\$ 4	\$ 11

**RESULTS OF OPERATIONS - COMPARISON OF YEAR ENDED DECEMBER 31, 2014 AND DECEMBER 31, 2013**

	Average for the Year Shown		
	Prime	Ten-Year Treasury	One-Year Treasury
December 31, 2014 .....	3.25%	2.54%	0.12%
December 31, 2013 .....	3.25%	2.35%	0.13%
Change in rates.....	0.00%	0.19%	-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, 2014 and December 31, 2013 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 2014 as the Federal Reserve Open Market Committee ("FOMC") left the discount rate at 25 basis points. As of December 31, 2014, the prime rate was 3.25% and unchanged from December 31, 2013.

Interest Income. Total interest income decreased \$841,184 (3%). The average balance of interest-earning assets decreased \$14,810,000 (2%) while the yield on average interest earning assets decreased 3 basis points to 4.25%.

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Interest on loans decreased \$630,791 (3%) and the average loan receivable balance increased \$78,000 (less than 1%) while the average yield decreased 14 basis points to 4.99%. Strong competition is causing a reduction in rates for new credits and to maintain existing credit relationships.

Interest Expense. Total interest expense decreased \$768,189 (15%) as the average balance of interest-bearing liabilities decreased \$28,631,000 (5%) while the average cost of interest-bearing liabilities decreased 10 basis points to 0.84%.

Interest expense on deposits decreased \$530,508 (19%) during 2014 as the average balance of interest bearing deposits decreased \$21,027,000 (5%) and the average interest rate paid to depositors decreased 9 basis points to 0.54%. The primary reason for the 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.

Net Interest Income. The Company's net interest income decreased \$72,995 (less than 1%). During the year ended December 31, 2014, the average balance of interest-earning assets exceeded the average balance of interest-bearing liabilities by \$75,033,000, resulting in an increase in the average net earning balance of \$13,821,000 (23%). In addition, the Company's spread between the average yield on interest-earning assets and the average cost of interest-bearing liabilities increased by 6 basis points from 3.34% to 3.40%.

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 \$1,275,000 and \$1,550,000 for the years ended December 31, 2014 and 2013, respectively.

Generally, the overall decrease in the provision for loan losses for the year presented has resulted primarily from declining historic loss rates, which are used to calculate the reserve for the homogenous pool of loans. The Company has also experienced lower reserve requirements on newly classified nonperforming credits during the year. The Bank will continue to monitor its allowance for loan losses and make future additions based on economic and regulatory conditions. Management may need to increase the allowance for loan losses through charges to the provision for loan losses if anticipated growth in the Bank's loan portfolio increases or other circumstances warrant. See further discussions of the allowance for loan losses under "Financial Condition".

Non-Interest Income. Non-interest income decreased \$1,901,007 (36%) which was primarily due to the Company recognizing \$1.4 million in gains on the sale of certain tax credit assets in conjunction with a structured transaction to prepay a \$15 million repurchase agreement during the year ended December 31, 2013.

Gains on sales of loans declined \$462,715 (32%). This was primarily due to long-term interest rates increasing significantly during 2013 and into the first quarter of 2014 which dramatically reduced consumer demand for long-term secondary market mortgage loans throughout 2014.

Non-Interest Expense. Non-interest expense decreased \$1,838,458 (10%). This decrease was primarily due to a \$1.5 million prepayment penalty incurred on the prepayment of a repurchase agreement (further discussed above).

Salaries and employee benefits decreased \$163,436 (2%) due to a decline in the overall number of staff compared to the prior year periods and a decline in mortgage commissions from reduced mortgage volume.

FDIC deposit insurance premiums decreased \$113,488 (20%). This decrease in FDIC deposit insurance premiums was primarily due to the overall decline in the total assessment base.

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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, 2014 compared to the year ended December 31, 2013. Furthermore, the actual effective tax rate (based on income before income taxes) also declined from the increased utilization of state low income housing tax credits.

Cash Dividends Paid. The Company paid dividends of \$0.05 per share on July 18, 2014 to stockholders of record as of July 7, 2014, and \$0.05 per share on October 17, 2014, to stockholders of record as of October 6, 2014, and also declared a cash dividend of \$0.05 per share on December 18, 2014, which was paid on January 16, 2015, to stockholders of record on January 5, 2015. During 2014 and 2013, the Company also paid \$413,000 and \$600,000, respectively, in dividends on its preferred stock.

### RESULTS OF OPERATIONS - COMPARISON OF YEAR ENDED DECEMBER 31, 2013 AND DECEMBER 31, 2012

	Average for the Year Shown		
	Prime	Ten-Year Treasury	One-Year Treasury
December 31, 2013 .....	3.25%	2.35%	0.13%
December 31, 2012 .....	3.25%	1.80%	0.17%
Change in rates .....	0.00%	0.55%	-0.04%

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, 2013 and December 31, 2012 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 2013 as the Federal Reserve Open Market Committee ("FOMC") left the discount rate at 25 basis points. As of December 31, 2013, the prime rate was 3.25% and unchanged from December 31, 2012.

Interest Income. Total interest income decreased \$1,750,302 (6%). The average balance of interest-earning assets decreased \$3,703,000 (1%) while the yield on average interest earning assets decreased 26 basis points to 4.28%.

Interest on loans decreased \$1,780,954 (7%) and the average loan receivable balance decreased \$13,903,000 (3%) while the average yield decreased 22 basis points to 5.13%. The Company's decrease in the average yield on interest earning assets was primarily due to the decline in loan balances. Also, strong competition is causing a reduction in rates for new credits as well as maintaining existing credit relationships.

Interest Expense. Total interest expense decreased \$1,760,521 (26%) as the average balance of interest-bearing liabilities decreased \$14,467,000 (3%) while the average cost of interest-bearing liabilities decreased 29 basis points to 0.94%.

Interest expense on deposits decreased \$1,216,596 (30%) during 2013 as the average balance of interest bearing deposits increased \$7,127,000 (2%) and the average interest rate paid to depositors decreased 28 basis points to 0.63%. 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 2013. As a result, interest expense on these borrowings decreased \$524,944 (24%).

Net Interest Income. The Company's net interest income increased \$10,219 (less than 1%). During the year ended December 31, 2013, the average balance of interest-earning assets exceeded the average balance of interest-bearing liabilities by \$61,220,000, resulting in a increase in the average net earning balance of \$10,764,000 (21%). In addition, the Company's spread between the average yield on interest-earning assets and the average cost of interest-bearing liabilities increased by 3 basis points from 3.31% to 3.34%.

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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 \$1,550,000 and \$5,950,000 for the years ended December 31, 2013 and 2012, respectively. The provision for the 2012 periods relates to additional reserves determined necessary on a large loan relationship in which a fraud scheme was uncovered. This fraud scheme related to the borrower's investment portfolio that was a significant portion of the collateral securing the credits as well as providing liquidity to operate other business ventures of the borrower in which the Company had a security interest.

Generally, the overall decrease in the provision for loan losses for the year presented has resulted primarily from declining historic loss rates, which are used to calculate the reserve for the homogenous pool of loans, and an overall decrease in the loan portfolio. The Company has also experienced lower reserve requirements on newly classified nonperforming credits during 2013. 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 may need to increase the allowance for loan losses through charges to the provision for loan losses if anticipated growth in the Bank's loan portfolio increases or other circumstances warrant. See further discussions of the allowance for loan losses under "Financial Condition".

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 \$2,063,800 (63%) primarily due to reductions in losses recognized on foreclosed assets held for sale of \$1.1 million and an increase in gains on tax credit assets of \$1.2 million. The Company receives federal and state tax credits in connection with purchases of investments in low-income housing limited partnerships and utilizes them to reduce annual income taxes due. The Company's investment strategy is to utilize these credits to reduce annual income taxes due and only consider a sale of the tax credits in special circumstances. Tax credits sold during 2013 were executed in connection with a prepayment of a repurchase agreement further discussed below. Also, gains on sales of fixed-rate mortgage loans were \$1,444,318 for 2013, compared to \$1,884,923 for 2012 was due to a decrease in volume associated with the increased mortgage rates on these loans.

Non-Interest Expense. Non-interest expense increased \$1,416,271 (9%). This increase was primarily due to a \$1.5 million prepayment penalty incurred on the prepayment of a repurchase agreement in May 2013.

Salaries and employee benefits decreased \$189,123 (2%). The overall staff decreased from 173 full-time equivalent employees as of December 31, 2012 to 164 full-time equivalent employees as of December 31, 2013.

FDIC deposit insurance premiums decreased \$126,600 (18%). 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.

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, 2013 compared to the year ended December 31, 2012.

Cash Dividends Paid. The Company did not pay dividends on its common shares during 2013 and 2012. During 2013 and 2012, the Company paid \$600,000 and \$744,444, respectively, 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, 2014 and 2013, the Bank's savings accounts, checking accounts, and money market deposit accounts totaled \$358,836,495 or 75% of its total deposits and \$363,745,433 or 75% of total deposits, respectively. The weighted average rate paid on these accounts decreased 4 basis points from 0.36% on December 31, 2013 to 0.32% on December 31, 2014 primarily due to the Bank's efforts to reprice its retail and business accounts during 2014.

**INTEREST RATE SENSITIVITY ANALYSIS**

The following tables set forth as of December 31, 2014 and 2013, 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.

**12/31/2014**

BP Change in Rates	Estimated Net Portfolio Value			NPV as % of PV of Assets	
	\$ Amount	\$ Change	% Change	NPV Ratio	Change
+200 .....	\$ 64,209	\$ (325)	-1%	10.39%	0.20%
+100 .....	64,590	56	0%	10.33%	0.13%
NC .....	64,534	-	0%	10.19%	0.00%
-100 .....	62,667	(1,867)	-3%	9.80%	-0.39%
-200 .....	67,890	3,356	5%	10.53%	0.34%

**12/31/2013**

BP Change in Rates	Estimated Net Portfolio Value			NPV as % of PV of Assets	
	\$ Amount	\$ Change	% Change	NPV Ratio	Change
+200 .....	\$ 59,083	\$ (4,135)	-7%	9.89%	-0.28%
+100 .....	60,766	(2,452)	-4%	9.99%	-0.19%
NC .....	63,218	-	0%	10.18%	0.00%
-100 .....	65,226	2,008	3%	10.26%	0.09%
-200 .....	69,496	6,277	10%	10.69%	0.52%

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 \$12,493,890 as of December 31, 2014 and \$12,303,200 as of December 31, 2013, representing an increase of \$190,690. 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 \$68,235,265 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 35% of assets, the Bank has the ability to borrow an additional \$95,764,000 from the FHLB, as of December 31, 2014. Based on existing collateral, the Bank has the ability to borrow \$28,990,000 from the Federal Reserve Bank as of December 31, 2014. 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 \$76,927,000 is 12.3% of average assets as of December 31, 2014. The Company has an excess of \$51,907,000, \$55,999,000, and \$41,607,000 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.

On March 7, 2014, the Company closed an underwritten offering of its common stock. The Company raised approximately \$17.2 million in gross proceeds by issuing 1,499,999 shares of its common stock, which includes the full exercise of the over-allotment option granted to the underwriters of 195,652 shares, at a price to the public of \$11.50 per share. Net proceeds from the sale of the shares after underwriting discounts and offering expenses were approximately \$15.8 million. The Company used the net proceeds from the offering (i) to redeem the remaining 12,000 shares of the Company's Series A Preferred Stock and (ii) for working capital and for general corporate purposes, including potential future acquisitions.



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**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, 2014 and 2013, the Bank had outstanding commitments to originate loans of approximately \$2,483,000 and \$3,545,000, 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, 2014 and 2013, unused lines of credit to borrowers aggregated approximately \$47,599,000 and \$42,518,000 for commercial lines and \$13,859,000 and \$14,517,000 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 \$15,965,000 and \$12,649,000 as of December 31, 2014 and 2013, 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.

**AGGREGATE CONTRACTUAL OBLIGATIONS**

The following table summarizes the Company's fixed and determinable contractual obligations by payment date as of December 31, 2014. 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 .....	\$ 358,836	\$ 358,836	\$ -	\$ -	\$ -
Time and brokered certificates of deposit .....	120,982	68,235	39,698	9,932	3,117
Other borrowings .....	10,000	-	-	10,000	-
FHLB and Federal Reserve advances .....	60,350	8,250	-	52,100	-
Subordinated debentures .....	15,465	-	-	-	15,465
Operating leases .....	289	129	117	43	-
Purchase obligations.....	-	-	-	-	-
Other long term obligations.....	330	330	-	-	-
Total.....	<u>\$ 566,252</u>	<u>\$ 435,780</u>	<u>\$ 39,815</u>	<u>\$ 72,075</u>	<u>\$ 18,582</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.

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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.

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 January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-01 to amend FASB ASC Topic 323, *Investments – Equity Method and Joint Ventures*. The objective of this update is to provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments in the update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The update was effective for the Company beginning January 1, 2015. The Company does have significant investments in such qualified affordable housing projects and is currently reviewing the provisions of this update to determine what, if any, impacts it may have on the Company's financial position or results of operations. The Company expects that there will be no material impact on the Company's financial position or results of operations, except that the investment expense which is currently included in Other Non-interest Expense in the Consolidated Statements of Income would be removed from Other Non-interest Expense and included in Provision for Income Taxes in the Consolidated Statements of Income. This would have the effect of reducing Non-interest Expense and increasing Provision for Income Taxes, but is not expected to have any impact on Net Income.

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In January 2014, the FASB issued ASU No. 2014-04 to amend FASB ASC Topic 310, *Receivables – Troubled Debt Restructurings by Creditors*. The objective of the amendments in this update is to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments in this update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The update was effective for the Company beginning January 1, 2015, and the Company does not anticipate that the update will have a material impact on the Company's financial position or results of operations.

In June 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU provides a framework that replaces the existing revenue recognition guidance and is effective for annual periods and interim periods within that reporting period beginning after December 15, 2016, for public entities. Early adoption is not permitted. The Company does not expect the adoption of ASU 2014-09 to have a material impact on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860) Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. This ASU changes the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Additionally, for repurchase financing arrangements, the amendments of this ASU require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The requirements were effective for public entities for the first interim or annual period beginning after December 15, 2014. The disclosure of certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as securities borrowings is required to be presented for annual periods beginning after December 15, 2014. The Company's adoption of ASU No. 2014-01 is not expected to have a significant impact on its consolidated financial statements.

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**SUMMARY OF UNAUDITED QUARTERLY OPERATING RESULTS**

	Year Ended December 31, 2014, Quarter ended			
	Mar-14	Jun-14	Sep-14	Dec-14
Interest income .....	\$ 6,360,064	\$ 6,037,583	\$ 6,147,059	\$ 6,469,608
Interest expense .....	1,100,897	1,060,346	1,086,163	1,081,899
Net interest income .....	5,259,167	4,977,237	5,060,896	5,387,709
Provision for loan losses .....	200,000	325,000	450,000	300,000
Gain on loans and investment securities .....	188,666	258,270	248,413	320,417
Other noninterest income, net .....	629,027	604,225	618,972	550,474
Noninterest expense .....	4,344,604	3,882,983	3,851,068	3,740,093
Income before income taxes .....	1,532,256	1,631,749	1,627,213	2,218,507
Provision for income taxes .....	230,830	293,066	266,730	436,403
Net income .....	1,301,426	1,338,683	1,360,483	1,782,104
Preferred stock dividends and discount accretion .....	246,210	111,000	-	-
Net income available to common shareholders .....	\$ 1,055,216	\$ 1,227,683	\$ 1,360,483	\$ 1,782,104
Basic income per common share .....	\$ 0.33	\$ 0.29	\$ 0.32	\$ 0.41
Diluted income per common share .....	\$ 0.33	\$ 0.28	\$ 0.31	\$ 0.41

	Year Ended December 31, 2013, Quarter ended			
	Mar-13	Jun-13	Sep-13	Dec-13
Interest income .....	\$ 6,419,421	\$ 6,467,020	\$ 6,349,895	\$ 6,619,162
Interest expense .....	1,428,154	1,281,353	1,229,708	1,158,279
Net interest income .....	4,991,267	5,185,667	5,120,187	5,460,883
Provision for loan losses .....	400,000	250,000	200,000	700,000
Gain on loans and investment securities .....	520,734	708,268	276,359	158,802
Other noninterest income, net .....	499,034	1,976,276	599,739	580,259
Noninterest expense .....	4,425,600	5,532,337	4,010,452	3,688,817
Income before income taxes .....	1,185,435	2,087,874	1,785,833	1,811,127
Provision for income taxes .....	232,782	520,134	439,847	437,799
Net income .....	952,653	1,567,740	1,345,986	1,373,328
Preferred stock dividends and discount accretion .....	198,630	198,630	198,630	198,630
Net income available to common shareholders .....	\$ 754,023	\$ 1,369,110	\$ 1,147,356	\$ 1,174,698
Basic income per common share .....	\$ 0.28	\$ 0.50	\$ 0.42	\$ 0.43
Diluted income per common share .....	\$ 0.25	\$ 0.49	\$ 0.41	\$ 0.42

**Guaranty Federal Bancshares, Inc.**  
**Consolidated Balance Sheets**  
**December 31, 2014 and 2013**

	December 31, 2014	December 31, 2013
<b>ASSETS</b>		
Cash and due from banks .....	\$ 3,604,316	\$ 3,453,032
Interest-bearing deposits in other financial institutions .....	8,889,574	8,850,168
Cash and cash equivalents .....	12,493,890	12,303,200
Available-for-sale securities .....	86,467,985	97,692,685
Held-to-maturity securities .....	60,993	79,162
Stock in Federal Home Loan Bank, at cost .....	3,156,900	2,885,100
Mortgage loans held for sale .....	1,214,632	623,432
Loans receivable, net of allowance for loan losses at December 31, 2014 and 2013 - \$6,588,597 and \$7,801,600, respectively .....	486,586,636	464,379,854
Accrued interest receivable:		
Loans .....	1,704,374	1,462,881
Investments and interest-bearing deposits .....	325,684	389,760
Prepaid expenses and other assets .....	4,530,191	5,536,879
Foreclosed assets held for sale .....	3,165,447	3,821,976
Premises and equipment, net .....	10,602,763	10,886,720
Bank owned life insurance .....	14,417,220	14,043,697
Income taxes receivable .....	320,416	504,138
Deferred income taxes .....	3,412,513	5,278,651
	\$ 628,459,644	\$ 619,888,135
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits .....	\$ 479,818,282	\$ 487,318,939
Federal Home Loan Bank and Federal Reserve Bank advances .....	60,350,000	55,350,000
Securities sold under agreements to repurchase .....	10,000,000	10,000,000
Subordinated debentures .....	15,465,000	15,465,000
Advances from borrowers for taxes and insurance .....	143,984	149,668
Accrued expenses and other liabilities .....	963,386	998,934
Accrued interest payable .....	242,145	250,361
	566,982,797	569,532,902
<b>COMMITMENTS AND CONTINGENCIES</b>		
	-	-
<b>STOCKHOLDERS' EQUITY</b>		
Capital Stock:		
Series A preferred stock, \$0.01 par value; authorized 2,000,000 shares; issued and outstanding December 31, 2013 - 12,000 shares .....	-	11,983,790
Common stock, \$0.10 par value; authorized 10,000,000 shares; issued December 31, 2014 and 2013 - 6,823,203 and 6,783,603 shares, respectively .....	682,320	678,360
Additional paid-in capital .....	50,366,546	57,655,031
Retained earnings, substantially restricted .....	48,549,691	43,769,485
Accumulated other comprehensive loss .....		
Unrealized loss on available-for-sale securities, net of income taxes; December 31, 2014 and 2013 - (\$263,358) and (\$1,471,923), respectively .....	(448,421)	(2,506,248)
	99,150,136	111,580,418
Treasury stock, at cost; December 31, 2014 and December 31, 2013 - 2,492,552 and 4,051,248 shares, respectively .....	(37,673,289)	(61,225,185)
	61,476,847	50,355,233
	\$ 628,459,644	\$ 619,888,135

*See Notes to Consolidated Financial Statements*

**Guaranty Federal Bancshares, Inc.**  
**Consolidated Statements of Income**  
**Years Ended December 31, 2014, 2013 and 2012**

	2014	2013	2012
<b>Interest Income</b>			
Loans .....	\$ 23,254,863	\$ 23,885,654	\$ 25,666,608
Investment securities .....	1,627,460	1,794,717	1,755,804
Other .....	131,991	175,127	183,388
	<u>25,014,314</u>	<u>25,855,498</u>	<u>27,605,800</u>
<b>Interest Expense</b>			
Deposits .....	2,329,090	2,859,598	4,076,194
Federal Home Loan Bank advances .....	1,202,383	1,295,121	1,543,493
Subordinated debentures .....	533,207	537,178	556,159
Securities sold under agreements to repurchase .....	264,625	405,597	682,169
	<u>4,329,305</u>	<u>5,097,494</u>	<u>6,858,015</u>
<b>Net Interest Income</b> .....	<u>20,685,009</u>	<u>20,758,004</u>	<u>20,747,785</u>
<b>Provision for Loan Losses</b> .....	<u>1,275,000</u>	<u>1,550,000</u>	<u>5,950,000</u>
<b>Net Interest Income After Provision for Loan Losses</b> .....	<u>19,410,009</u>	<u>19,208,004</u>	<u>14,797,785</u>
<b>Noninterest Income</b>			
Service charges .....	1,264,027	1,196,597	1,119,570
Gain on sale of investment securities .....	34,163	219,845	168,306
Gain on sale of loans .....	981,603	1,444,318	1,884,923
Gain on sale of state low-income housing tax credits .....	-	1,441,012	281,561
Net loss on foreclosed assets .....	(213,239)	(275,223)	(1,391,472)
Other income .....	1,351,910	1,292,922	1,192,783
	<u>3,418,464</u>	<u>5,319,471</u>	<u>3,255,671</u>
<b>Noninterest Expense</b>			
Salaries and employee benefits .....	8,895,353	9,058,789	9,247,912
Occupancy .....	1,697,190	1,752,162	1,629,566
FDIC deposit insurance premiums .....	448,675	562,163	688,763
Prepayment penalty on repurchase agreements .....	-	1,510,000	-
Data processing .....	685,028	687,630	566,652
Advertising .....	425,004	425,004	300,000
Other expense .....	3,667,498	3,661,458	3,808,042
	<u>15,818,748</u>	<u>17,657,206</u>	<u>16,240,935</u>
<b>Income Before Income Taxes</b> .....	<u>7,009,725</u>	<u>6,870,269</u>	<u>1,812,521</u>
<b>Provision (Credit) for Income Taxes</b> .....	<u>1,227,029</u>	<u>1,630,562</u>	<u>(131,338)</u>
<b>Net Income</b> .....	<u>\$ 5,782,696</u>	<u>\$ 5,239,707</u>	<u>\$ 1,943,859</u>
<b>Preferred Stock Dividends and Discount Accretion</b> .....	<u>357,210</u>	<u>794,520</u>	<u>1,076,561</u>
<b>Net Income Available to Common Shareholders</b> .....	<u>\$ 5,425,486</u>	<u>\$ 4,445,187</u>	<u>\$ 867,298</u>
<b>Basic Income Per Common Share</b> .....	<u>\$ 1.35</u>	<u>\$ 1.63</u>	<u>\$ 0.32</u>
<b>Diluted Income Per Common Share</b> .....	<u>\$ 1.33</u>	<u>\$ 1.58</u>	<u>\$ 0.30</u>

*See Notes to Consolidated Financial Statements*

**Guaranty Federal Bancshares, Inc.**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2014, 2013 and 2012**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>NET INCOME</b> .....	\$ 5,782,696	\$ 5,239,707	\$ 1,943,859
<b>OTHER ITEMS OF COMPREHENSIVE INCOME (LOSS):</b>			
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes .....	3,300,555	(5,029,478)	183,449
Less: Reclassification adjustment for realized gains on investment securities included in net income, before income taxes .....	(34,163)	(219,845)	(168,306)
Total other items in comprehensive income (loss) .....	3,266,392	(5,249,323)	15,143
Income tax expense (credit) related to other items of comprehensive income .....	1,208,565	(1,942,249)	5,602
Other comprehensive income (loss) .....	2,057,827	(3,307,074)	9,541
<b>TOTAL COMPREHENSIVE INCOME</b> .....	<u>\$ 7,840,523</u>	<u>\$ 1,932,633</u>	<u>\$ 1,953,400</u>

*See Notes to Consolidated Financial Statements*

**Guaranty Federal Bancshares, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2014, 2013 and 2012**

	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income .....	\$ 5,782,696	\$ 5,239,707	\$ 1,943,859
Items not requiring (providing) cash:			
Deferred income taxes .....	657,573	983,526	160,784
Depreciation .....	755,937	822,316	747,368
Provision for loan losses .....	1,275,000	1,550,000	5,950,000
Gain on sale of loans and investment securities .....	(1,015,766)	(1,664,163)	(2,053,229)
Loss on sale of foreclosed assets .....	131,840	163,161	1,356,464
Gain on sale of state low-income housing tax credits .....	-	(1,441,012)	(281,561)
Amortization of deferred income, premiums and discounts, net ...	825,906	555,665	548,635
Stock award plans .....	242,189	254,508	253,017
Origination of loans held for sale .....	(34,694,993)	(49,231,796)	(80,713,138)
Proceeds from sale of loans held for sale .....	35,085,396	53,871,439	83,457,153
Release of ESOP shares .....	-	-	153,848
Increase in cash surrender value of bank owned life insurance .....	(373,523)	(386,217)	(386,593)
Changes in:			
Prepaid FDIC deposit insurance premiums .....	-	1,438,636	650,440
Accrued interest receivable .....	(177,417)	202,728	83,951
Prepaid expenses and other assets .....	1,006,688	691,294	887,894
Accrued expenses and other liabilities .....	(185,259)	368,229	(103,521)
Income taxes receivable/payable .....	183,722	406,036	(397,508)
Net cash provided by operating activities .....	<u>9,499,989</u>	<u>13,824,057</u>	<u>12,257,863</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net change in loans .....	(23,700,987)	(1,304,007)	6,478,698
Principal payments on held-to-maturity securities .....	18,169	101,880	37,530
Principal payments on available-for-sale securities .....	9,698,931	10,582,593	8,123,388
Purchase of available-for-sale securities .....	(40,823,180)	(53,316,013)	(80,356,225)
Proceeds from sales of available-for-sale securities .....	41,759,062	31,225,169	31,688,102
Proceeds from maturities of available-for-sale securities .....	3,151,000	10,250,000	19,162,654
Purchase of premises and equipment .....	(471,980)	(422,626)	(609,956)
Proceeds from sale of state low-income housing tax credits .....	-	1,441,012	281,561
Proceeds from maturities of interest bearing deposits .....	-	-	5,587,654
Purchase of bank owned life insurance .....	-	-	(2,500,000)
(Purchase) redemption of Federal Home Loan Bank stock .....	(271,800)	920,400	41,400
Proceeds from sale of foreclosed assets held for sale .....	657,431	436,783	5,227,038
Net cash used in investing activities .....	<u>(9,983,354)</u>	<u>(84,809)</u>	<u>(6,838,156)</u>

*See Notes to Consolidated Financial Statements*



**Guaranty Federal Bancshares, Inc.**  
**Consolidated Statements of Cash Flows (continued)**  
**Years Ended December 31, 2014, 2013 and 2012**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net increase (decrease) in demand deposits, NOW accounts and savings accounts .....	\$ (4,908,937)	\$ 13,745,911	\$ 20,824,692
Net decrease in certificates of deposit .....	(2,591,720)	(26,441,687)	(5,393,642)
Net decrease in securities sold under agreements to repurchase .....	-	(15,000,000)	-
Proceeds from FHLB and Federal Reserve advances .....	8,000,000	3,000,000	-
Repayments of FHLB and Federal Reserve advances .....	(3,000,000)	(15,700,000)	-
Proceeds from issuance of common stock .....	15,814,312	-	-
Repayments to borrowers for taxes and insurance .....	(5,684)	(3,199)	(3,642)
Repurchase of stock warrants .....	-	(2,003,250)	-
Redemption of preferred stock .....	(12,000,000)	-	(5,000,000)
Stock options exercised .....	210,870	9,408	12,388
Common and preferred cash dividends paid .....	(844,786)	(600,000)	(744,444)
Treasury stock purchased .....	-	(106,636)	(25,736)
Net cash provided by (used in) financing activities .....	<u>674,055</u>	<u>(43,099,453)</u>	<u>9,669,616</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....</b>			
	190,690	(29,360,205)	15,089,323
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR .....</b>	<u>12,303,200</u>	<u>41,663,405</u>	<u>26,574,082</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR .....</b>	<u>\$ 12,493,890</u>	<u>\$ 12,303,200</u>	<u>\$ 41,663,405</u>
<b>Supplemental Cash Flows Information</b>			
Real estate acquired in settlement of loans .....	\$ 371,971	\$ 705,070	\$ 1,101,193
Interest paid .....	\$ 4,337,521	\$ 5,246,817	\$ 6,977,212
Income taxes paid, net of (refunds) .....	\$ 360,000	\$ 241,000	\$ 195,000
Sale and financing of foreclosed assets held for sale .....	\$ 239,229	\$ 812,877	\$ 1,795,070

*See Notes to Consolidated Financial Statements*

**Guaranty Federal Bancshares, Inc.**  
**Consolidated Statements of Stockholders' Equity**  
**Years Ended December 31, 2014, 2013 and 2012**

	Preferred Stock	Common Stock	Common Stock Warrants	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance, January 1, 2012.</b>	\$ 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 gain 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)
<b>Balance, December 31, 2012</b>	<b>11,789,276</b>	<b>678,180</b>	<b>1,377,811</b>	<b>58,267,529</b>	<b>-</b>	<b>(61,369,344)</b>	<b>39,324,292</b>	<b>800,826</b>	<b>50,868,570</b>
Net income .....	-	-	-	-	-	-	5,239,707	-	5,239,707
Change in unrealized gain (loss) on available-for-sale securities, net of income taxes of \$1,942,249 .....	-	-	-	-	-	-	-	(3,307,074)	(3,307,074)
Preferred stock discount accretion .....	194,514	-	-	-	-	-	(194,514)	-	-
Preferred stock dividends (5%) .....	-	-	-	-	-	-	(600,000)	-	(600,000)
Common stock warrants repurchased .....	-	-	(1,377,811)	(625,439)	-	-	-	-	(2,003,250)
Stock award plans .....	-	-	-	3,713	-	250,795	-	-	254,508
Stock options exercised .....	-	180	-	9,228	-	-	-	-	9,408
Treasury stock purchased ..	-	-	-	-	-	(106,636)	-	-	(106,636)
<b>Balance, December 31, 2013</b>	<b>11,983,790</b>	<b>678,360</b>	<b>-</b>	<b>57,655,031</b>	<b>-</b>	<b>(61,225,185)</b>	<b>43,769,485</b>	<b>(2,506,248)</b>	<b>50,355,233</b>
Net income .....	-	-	-	-	-	-	5,782,696	-	5,782,696
Change in unrealized gain (loss) on available-for-sale securities, net of income taxes of \$1,208,565 .....	-	-	-	-	-	-	-	2,057,827	2,057,827
Preferred stock redeemed ..	(12,000,000)	-	-	-	-	-	-	-	(12,000,000)
Preferred stock discount accretion .....	16,210	-	-	-	-	-	(16,210)	-	-
Preferred stock dividends (5%) .....	-	-	-	-	-	-	(338,000)	-	(338,000)
Dividends on common stock (\$0.15 per share) ...	-	-	-	-	-	-	(648,280)	-	(648,280)
Stock award plans .....	-	-	-	(644,722)	-	886,911	-	-	242,189
Stock options exercised .....	-	3,960	-	206,910	-	-	-	-	210,870
Proceeds from issuance of common stock .....	-	-	-	(6,850,673)	-	22,664,985	-	-	15,814,312
<b>Balance, December 31, 2014</b>	<b>\$ -</b>	<b>\$ 682,320</b>	<b>\$ -</b>	<b>\$ 50,366,546</b>	<b>\$ -</b>	<b>\$ (37,673,289)</b>	<b>\$ 48,549,691</b>	<b>\$ (448,421)</b>	<b>\$ 61,476,847</b>

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.

##### 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.

## **Guaranty Federal Bancshares, Inc.**

### **Notes to Consolidated Financial Statements**

#### 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 costs 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 costs 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 2011.

#### Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2014 and 2013 cash equivalents consisted of interest-bearing deposits and money market accounts.

## **Guaranty Federal Bancshares, Inc.**

### **Notes to Consolidated Financial Statements**

#### 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, 2014 and 2013, was \$8,171,000 and \$7,319,000, 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 gain (loss) on available-for-sale securities, unrealized gain (loss) on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income and unrealized gain (loss) on held-to-maturity securities for which a portion of an other-than-temporary impairment has been recognized in income.

#### 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 consolidated 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, 2014 and 2013, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2014, 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.

**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

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.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2014</b>						
Tier 1 (core) capital, and ratio to adjusted total assets						
Company .....	\$ 76,927	12.3%	\$ 25,020	4.0%	n/a	n/a
Bank .....	\$ 72,076	11.5%	\$ 24,966	4.0%	\$ 31,208	5.0%
Tier 1 (core) capital, and ratio to risk-weighted assets						
Company .....	\$ 76,927	14.7%	\$ 20,928	4.0%	n/a	n/a
Bank .....	\$ 72,076	13.8%	\$ 20,914	4.0%	\$ 31,371	6.0%
Total risk-based capital, and ratio to risk-weighted assets						
Company .....	\$ 83,463	16.0%	\$ 41,856	8.0%	n/a	n/a
Bank .....	\$ 78,612	15.0%	\$ 41,828	8.0%	\$ 52,285	10.0%

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2013</b>						
Tier 1 (core) capital, and ratio to adjusted total assets						
Company .....	\$ 67,858	10.7%	\$ 25,344	4.0%	n/a	n/a
Bank .....	\$ 65,410	10.3%	\$ 25,300	4.0%	\$ 31,625	5.0%
Tier 1 (core) capital, and ratio to risk-weighted assets						
Company .....	\$ 67,858	13.4%	\$ 20,192	4.0%	n/a	n/a
Bank .....	\$ 65,410	13.0%	\$ 20,166	4.0%	\$ 30,248	6.0%
Total risk-based capital, and ratio to risk-weighted assets						
Company .....	\$ 74,178	14.7%	\$ 40,384	8.0%	n/a	n/a
Bank .....	\$ 71,730	14.2%	\$ 40,331	8.0%	\$ 50,414	10.0%

The amount of dividends that the Company and Bank may pay is subject to various regulatory limitations. As of December 31, 2014 and 2013 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, 2014, the outcome of any such litigation will not have a material adverse effect on the Company's financial position or results of operations.

Earnings Per Common Share

The computation for earnings per common share for the years ended December 31, 2014, 2013 and 2012 is as follows

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Net income available to common shareholders .....	\$ 5,425,486	\$ 4,445,187	\$ 867,298
Average common shares outstanding .....	4,006,461	2,733,969	2,715,186
Effect of dilutive securities .....	68,040	79,646	144,743
Average diluted shares outstanding .....	4,074,501	2,813,615	2,859,929
Basic income per common share .....	\$ 1.35	\$ 1.63	\$ 0.32
Diluted income per common share .....	\$ 1.33	\$ 1.58	\$ 0.30

Stock options to purchase 131,500, 154,000 and 201,500 shares of common stock were outstanding during the years ended December 31, 2014, 2013 and 2012, 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 year ended December 31, 2012 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.



**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:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized (Losses)</u>	<u>Approximate Fair Value</u>
<b>As of December 31, 2014</b>				
Equity Securities .....	\$ 102,212	\$ 16,121	\$ (13,310)	\$ 105,023
Debt Securities:				
U. S. government agencies .....	10,528,055	-	(271,282)	10,256,773
Municipals .....	15,474,316	185,747	(70,173)	15,589,890
Government sponsored mortgage-backed securities and SBA loan pools .....	<u>61,075,181</u>	<u>235,977</u>	<u>(794,859)</u>	<u>60,516,299</u>
	<u>\$87,179,764</u>	<u>\$ 437,845</u>	<u>\$(1,149,624)</u>	<u>\$ 86,467,985</u>

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized (Losses)</u>	<u>Approximate Fair Value</u>
<b>As of December 31, 2013</b>				
Equity Securities .....	\$ 102,212	\$ 16,007	\$ (18,913)	\$ 99,306
Debt Securities:				
U. S. government agencies .....	33,198,865	-	(1,437,478)	31,761,387
Municipals .....	14,133,821	18,827	(660,021)	13,492,627
Corporates .....	990,663	3,609	-	994,272
Government sponsored mortgage-backed securities .....	<u>53,245,297</u>	<u>265,038</u>	<u>(2,165,242)</u>	<u>51,345,093</u>
	<u>\$101,670,858</u>	<u>\$ 303,481</u>	<u>\$(4,281,654)</u>	<u>\$ 97,692,685</u>

Maturities of available-for-sale debt securities as of December 31, 2014:

	<u>Amortized Cost</u>	<u>Approximate Fair Value</u>
1-5 years .....	\$ 6,508,809	\$ 6,415,929
5-10 years .....	10,631,947	10,438,272
After ten years .....	8,861,614	8,992,462
Government sponsored mortgage-backed securities and SBA loan pools not due on a single maturity date .....	<u>61,075,181</u>	<u>60,516,299</u>
	<u>\$ 87,077,551</u>	<u>\$ 86,362,962</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:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized (Losses)</u>	<u>Approximate Fair Value</u>
<b>As of December 31, 2014</b>				
Debt Securities:				
Government sponsored mortgage-backed securities .....	\$ 60,993	\$ 1,626	\$ -	\$ 62,619

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized (Losses)</u>	<u>Approximate Fair Value</u>
<b>As of December 31, 2013</b>				
Debt Securities:				
Government sponsored mortgage-backed securities .....	\$ 79,162	\$ 1,927	\$ -	\$ 81,089

Maturities of held-to-maturity securities as of December 31, 2014:

	<u>Amortized Cost</u>	<u>Approximate Fair Value</u>
Government sponsored mortgage-backed securities not due on a single maturity date .....	\$ 60,993	\$ 62,619

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$52,907,065 and \$42,807,840 as of December 31, 2014 and 2013, respectively.

Gross gains of \$320,888, \$418,990 and \$168,306 and gross losses of \$286,725, \$199,145 and \$0 resulting from sale of available-for-sale securities were realized for the years ended December 31, 2014, 2013 and 2012, respectively. The tax effect of these net gains was \$12,640, \$81,343 and \$62,273 in 2014, 2013 and 2012, 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, 2014, 2013 and 2012.

Certain other investments in debt and equity securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2014 and 2013, was \$60,733,191 and \$85,712,067, respectively, which is approximately 70% and 88% 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.

**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

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, 2014 and 2013.

December 31, 2014						
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 .....	\$ -	\$ -	\$ 34,618	\$ (13,310)	\$ 34,618	\$ (13,310)
U. S. government agencies .....	-	-	10,256,773	(271,282)	10,256,773	(271,282)
Municipals .....	2,677,626	(7,692)	5,859,560	(62,481)	8,537,186	(70,173)
Government sponsored mortgage-backed securities and SBA loan pools .....	12,703,301	(70,049)	29,201,313	(724,810)	41,904,614	(794,859)
	<u>\$15,380,927</u>	<u>\$ (77,741)</u>	<u>\$45,352,264</u>	<u>\$ (1,071,883)</u>	<u>\$60,733,191</u>	<u>\$ (1,149,624)</u>

December 31, 2013						
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 .....	\$ -	\$ -	\$ 29,014	\$ (18,913)	\$ 29,014	\$ (18,913)
U. S. government agencies .....	24,731,730	(916,208)	7,029,657	(521,270)	31,761,387	(1,437,478)
Municipals .....	10,460,662	(534,440)	1,701,215	(125,581)	12,161,877	(660,021)
Government sponsored mortgage-backed securities .....	32,074,646	(1,655,296)	9,685,143	(509,946)	41,759,789	(2,165,242)
	<u>\$67,267,038</u>	<u>\$ (3,105,944)</u>	<u>\$18,445,029</u>	<u>\$ (1,175,710)</u>	<u>\$85,712,067</u>	<u>\$ (4,281,654)</u>

**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

**NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES**

Categories of loans at December 31, 2014 and 2013 include:

	December 31,	
	2014	2013
Real estate - residential mortgage:		
One to four family units .....	\$ 97,900,814	\$ 93,797,650
Multi-family .....	33,785,959	46,188,434
Real estate - construction .....	36,784,584	43,266,130
Real estate - commercial .....	215,605,054	179,079,433
Commercial loans .....	92,114,216	92,721,783
Consumer and other loans .....	17,246,437	17,303,392
Total loans .....	<u>493,437,064</u>	<u>472,356,822</u>
Less:		
Allowance for loan losses .....	(6,588,597)	(7,801,600)
Deferred loan fees/costs, net .....	(261,831)	(175,368)
Net loans .....	<u>\$ 486,586,636</u>	<u>\$ 464,379,854</u>

Classes of loans by aging at December 31, 2014 and 2013 were as follows:

**As of December 31, 2014**

	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. \$	113	\$ 428	\$ 279	\$ 820	\$ 97,081	\$ 97,901	\$ -
Multi-family .....	-	-	-	-	33,786	33,786	-
Real estate - construction ..	-	-	-	-	36,785	36,785	-
Real estate - commercial ...	-	-	-	-	215,605	215,605	-
Commercial loans .....	-	-	227	227	91,887	92,114	-
Consumer and other loans	23	35	-	58	17,188	17,246	-
Total .....	<u>\$ 136</u>	<u>\$ 463</u>	<u>\$ 506</u>	<u>\$ 1,105</u>	<u>\$ 492,332</u>	<u>\$ 493,437</u>	<u>\$ -</u>

**As of December 31, 2013**

	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. \$	246	\$ 337	\$ -	\$ 583	\$ 93,215	\$ 93,798	\$ -
Multi-family .....	-	-	-	-	46,188	46,188	-
Real estate - construction ..	-	-	536	536	42,730	43,266	-
Real estate - commercial ...	-	-	2,604	2,604	176,476	179,080	-
Commercial loans .....	-	2	3,628	3,630	89,092	92,722	-
Consumer and other loans	19	-	63	82	17,221	17,303	-
Total .....	<u>\$ 265</u>	<u>\$ 339</u>	<u>\$ 6,831</u>	<u>\$ 7,435</u>	<u>\$ 464,922</u>	<u>\$ 472,357</u>	<u>\$ -</u>

**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

Nonaccruing loans are summarized as follows:

	December 31,	
	2014	2013
Real estate - residential mortgage:		
One to four family units .....	\$ 911,240	\$ 815,746
Multi-family .....	-	-
Real estate - construction .....	2,892,772	4,529,410
Real estate - commercial .....	459,823	3,663,166
Commercial loans .....	1,026,772	6,776,230
Consumer and other loans .....	-	63,027
Total .....	<u>\$ 5,290,607</u>	<u>\$ 15,847,579</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, 2014, 2013 and 2012:

**As of December 31, 2014**

	Construction	Commercial Real Estate	One to four family	Multi- family	Commercial	Consumer and Other	Unallocated	Total
	<i>(In Thousands)</i>							
<b>Allowance for loan losses:</b>								
Balance, beginning of year	\$ 2,387	\$ 2,059	\$ 997	\$ 209	\$ 1,519	\$ 272	\$ 359	\$ 7,802
Provision charged to expense .....	(651)	(157)	21	(82)	2,388	14	(258)	\$ 1,275
Losses charged off .....	(411)	(9)	(127)	-	(2,018)	(150)	-	\$ (2,715)
Recoveries .....	5	99	9	-	65	49	-	\$ 227
Balance, end of year .....	<u>\$ 1,330</u>	<u>\$ 1,992</u>	<u>\$ 900</u>	<u>\$ 127</u>	<u>\$ 1,954</u>	<u>\$ 185</u>	<u>\$ 101</u>	<u>\$ 6,589</u>
Ending balance:								
individually evaluated for impairment .....	<u>\$ 376</u>	<u>\$ 158</u>	<u>\$ 36</u>	<u>\$ -</u>	<u>\$ 203</u>	<u>\$ 12</u>	<u>\$ -</u>	<u>\$ 785</u>
Ending balance:								
collectively evaluated for impairment .....	<u>\$ 954</u>	<u>\$ 1,834</u>	<u>\$ 864</u>	<u>\$ 127</u>	<u>\$ 1,751</u>	<u>\$ 173</u>	<u>\$ 101</u>	<u>\$ 5,804</u>
<b>Loans:</b>								
Ending balance:								
individually evaluated for impairment .....	<u>\$ 2,893</u>	<u>\$ 460</u>	<u>\$ 847</u>	<u>\$ -</u>	<u>\$ 1,027</u>	<u>\$ 801</u>	<u>\$ -</u>	<u>\$ 6,028</u>
Ending balance:								
collectively evaluated for impairment .....	<u>\$ 33,892</u>	<u>\$ 215,145</u>	<u>\$ 97,054</u>	<u>\$ 33,786</u>	<u>\$ 91,087</u>	<u>\$ 16,445</u>	<u>\$ -</u>	<u>\$ 487,409</u>

**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

**As of December 31, 2013**

	Construction	Commercial Real Estate	One to four family	Multi- family	Commercial	Consumer and Other	Unallocated	Total
	<i>(In Thousands)</i>							
<b>Allowance for loan losses:</b>								
Balance, beginning of year ....	\$ 2,525	\$ 2,517	\$ 1,316	\$ 284	\$ 1,689	\$ 255	\$ 154	\$ 8,740
Provision charged to								
expense .....	691	(181)	(203)	(75)	988	125	205	\$ 1,550
Losses charged off .....	(879)	(277)	(139)	-	(1,268)	(164)	-	\$ (2,727)
Recoveries .....	50	-	23	-	110	56	-	\$ 239
Balance, end of year .....	<u>\$ 2,387</u>	<u>\$ 2,059</u>	<u>\$ 997</u>	<u>\$ 209</u>	<u>\$ 1,519</u>	<u>\$ 272</u>	<u>\$ 359</u>	<u>\$ 7,802</u>
Ending balance: individually evaluated for impairment ...	<u>\$ 890</u>	<u>\$ -</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 601</u>	<u>\$ 102</u>	<u>\$ -</u>	<u>\$ 1,601</u>
Ending balance: collectively evaluated for impairment ...	<u>\$ 1,497</u>	<u>\$ 2,059</u>	<u>\$ 989</u>	<u>\$ 209</u>	<u>\$ 918</u>	<u>\$ 170</u>	<u>\$ 359</u>	<u>\$ 6,201</u>
<b>Loans:</b>								
Ending balance: individually evaluated for impairment ...	<u>\$ 4,530</u>	<u>\$ 3,663</u>	<u>\$ 886</u>	<u>\$ -</u>	<u>\$ 6,776</u>	<u>\$ 316</u>	<u>\$ -</u>	<u>\$ 16,171</u>
Ending balance: collectively evaluated for impairment ...	<u>\$ 38,736</u>	<u>\$ 175,417</u>	<u>\$ 92,912</u>	<u>\$ 46,188</u>	<u>\$ 85,946</u>	<u>\$ 16,987</u>	<u>\$ -</u>	<u>\$ 456,186</u>

**As of December 31, 2012**

	Construction	Commercial Real Estate	One to four family	Multi- family	Commercial	Consumer and Other	Unallocated	Total
	<i>(In Thousands)</i>							
<b>Allowance for loan losses:</b>								
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>\$ 438</u>	<u>\$ 350</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>
<b>Loans:</b>								
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>

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.

**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

The following summarizes impaired loans as of and for the years ended December 31, 2014 and 2013:

**As of December 31, 2014**

	Recorded Balance	Unpaid Principal Balance	Specific Allowance <i>(In Thousands)</i>	Average Investment in Impaired Loans	Interest Income Recognized
<b>Loans without a specific valuation allowance</b>					
Real estate - residential mortgage:					
One to four family units .....	\$ 632	\$ 632	\$ -	\$ 692	\$ 2
Multi-family .....	-	-	-	35	-
Real estate - construction .....	74	74	-	84	-
Real estate - commercial .....	-	-	-	204	-
Commercial loans .....	341	341	-	1,924	198
Consumer and other loans .....	-	-	-	-	-
<b>Loans with a specific valuation allowance</b>					
Real estate - residential mortgage:					
One to four family units .....	\$ 279	\$ 279	\$ 36	\$ 322	\$ -
Multi-family .....	-	-	-	-	-
Real estate - construction .....	2,819	4,074	376	3,554	-
Real estate - commercial .....	460	460	158	441	-
Commercial loans .....	685	988	203	1,175	-
Consumer and other loans .....	91	91	12	234	-
<b>Total</b>					
Real estate - residential mortgage:					
One to four family units .....	\$ 911	\$ 911	\$ 36	\$ 1,014	\$ 2
Multi-family .....	-	-	-	35	-
Real estate - construction .....	2,893	4,148	376	3,638	-
Real estate - commercial .....	460	460	158	645	-
Commercial loans .....	1,026	1,329	203	3,099	198
Consumer and other loans .....	91	91	12	234	-
<b>Total</b> .....	<u>\$ 5,381</u>	<u>\$ 6,939</u>	<u>\$ 785</u>	<u>\$ 8,665</u>	<u>\$ 200</u>

**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

As of December 31, 2013

	Recorded Balance	Unpaid Principal Balance	Specific Allowance <i>(In Thousands)</i>	Average Investment in Impaired Loans	Interest Income Recognized
<b>Loans without a specific valuation allowance</b>					
Real estate - residential mortgage:					
One to four family units .....	\$ 620	\$ 620	\$ -	\$ 1,908	\$ 5
Multi-family .....	-	-	-	-	-
Real estate - construction .....	96	96	-	3,086	-
Real estate - commercial .....	3,663	3,663	-	4,310	40
Commercial loans .....	2,327	2,462	-	1,030	1
Consumer and other loans .....	-	-	-	91	-
<b>Loans with a specific valuation allowance</b>					
Real estate - residential mortgage:					
One to four family units .....	\$ 267	\$ 267	\$ 8	\$ 286	\$ -
Multi-family .....	-	-	-	-	-
Real estate - construction .....	4,433	5,484	890	2,606	-
Real estate - commercial .....	-	-	-	561	-
Commercial loans .....	4,449	5,148	601	3,047	-
Consumer and other loans .....	316	316	102	319	-
<b>Total</b>					
Real estate - residential mortgage:					
One to four family units .....	\$ 887	\$ 887	\$ 8	\$ 2,194	\$ 5
Multi-family .....	-	-	-	-	-
Real estate - construction .....	4,529	5,580	890	5,692	-
Real estate - commercial .....	3,663	3,663	-	4,871	40
Commercial loans .....	6,776	7,610	601	4,077	1
Consumer and other loans .....	316	316	102	410	-
<b>Total</b> .....	<u>\$ 16,171</u>	<u>\$ 18,056</u>	<u>\$ 1,601</u>	<u>\$ 17,244</u>	<u>\$ 46</u>

Interest of approximately \$113,000 was recognized on average impaired loans of \$25,899,000 for the year ended December 31, 2012.

At December 31, 2014, the Bank's impaired loans shown in the table above included loans that were classified as troubled debt restructurings (TDR). The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

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

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



**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

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

	2014		
	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Real estate - residential mortgage:			
One to four family units .....	1	\$ 287,500	\$ 287,500
Multi-family .....	-	-	-
Real estate - construction .....	-	-	-
Real estate - commercial .....	-	-	-
Commercial loans .....	2	831,026	831,026
Consumer and other loans .....	-	-	-
Total .....	<u>3</u>	<u>\$ 1,118,526</u>	<u>\$ 1,118,526</u>

	2013		
	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Real estate - residential mortgage:			
One to four family units .....	2	\$ 662,598	\$ 662,598
Multi-family .....	-	-	-
Real estate - construction .....	1	73,845	73,845
Real estate - commercial .....	2	3,275,179	3,297,014
Commercial loans .....	3	2,889,923	3,114,327
Consumer and other loans .....	-	-	-
Total .....	<u>8</u>	<u>\$ 6,901,545</u>	<u>\$ 7,147,784</u>

The troubled debt restructurings described above increased the allowance for loan losses by \$239,724 and \$255,679 and resulted in charge offs of \$303,345 and \$135,063 during the years ended December 31, 2014 and 2013, respectively.

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

	2014			
	Interest Rate	Term	Combination	Total Modification
Real estate - residential mortgage:				
One to four family units .....	\$ -	\$ -	\$ 287,500	\$ 287,500
Multi-family .....	-	-	-	-
Real estate - construction .....	-	-	-	-
Real estate - commercial .....	-	-	-	-
Commercial loans .....	-	-	831,026	831,026
Consumer and other loans .....	-	-	-	-
Total .....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,118,526</u>	<u>\$ 1,118,526</u>

**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

	2013			
	Interest Rate	Term	Combination	Total Modification
Real estate - residential mortgage:				
One to four family units .....	\$ 417,070	\$ -	\$ 245,528	\$ 662,598
Multi-family .....	-	-	-	-
Real estate - construction .....	-	73,845	-	73,845
Real estate - commercial .....	-	-	3,297,014	3,297,014
Commercial loans .....	-	-	3,114,327	3,114,327
Consumer and other loans .....	-	-	-	-
Total .....	<u>\$ 417,070</u>	<u>\$ 73,845</u>	<u>\$ 6,656,869</u>	<u>\$ 7,147,784</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.

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.

**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

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, 2014 and 2013:

**As of December 31, 2014**

	<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 .....	\$ 27,370	\$ 207,311	\$ 94,129	\$ 33,786	\$ 78,197	\$ 17,015	\$457,808
Special Mention .....	6,522	5,076	2,501	-	10,273	-	24,372
Substandard .....	2,893	2,758	1,271	-	3,644	231	10,797
Doubtful .....	-	460	-	-	-	-	460
Total .....	<u>\$ 36,785</u>	<u>\$ 215,605</u>	<u>\$ 97,901</u>	<u>\$ 33,786</u>	<u>\$ 92,114</u>	<u>\$ 17,246</u>	<u>\$493,437</u>

**As of December 31, 2013**

	<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 .....	\$ 31,433	\$ 169,135	\$ 83,341	\$ 45,768	\$ 78,622	\$ 16,743	\$425,042
Special Mention .....	7,253	4,721	8,954	420	9,161	107	30,616
Substandard .....	683	5,224	1,503	-	2,738	453	10,601
Doubtful .....	3,897	-	-	-	2,201	-	6,098
Total .....	<u>\$ 43,266</u>	<u>\$ 179,080</u>	<u>\$ 93,798</u>	<u>\$ 46,188</u>	<u>\$ 92,722</u>	<u>\$ 17,303</u>	<u>\$472,357</u>

The weighted average interest rate on loans as of December 31, 2014 and 2013 was 5.09% and 5.78%, respectively.

The Bank serviced mortgage loans for others amounting to \$94,214 and \$106,079 as of December 31, 2014 and 2013, respectively. The Bank serviced commercial loans for others amounting to \$4,672,175 and \$6,531,898 as of December 31, 2014 and 2013, respectively.

**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

**NOTE 4: PREMISES AND EQUIPMENT**

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

	December 31, 2014	December 31, 2013
Land .....	\$ 2,250,789	\$ 2,250,789
Buildings and improvements .....	11,805,406	11,763,779
Automobile .....	25,115	25,115
Furniture, fixtures and equipment .....	9,876,988	9,446,636
Leasehold improvements .....	271,799	271,799
	<u>24,230,097</u>	<u>23,758,118</u>
Less accumulated depreciation .....	(13,627,334)	(12,871,398)
Net premises and equipment .....	<u>\$ 10,602,763</u>	<u>\$ 10,886,720</u>

Depreciation expense was \$755,937, \$822,316 and \$747,368 for the years ended December 31, 2014, 2013, and 2012, respectively.

**NOTE 5: BANK OWNED LIFE INSURANCE**

The Company has purchased Bank owned life insurance on certain key members of management. 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, 2014 and 2013 was \$14,417,220 and \$14,043,697, 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, 2014 and 2013, the net carrying values of the Company's investments in these entities was \$3,574,183 and \$4,466,001, respectively, and are included in other assets on the Company's Consolidated Balance Sheets.

The Company received income tax credits of \$1,221,394, \$1,221,394 and \$1,247,394 during 2014, 2013 and 2012, respectively. Amortization of the investment costs was \$885,478 during each of the fiscal years 2014, 2013 and 2012.

**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

**NOTE 7: DEPOSITS**

Deposits are comprised of the following at December 31, 2014 and 2013:

	December 31, 2014			December 31, 2013		
	Weighted Average Rate	Balance	Percentage of Deposits	Weighted Average Rate	Balance	Percentage of Deposits
Demand .....	0.00%	\$ 51,707,667	10.8%	0.00%	\$ 48,677,819	10.0%
NOW .....	0.34%	111,561,440	23.3%	0.35%	86,601,344	17.8%
Money market .....	0.43%	171,948,057	35.8%	0.47%	204,740,175	42.0%
Savings .....	0.20%	23,619,332	4.9%	0.21%	23,726,095	4.9%
	0.32%	<u>358,836,496</u>	<u>74.8%</u>	0.36%	<u>363,745,433</u>	<u>74.6%</u>
Certificates:						
0% - 1.99% .....	0.84%	117,499,869	24.5%	0.78%	117,625,137	24.1%
2.00% - 3.99% .....	2.27%	3,481,917	0.7%	2.46%	5,259,772	1.1%
4.00% - 6.00% .....	0.00%	-	0.0%	4.28%	688,597	0.1%
	0.88%	<u>120,981,786</u>	<u>25.2%</u>	0.87%	<u>123,573,506</u>	<u>25.4%</u>
Total Deposits .....	0.47%	<u>\$479,818,282</u>	<u>100.0%</u>	0.49%	<u>\$487,318,939</u>	<u>100.0%</u>

The aggregate amount of certificates of deposit with a minimum balance of \$100,000 was approximately \$64,768,000 and \$60,941,000, as of December 31, 2014 and 2013, respectively.

A summary of certificates of deposit by maturity as of December 31, 2014, is as follows:

2015.....	\$	62,038,920
2016.....		26,874,655
2017.....		19,020,119
2018.....		5,229,749
2019.....		4,701,854
Thereafter .....		3,116,489
	<u>\$</u>	<u>120,981,786</u>

A summary of interest expense on deposits is as follows:

	Years ended December 31,		
	2014	2013	2012
NOW and Money Market accounts .....	\$ 1,242,158	\$ 1,521,465	\$ 2,011,796
Savings accounts .....	49,071	53,647	80,968
Certificate accounts .....	1,050,081	1,295,864	1,999,060
Early withdrawal penalties .....	(12,220)	(11,378)	(15,630)
	<u>\$ 2,329,090</u>	<u>\$ 2,859,598</u>	<u>\$ 4,076,194</u>

**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

The Bank utilizes brokered deposits as an additional funding source. The aggregate amount of brokered deposits was approximately \$50,331,000 and \$53,176,000 as of December 31, 2014 and 2013, respectively.

**NOTE 8: BORROWINGS**

Federal Home Loan Bank Advances

Federal Home Loan Bank advances consist of the following:

Maturity Date	December 31, 2014		December 31, 2013	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
2015.....	8,250,000	0.41%	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>\$ 60,350,000</u>	2.00%	<u>\$ 52,350,000</u>	2.26%

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 35% of assets, the Bank has the ability to borrow an additional \$95.8 million from the FHLB, as of December 31, 2014.

Federal Reserve Bank Borrowings

During 2008, the Bank established a borrowing line with the Federal Reserve Bank. The Bank has the ability to borrow \$29.0 million as of December 31, 2014. The Federal Reserve Bank requires the Bank to maintain collateral in relation to borrowings outstanding. The Bank had no borrowings outstanding on this line as of December 31, 2014. At December 31, 2013, the Bank had an outstanding balance of \$3.0 million.

Securities Sold Under Agreements to Repurchase

The Company borrowed \$30.0 million under three structured repurchase agreements in January 2008. Interest is based on a fixed weighted average rate of 2.65% until maturity in January 2018. Beginning in February 2010, the counterparty, Barclay's Capital, Inc., has the option to terminate the agreements on a quarterly basis until maturity. Prior to the stated maturity date, the Company paid off one of these agreements in the amount \$15.0 million in May 2013 and another agreement in the amount of \$5.0 million in November 2011.

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

**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 were 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 were 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.

**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

**NOTE 10: INCOME TAXES**

As of December 31, 2014 and 2013, 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, 2014 and 2013.

The provision (credit) for income taxes consists of:

	<u>2014</u>	Years Ended December 31, <u>2013</u>	<u>2012</u>
Taxes currently payable .....	\$ 560,468	\$ 647,036	\$ (292,122)
Deferred income taxes .....	666,561	983,526	160,784
	<u>\$ 1,227,029</u>	<u>\$ 1,630,562</u>	<u>\$ (131,338)</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, 2014 and 2013 balance sheets are:

	December 31, 2014	December 31, 2013
Deferred tax assets:		
Allowances for loan losses .....	\$ 2,240,123	\$ 2,886,592
Writedowns on foreclosed assets held for sale .....	781,870	879,113
Deferred loan fees/costs .....	96,877	64,886
Unrealized depreciation on available-for-sale securities .....	263,358	1,471,923
Other .....	421,873	382,723
	<u>3,804,101</u>	<u>5,685,237</u>
Deferred tax liabilities:		
FHLB stock dividends .....	(52,455)	(68,953)
Accumulated depreciation .....	(268,503)	(273,481)
Other .....	(70,630)	(64,152)
	<u>(391,588)</u>	<u>(406,586)</u>
Deferred tax asset before valuation allowance .....	<u>3,412,513</u>	<u>5,278,651</u>
Valuation allowance:		
Beginning balance .....	-	(1,645,379)
Decrease from sale of state income tax credits .....	-	1,719,978
Increase for state low income housing tax credits generated .....	-	(74,599)
Ending balance .....	-	-
Net deferred tax asset .....	<u>\$ 3,412,513</u>	<u>\$ 5,278,651</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,		
	2014	2013	2012
Computed at statutory rate .....	34.0%	34.0%	34.0%
Increase (reduction) in taxes resulting from:			
State financial institution tax and credits .....	(11.1%)	(9.0%)	(33.1%)
ESOP .....	-	-	(3.3%)
Cash surrender value of life insurance .....	(1.8%)	(1.9%)	(7.9%)
Valuation allowance .....	-	-	(3.5%)
Other .....	(3.6%)	0.6%	6.6%
Actual effective rate .....	<u>17.5%</u>	<u>23.7%</u>	<u>(7.2%)</u>

**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:



**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

**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 consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

*Available-for-sale securities:* Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. government agencies, municipals, U.S. corporate 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 consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2014 and 2013 (dollar amounts in thousands):

**As of December 31, 2014**

Financial assets:

	<u>Level 1 inputs</u>	<u>Level 2 inputs</u>	<u>Level 3 inputs</u>	<u>Total fair value</u>
Equity securities:				
Other .....	\$ 105	\$ -	\$ -	\$ 105
Debt securities:				
U.S. government agencies .....	-	10,257	-	10,257
Municipals .....	-	15,590	-	15,590
Government sponsored mortgage-backed securities and SBA loan pools .....	-	60,516	-	60,516
Available-for-sale securities .....	<u>\$ 105</u>	<u>\$ 86,363</u>	<u>\$ -</u>	<u>\$ 86,468</u>

**As of December 31, 2013**

Financial assets:

	<u>Level 1 inputs</u>	<u>Level 2 inputs</u>	<u>Level 3 inputs</u>	<u>Total fair value</u>
Equity securities:				
Other .....	\$ 99	\$ -	\$ -	\$ 99
Debt securities:				
U.S. government agencies .....	-	31,762	-	31,762
U.S. corporate .....	-	994	-	994
Municipals .....	-	13,493	-	13,493
Government sponsored mortgage-backed securities .....	-	51,345	-	51,345
Available-for-sale securities .....	<u>\$ 99</u>	<u>\$ 97,594</u>	<u>\$ -</u>	<u>\$ 97,693</u>

**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

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 consolidated 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, 2014 and 2013 (dollar amounts in thousands):

Impaired loans:

	<u>Level 1 inputs</u>	<u>Level 2 inputs</u>	<u>Level 3 inputs</u>	<u>Total fair value</u>
December 31, 2014 .....	\$ -	\$ -	\$ 4,076	\$ 4,076
December 31, 2013 .....	\$ -	\$ -	\$ 10,305	\$ 10,305

Foreclosed assets held for sale:

	<u>Level 1 inputs</u>	<u>Level 2 inputs</u>	<u>Level 3 inputs</u>	<u>Total fair value</u>
December 31, 2014 .....	\$ -	\$ -	\$ 354	\$ 354
December 31, 2013 .....	\$ -	\$ -	\$ 2,340	\$ 2,340

There were no transfers between valuation levels for any asset during the years ended December 31, 2014 or 2013. If valuation techniques are deemed necessary, the Company considers those transfers to occur at the end of the period when the assets are valued.

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

	<u>Fair Value</u> <u>December 31,</u> <u>2014</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u> <u>(Weighted Average)</u>
Impaired loans (collateral dependent) .....	\$ 4,076	Market Comparable	Discount to reflect realizable value	0%-34% (16%)
Foreclosed assets held for sale .	\$ 354	Market Comparable	Discount to reflect realizable value	0%-32% (21%)

## **Guaranty Federal Bancshares, Inc.**

### **Notes to Consolidated Financial Statements**

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated 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 consolidated 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 and Federal Reserve 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, 2014 and 2013.

	December 31, 2014			December 31, 2013		
	Carrying Amount	Fair Value	Hierarchy Level	Carrying Amount	Fair Value	Hierarchy Level
Financial assets:						
Cash and cash equivalents .....	\$ 12,493,890	\$ 12,493,890	1	\$ 12,303,200	\$ 12,303,200	1
Held-to-maturity securities .....	60,993	62,619	2	79,162	81,089	2
Federal Home Loan Bank stock .....	3,156,900	3,156,900	2	2,885,100	2,885,100	2
Mortgage loans held for sale ....	1,214,632	1,214,632	2	623,432	623,432	2
Loans, net .....	486,586,636	487,244,753	3	464,379,854	466,057,001	3
Interest receivable .....	2,030,058	2,030,058	2	1,852,641	1,852,641	2
Financial liabilities:						
Deposits .....	479,818,282	476,519,750	2	487,318,939	476,503,513	2
FHLB and Federal Reserve advances .....	60,350,000	61,615,252	2	55,350,000	57,185,083	2
Securities sold under agreements to repurchase .....	10,000,000	10,371,866	2	10,000,000	7,978,555	2
Subordinated debentures .....	15,465,000	15,465,000	3	15,465,000	15,465,000	3
Interest payable .....	242,145	242,145	2	250,361	250,361	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.

**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, 2014, non-incentive stock options for 25,000 shares and restricted stock for 114,239 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.

**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

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, 2012 .....	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
Granted .....	-	-	-
Exercised .....	(1,800)	-	5.23
Forfeited .....	(4,600)	(46,000)	15.86
Balance outstanding as of December 31, 2013 .....	168,100	121,000	16.54
Granted .....	-	-	-
Exercised .....	(25,100)	(14,500)	5.33
Forfeited .....	(2,700)	(24,000)	19.03
Balance outstanding as of December 31, 2014 .....	<u>140,300</u>	<u>82,500</u>	\$ 18.23
Options exercisable as of December 31, 2014 .....	<u>133,900</u>	<u>79,500</u>	\$ 18.81

As of December 31, 2014, total outstanding stock options of 222,800 had a remaining contractual life of 3.10 years.

The total intrinsic value of outstanding stock options was \$727,827 and \$778,860 for the years ended December 31, 2014 and 2013. The total intrinsic value of outstanding exercisable stock options was \$651,781 and \$560,199 for the years ended December 31, 2014 and 2013. The total fair value of share awards vested was \$361,517 and \$432,850 during 2014 and 2013, respectively.

In February 2014 and January 2013 and 2012, the Company granted restricted stock to directors that was fully vested and thus, expensed in full during the year ended December 31, 2014, 2013 and 2012, respectively. The amount expensed of \$122,538, \$116,032 and \$110,009 for 2014, 2013 and 2012, respectively, represents 11,242, 16,576 and 18,520 shares of common stock at a market price of \$10.90, \$7.00 and \$5.94, respectively, at the date of grant.

During 2014, the Company granted 23,320 shares of restricted stock to officers that have a cliff vesting at the end of three years. 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 the CEO, who has a three year cliff vesting. The expense is being recognized over the applicable vesting period. The amount expensed during 2014, 2013 and 2012 was \$102,099, \$89,357 and \$79,330, respectively.

Total stock-based compensation expense is comprised of expense for restricted stock awards and stock options. Expense recognized for the years ended December 31, 2014, 2013 and 2012 was \$254,340, \$254,508 and \$253,017, respectively. As of December 31, 2014, there was \$235 of unrecognized compensation expense related to nonvested stock options and \$190,858 of unrecognized compensation expense related to nonvested restricted stock awards, which will be recognized over the remaining vesting periods.

**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

Employee Stock Ownership Plan

The Employee Stock Ownership Plan (the “ESOP”) is a tax-qualified retirement plan sponsored and maintained by the Bank for the benefit of employees of the Company and the Bank. Effective as of December 31, 2012, the Bank’s Board of Directors approved the termination of the ESOP. Prior to distributing participant account balances held under the ESOP, the Bank allocated all then unallocated shares held by the ESOP as of December 31, 2012 to the appropriate participants’ accounts. The Bank also submitted to the Internal Revenue Service an application for a determination letter in connection with the termination of the ESOP. By letter dated September 9, 2013, the Service indicated that, based upon the information contained in the Bank’s application, it had determined that the termination of the ESOP does not adversely affect its qualification for federal tax purposes. Based on the Service’s issuance of a favorable determination letter, the Bank distributed all 233,224 shares of common stock held in the account balances to all of the ESOP’s 145 participants by December 31, 2013.

**NOTE 14: PREFERRED STOCK AND COMMON STOCK WARRANT**

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

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

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

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

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

**NOTE 15: COMMON STOCK OFFERING**

On March 7, 2014, the Company closed an underwritten offering of its common stock. The Company raised approximately \$17.2 million in gross proceeds by selling 1,499,999 shares of its Treasury Stock, which includes the full exercise of the over-allotment option granted to the underwriters of 195,652 shares, at a price to the public of \$11.50 per share.

**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

Net proceeds from the sale of the shares after underwriting discounts and estimated offering expenses were approximately \$15.8 million. The Company used the net proceeds from the offering to redeem the remaining 12,000 shares of the Company's Series A Preferred Stock on May 7, 2014 and intends to use the remaining net proceeds for working capital and for general corporate purposes, including potential future acquisitions.

**NOTE 16: OTHER EXPENSES**

Other expenses for the years ended December 31, 2014, 2013 and 2012 were as follows:

	December 31, 2014	December 31, 2013	December 31, 2012
Directors compensation .....	\$ 215,465	\$ 243,410	\$ 235,478
Outside services .....	96,660	111,332	62,675
Legal expense .....	246,545	431,519	471,363
Deposit expense .....	67,710	84,942	219,778
Office supplies .....	77,909	74,516	81,814
Telephone .....	118,268	116,661	114,182
Postage .....	149,379	153,753	157,986
Insurance .....	106,139	87,758	87,436
Supervisory exam .....	57,359	55,234	57,109
Accounting .....	217,280	223,517	256,850
Organization dues .....	146,845	124,454	118,653
Loan expense .....	269,016	310,853	239,701
Mortgage buyback .....	-	-	147,119
Contributions .....	50,004	40,000	40,000
ATM expense .....	253,457	228,547	231,893
Federal and state tax credits amortization .....	885,478	885,478	885,478
Other operating .....	709,984	489,484	400,527
	<u>\$ 3,667,498</u>	<u>\$ 3,661,458</u>	<u>\$ 3,808,042</u>

**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,		
	2014	2013	2012
Balance, beginning of year .....	\$ 6,483,503	\$ 6,095,008	\$ 5,794,896
New Loans .....	394,269	782,681	464,400
Repayments .....	<u>(2,468,128)</u>	<u>(394,186)</u>	<u>(164,288)</u>
Balance, end of year .....	<u>\$ 4,409,644</u>	<u>\$ 6,483,503</u>	<u>\$ 6,095,008</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.

**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

**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, 2014 and 2013, the Bank had outstanding commitments to originate fixed-rate mortgage loans of approximately \$2,483,000 and \$3,545,000, 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 \$15,965,000 and \$12,649,000 as of December 31, 2014 and 2013, respectively, with terms ranging from 1 year to 5 years.

The Bank has confirming letters of credit from the FHLB issued for collateral on public deposits and to enhance Bank issued letters of credit granted to various customers for industrial revenue bond issues. As of December 31, 2014 and 2013, these letters of credit aggregated approximately \$23,884,000 and \$10,601,000.

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, 2014 and 2013, unused lines of credit to borrowers aggregated approximately \$47,599,000 and \$42,518,000, respectively, for commercial lines and \$13,859,000 and \$14,517,000, respectively, for open-end consumer lines.



**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

**NOTE 19: CONDENSED PARENT COMPANY STATEMENTS**

The condensed balance sheets as of December 31, 2014 and 2013, and statements of income and cash flows for the years ended December 31, 2014, 2013 and 2012 for the parent company, Guaranty Federal Bancshares, Inc., are as follows:

**Condensed Balance Sheets**

	December 31,	
	2014	2013
<b>Assets</b>		
Cash .....	\$ 3,882,370	\$ 822,196
Available-for-sale securities .....	105,024	99,306
Investment in subsidiary .....	71,626,420	62,905,512
Investment in Capital Trust I & II .....	465,000	465,000
Prepaid expenses and other assets .....	15,954	173,698
Refundable income taxes .....	1,216,032	1,542,319
Deferred income taxes .....	7,947	-
	<u>\$ 77,318,747</u>	<u>\$ 66,008,031</u>
<b>Liabilities</b>		
Subordinated debentures .....	\$ 15,465,000	\$ 15,465,000
Accrued expenses and other liabilities .....	370,000	172,986
Due to subsidiary .....	6,900	6,900
Deferred income taxes .....	-	7,912
<b>Stockholders' equity</b>		
Series A preferred stock .....	-	11,983,790
Common stock .....	682,320	678,360
Additional paid-in capital .....	50,366,546	57,655,031
Retained earnings .....	48,549,691	43,769,485
Unrealized loss on available-for-sale securities, net .....	(448,421)	(2,506,248)
Treasury stock .....	(37,673,289)	(61,225,185)
	<u>\$ 77,318,747</u>	<u>\$ 66,008,031</u>

**Condensed Statements of Income**

	Years ended December 31,		
	2014	2013	2012
<b>Income</b>			
Dividends from subsidiary bank .....	\$ -	\$ 4,003,250	\$ 6,500,000
Interest income:			
Related party .....	-	-	8,471
Other .....	16,069	16,152	19,510
	<u>16,069</u>	<u>4,019,402</u>	<u>6,527,981</u>
<b>Expense</b>			
Interest expense:			
Related party .....	533,207	537,178	556,159
Other .....	765,848	815,865	878,305
	<u>1,299,055</u>	<u>1,353,043</u>	<u>1,434,464</u>
Income (loss) before income taxes and equity in undistributed income (loss) of subsidiaries .....	(1,282,986)	2,666,359	5,093,517
Credit for income taxes .....	(399,000)	(412,000)	(435,000)
Income (loss) before equity in undistributed earnings of subsidiaries	(883,986)	3,078,359	5,528,517
Equity in undistributed income (distribution in excess of income) of subsidiaries .....	6,666,682	2,161,348	(3,584,658)
Net income .....	<u>\$ 5,782,696</u>	<u>\$ 5,239,707</u>	<u>\$ 1,943,859</u>

**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

**Condensed Statements of Cash Flows**

	Years ended December 31,		
	2014	2013	2012
<b>Cash Flows From Operating Activities</b>			
Net income .....	\$ 5,782,696	\$ 5,239,707	\$ 1,943,859
Items not requiring (providing) cash:			
(Equity in undistributed income) distributions in excess of			
income of subsidiaries .....	(6,666,682)	(2,161,349)	3,584,658
Deferred income taxes .....	(17,976)	-	-
Release of ESOP shares .....	-	-	153,848
Stock award plan expense .....	242,189	254,508	253,017
Changes in:			
Prepaid expenses and other assets .....	157,745	(138,119)	147,929
Income taxes payable/refundable .....	326,287	(390,000)	(435,000)
Accrued expenses .....	55,519	8,723	9,058
Net cash provided by (used in) operating activities .....	<u>(120,222)</u>	<u>2,813,470</u>	<u>5,657,369</u>
<b>Cash Flows From Financing Activities</b>			
Proceeds from issuance of common stock .....	15,814,312	-	-
Stock options exercised .....	210,870	9,408	12,388
Cash dividends paid on common and preferred stock .....	(844,786)	(600,000)	(744,444)
Treasury stock purchased .....	-	(106,636)	(25,736)
Repayment of advances from subsidiary .....	-	27,695	500
Repurchase of stock warrants .....	-	(2,003,250)	-
Redemption of preferred stock .....	(12,000,000)	-	(5,000,000)
Net cash provided by (used in) financing activities .....	<u>3,180,396</u>	<u>(2,672,783)</u>	<u>(5,757,292)</u>
<b>Increase (Decrease) in cash</b> .....	3,060,174	140,687	(99,923)
<b>Cash, beginning of year</b> .....	<u>822,196</u>	<u>681,509</u>	<u>781,432</u>
<b>Cash, end of year</b> .....	<u>\$ 3,882,370</u>	<u>\$ 822,196</u>	<u>\$ 681,509</u>

**Guaranty Federal Bancshares, Inc.**  
**Notes to Consolidated Financial Statements**

**Statements of Comprehensive Income**

	Years ended December 31,		
	2014	2013	2012
<b>NET INCOME</b> .....	\$ 5,782,696	\$ 5,239,707	\$ 1,943,859
<b>OTHER ITEMS OF COMPREHENSIVE INCOME (LOSS):</b>			
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes .....	5,718	28,392	8,652
Income tax expense related to other items of comprehensive income .....	2,117	10,505	3,200
Other comprehensive income .....	3,601	17,887	5,452
Comprehensive income (loss) of Bank .....	2,054,226	(3,324,961)	4,089
<b>TOTAL COMPREHENSIVE INCOME</b> .....	<u>\$ 7,840,523</u>	<u>\$ 1,932,633</u>	<u>\$ 1,953,400</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, 2014 and 2013, 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, 2014. 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, 2014 and 2013, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

*BKD, LLP*

**BKD, LLP**

Springfield, Missouri  
March 27, 2015

**Guaranty Federal Bancshares, Inc.  
2014 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

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

James R. Batten, CPA  
Management Consultant

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

David T. Moore  
President and CEO  
Paul Mueller Company

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

James L. Sivils, III, JD  
CEO, Environmental Works, Inc.

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,  
Chief 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



**SPRINGFIELD:**

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

**MORTGAGE LOAN PRODUCTION OFFICE:**

1100 Spur Drive, Suite 15, Marshfield

**417.520.4333/gbankmo.com**



MEMBER FDIC

